LISTING MEMORANDUM

Bolivarian Republic of Venezuela

U.S.$3,000,000,000 11.75% Bonds due 2026 (the "Bonds")

The Bonds will bear interest at the rate of 11.75% per annum, accruing from October 21, 2011 and will pay interest on October 21 and April 21of each year, commencing April 21, 2012. The Bonds will mature on October 21, 2026. The Bonds are not redeemable prior to maturity or 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"). Application has been made 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.

The Bonds are designated Collective Action Securities and, as such, contain provisions regarding future modifications to their terms that differ from those applicable to certain 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 majority of Venezuela's other outstanding public issues of 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: 95%

plus accrued interest, if any, from October 21, 2011

Delivery of the Bonds will be made on October 21, 2011 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").

The initial placement of the Bonds will be made through *Banco Central de Venezuela's* ("Banco Central") SICOTME (System for the Initial Placement of Bonds denominated in Foreign Currency) pursuant to Resolution No. 10-06-02 issued by Banco Central's Board of Directors on June 10, 2010, as amended by Resolution No. 11-02-01 issued by Banco Central's Board on February 10, 2011. Only financial institutions authorized by Banco Central may place orders with SICOTME, for their own account or for their clients' accounts.

See "*Risk Factors*" beginning on page 6 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.

Lead Dealer Manager

Credit Suisse

Dealer Manager

Evrofinance Mosnarbank

This Listing Memorandum is dated October 21, 2011.

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. This Listing Memorandum constitutes a prospectus for the purpose of Luxembourg law dated July 10, 2005 on prospectuses for securities.

Neither Credit Suisse Securities (Europe) Limited, as Lead Dealer Manager, nor Evrofinance Mosnarbank, as Dealer Manager, (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 do 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.

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, the currency of Venezuela; 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. 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.

Pursuant to Decree No. 5,229 of the President of the Republic, as published in the Official Gazette No. 38,638 of March 6, 2007, the Goverment implemented a redenomination of the Bolívar, which became fully effective on January 1, 2008. Under the redenomination plan, all amounts expressed in Bolívares before the redenomination were thereafter divided by 1,000. In sum, the measure established a new monetary scale that eliminated three zeroes from all denominations of the Bolívar. In preparation for the conversion, the adjective "Fuerte" was, for a transition period that ended on January 1, 2009, added to the word "Bolívar", to make it "Bolívar Fuerte." Additionally, all prices were expressed in both Bolívares and Bolívares Fuertes from October 1, 2007 until January 1, 2008. The title "Bolívar Fuerte" was rescinded on January 1, 2009. Since that date, the domestic currency of Venezuela is again officially referred to as the Bolívar. Accordingly, all references herein to Venezuela's currency will be to the Bolivar or Bolívares (and not the Bolívar Fuerte or Bolívares Fuertes). Except as expressly noted herein, all Bolívar figures included in this Listing Memorandum, whether for periods prior to or after the effective date of the redenomination plan, are expressed in redenominated Bolívares.

Effective January 1, 2008, the U.S. dollar exchange rate was set at Bs.2.14 = U.S.$1.00 for purchase operations and Bs.2.15 = U.S.$1.00 for sale operations.

On January 8, 2010, the government of Venezuela established a dual exchange rate regime. According to *Convenio Cambiario No. 14*, the Ministry of Popular Power for Planning and Finance (the "Ministry of Finance"), together with Banco Central, established an exchange rate of Bs.2.60 = U.S.$1.00 for essential goods, including food, health, imports of machinery and equipment, science and technology, as well as all non-petroleum public sector transactions and other special cases. The exchange rate for all other transactions was set at Bs.4.30 = U.S.$1.00.

On December 30, 2010, the Government eliminated the dual-exchange rate regime and established a single-exchange rate. According to *Convenio Cambiario No. 14*, the Ministry of Finance, together with Banco Central, established an exchange rate of Bs.4.30 = U.S.$1.00 for all transactions. Effective January 1, 2011, the U.S. dollar exchange rate was set at Bs.4.2893 = U.S.$1.00 for purchase operations and Bs.4.30 = U.S.$1.00 for sale operations.

For further information on foreign exchange and the exchange rates applicable in the periods covered by this Listing Memorandum, see "*Risk Factors--Foreign Exchange Control Regime*".

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 statements concerning the degree of its 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 and volatility in 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 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 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 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

From the outset of the administration of President Chávez, the government has pursued policies focused on fundamentally changing the social and political order of Venezuela to promote the interests of the poorer elements of the population. In prior years significant social and political tensions have arisen from those elements of society that oppose such initiatives. Such tensions have in the past had a negative impact on the economic performance of Venezuela and a recurrence of such tensions could have similar consequences.

Between December 2001 and August 2004, there was a period of intense political and social turmoil involving groups that opposed and those that supported the Government. In May 2003, the Government and opposition groups signed an agreement 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.

On December 3, 2006, President Chávez was re-elected President for a six-year term, capturing 62.8% of the vote. The last elections for state and local officials were held on November 23, 2008, which included over 500 races, including 23 state governors, 335 mayors and 167 state legislative council members. Candidates from *Partido Socialista Unido de Venezuela* ("PSUV"), the party headed by President Chávez, won 17 of the 23 gubernatorial elections and approximately 80% of the mayoral offices, but candidates associated with opposition parties were elected in Venezuela's three most populous states, as well as several major cities including the federal district of Caracas and Maracaibo.

In August 2007, President Chávez submitted to the National Assembly, in accordance with procedures contained in the 1999 Constitution, a proposal to amend the 1999 Constitution. According to the figures announced by the National Electoral Council (the "CNE"), on December 2, 2007, approximately 50.8% of the voters rejected these changes. In December 2008, President Chávez submitted a new proposal to the National Assembly to amend the 1999 Constitution to eliminate all term limits on the number of times elected officials may hold the same office. In a referendum held on February 15, 2009 to approve or disapprove of the proposed amendment, approximately 54.9% of the voters approved the changes to the 1999 Constitution.

On September 26, 2010, elections were held for the 165 seats in the National Assembly. PSUV won 98 seats, the other parties aligned with the Chávez administration won 2 seats and the opposition won the remaining 65 seats. Most of the Commissions in the National Assembly are led by members of PSUV. The next elections for the president and state and local officials are scheduled at the end of 2012 and for the National Assembly in 2015. On December 22, 2010, the National Assembly approved an amendment to its Internal Rules of Debates, reducing the minimum number of meetings and limiting the time for speeches in the National Assembly.

Social and political tensions that have affected economic performance in Venezuela in the past have not recurred for a number of years, but given the fundamental nature of the reforms sought by the Chávez administration, the possibility of future unrest and its attendant impact on economic performance, cannot be excluded.

President's Health

On June 30, 2011, President Hugo Chávez addressed the nation for the first time since undergoing surgery in Cuba earlier that month, announcing that he was being treated for cancer. As of September 2011, President Chávez had undergone several sessions of chemotherapy. He has announced that he is recoving from his treatments. If President Chávez were to become incapable of maintaining his duties as president, the person acting as Vice President would assume presidential responsibilities for the remainder of President Chávez's six-year term under Article 233 of the Constitution. The next presidential election is scheduled for October 7, 2012, with the new term to begin in January 2013.

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 could have a material adverse effect on the Venezuelan economy.

The Foreign Currency Administration Commission ("CADIVI") administers, manages and controls the exchange control regime. Purchases and sales of foreign currencies are centralized 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.

Pursuant to *Convenio Cambiario 18* dated June 1, 2010 between the Ministry of Finance and Banco Central, Banco Central was vested with the authority to regulate the transaction in Bolívares of securities denominated in foreign currency issued by the Republic and other entities owned directly or indirectly by the Republic. On September 30, 2010, Banco Central's Board of Directors issued Resolution 10-09-01, under which all secondary market transactions in Bolívares of securities denominated in foreign currency issued by the Republic and other entities owned directly or indirectly by the Republic are centralized with Banco Central's SITME (System for the Transaction of Bonds Denominated in Foreign Currency) in which only financial institutions may participate.

The SITME system allows entities to acquire U.S. dollars at an implicit Bolivar/U.S. dollar exchange rate that results from the purchase and sale of Republic bonds at the range price set by the Government. Such a change has resulted and could result in the devaluation of the Bolivar against the U.S. dollar. Devaluation of the Bolívar could have a material adverse effect on Venezuelan companies and financial institutions, which could adversely affect the Venezuelan economy.

Sovereign Credit Rating

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

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. In December 2008, Standard & Poor's again changed its outlook on Venezuela's sovereign debt to "negative" and affirmed Venezuela's sovereign credit rating at "BB-". In August 2011, Standard & Poor's lowered its long-term foreign and local currency credit ratings of Venezuela from "BB-" to "B+", citing political factors, price and exchange controls and economic measures that have hurt private sector investment and productivity.

In September 2007, Moody's maintained Venezuela's foreign currency debt rating of "B2", citing the country's strong foreign exchange reserve position and improving debt ratios, both external and fiscal. Also in September 2007, Moody's assigned a "stable" outlook to Venezuela's foreign currency debt rating, reflecting the expectations of little change in policy direction and oil prices remaining relatively high.

In October 2007, Fitch cut its outlook on Venezuela's foreign currency-denominated debt rating of BB from "stable" to "negative", citing an increasingly unsustainable macroeconomic policy framework. In December 2008, Fitch lowered its rating for the Republic's foreign currency-denominated debt from "BB-" to "B+".

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 or oil production or 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 eleventh-largest oil producer and fourth-largest oil exporter. The structure of the Venezuelan fiscal system is highly dependent on petroleum revenues. From 2006 through 2010, petroleum products accounted for an average of approximately 91% of Venezuela's total exports. During the same period, petroleum sector revenues accounted for an average of approximately 45% of Venezuela's total Central Government revenues and petroleum sector activities accounted for an average of approximately 12% of Venezuela's gross domestic product ("GDP"). In 2010, petroleum activities accounted for approximately 11.7% of GDP, compared to approximately 11.6% in 2009.

The average export price for the Venezuelan oil basket in 2010 was U.S.$72.18 per barrel, an increase of 26.6% from the average price of U.S.$57.01 per barrel recorded in 2009. 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.

Petroleós de Venezuela, S.A. ("PDVSA"), the state oil company of Venezuela, is in legal disputes with several joint venture partners and former contractors and any adverse results from these disputes could have a material adverse effect on its economy and its fiscal accounts.

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 U.S. dollar interest rates 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 U.S. dollar interest rates. Fluctuations in interest rates in U.S. dollars may affect the market value of the Bonds. Such fluctuations might have a material adverse effect on the performance of an investment in the Bonds.

Global Markets

Venezuela's economy remains vulnerable to external shocks, including the current global economic crisis and those that could be caused by future significant economic difficulties of or political difficulties with 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.

Venezuela experienced an economic contraction in 2010 and other adverse economic and financial effects as a result of the global economic crisis. The economic contraction in 2010 resulted in a decrease of 1.6% in the non-petroleum sector. However, the petroleum sector increased by 0.1% in 2010 as compared to 2009. The contraction in the non-petroleum sector in 2010 resulted from a decrease in construction and trade sectors by 7.0% and 6.1%, respectively. For the year ended December 31, 2010, GDP totaled approximately Bs.55.8 billion in 1997 Constant Bolívares, contracting by 1.5% as compared to 2009.

A significant decline in the economic growth of any of Venezuela's major trading partners, such as the United States, China or Brazil, or a deterioration in these trading relationships could have a material adverse effect on Venezuela's balance of trade and adversely affect Venezuela's economic growth. While the United States and Colombia have traditionally been Venezuela's largest export markets, trade with Colombia has decreased in recent years. For the year ended December 31, 2010, the United States accounted for 31.6% of Venezuela's total imports, China accounted for 10.9%, and Brazil 9.4%. Colombia accounted for 4.7% of Venezuela's total imports, as compared to 11.8% during the same period in 2009. For the year ended December 31, 2010, the United States accounted for 48.9% of Venezuela's total exports, China accounted for 7.7% of Venezuela's total exports, and Brazil accounted for 0.7% of Venezuela's total exports. Colombia accounted for 0.4% of Venezuela's total exports, as compared to 0.8% during the same period in 2009.

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. 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, its ability to raise capital in the external debt markets in the future, or pay its existing obligations.

Relations with Trading Partners

As a result of disagreements between Venezuela and Colombia, starting in the third quarter of 2009 both countries began pursuing a policy of diversification of their trading counterparties. On August 10, 2010, President Chávez and the new Colombian president, Juan Manuel Santos, restored diplomatic relations between the two countries and agreed to create joint committees dealing with trade relations and economic cooperation, among other topics. To date, however, trading between the countries has not been restored to the levels prevailing before the dispute.

In May 2011, the U.S. imposed sanctions on seven companies, including PDVSA, under the Iran Sanctions Act of 1996, as amended by the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010, for their activities in support of Iran's energy sector. PDVSA was santioned due to the delivery of at least two cargoes of reformate to Iran between December 2010 and March 2011 worth approximately $50 million. Reformate is a blending component that improves the quality of gasoline. The sanctions imposed on PDVSA prohibit it from competing for U.S. government procurement contracts, securing financing from the Export-Import Bank of the United States and obtaining U.S. export licenses. These sanctions do not apply to PDVSA subsidiaries and do not prohibit the export of crude oil to the United States.

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' compensation, will be approximately U.S.$2,841,300,000 equivalent. The Republic will use the net proceeds from the sale of the Bonds to finance the Government agricultural program (*Gran Misión Agro-Venezuela*) and the Government labor program (*Gran Misión Trabajo Venezuela*).

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 provides the material provisions of the Bonds and the Fiscal Agency Agreement. The description may not contain all of the information that is important to you as a potential investor in the Bonds. Therefore, the Republic urges you to read the Fiscal Agency Agreement and the form of global bond, which are hereby incorporated by reference, in making your decision on whether to invest in the Bonds. Copies of these documents are available at the office of the Fiscal Agent in New York City.

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.$3,000,000,000;
- have an issue date of October 21, 2011;
- mature on October 21, 2026;
- have an issue price of 95% of the principal amount plus accrued interest, from October 21, 2011, if any;
- bear interest from (and including) October 21, 2011 at the rate of 11.75% per annum, payable semi-annually in arrears on October 21 and April 21 of each year, commencing on April 21, 2012;
- 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 the Bonds and certain other terms with the consent of the holders of at least 75% of the aggregate principal amount outstanding of the 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 issued in fully registered form, without coupons, in denominations of U.S.$100 and integral multiples of U.S.$100 in excess thereof;
- 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"); 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 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 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.

"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 October 21, 2011, 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 (excluding from such assets any assets which are subject to a Lien): (a) currencies other than Bolívares (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 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 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 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.

Interest

The Bonds will bear interest from (and including) October 21, 2011 at the rate of 11.75% per annum, payable semi-annually in arrears on October 21 and April 21 of each year, commencing on April 21, 2012.

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 on October 21, 2026. 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 a 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), 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). 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 agents 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 agents under the Fiscal Agency Agreement, reference is made to the Fiscal Agency Agreement, and the obligations of the Fiscal Agent and paying agents 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 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 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, the Bonds upon payment by the Republic to Banco Central of the necessary Bolívares 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) 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 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 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 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 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 the Bonds may, by notice in writing given to the Fiscal Agent at its specified office, declare the Bonds immediately due and payable whereupon the entire unpaid principal amount of the Bonds, all interest accrued and unpaid thereon and all other amounts payable in respect 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 the Bonds in accordance herewith. After any such declaration, if all amounts then due with respect to the Bonds are paid (other than amounts due solely because of such declaration) and all other defaults with respect to the Bonds are cured, such declaration may be annulled and rescinded by holders of more than 50% in aggregate principal amount 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 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 the Bonds to be made, given or taken by holders of Bonds or to modify, amend or supplement the terms of the Bonds or the Fiscal Agency Agreement as provided in the Bonds. The Republic may at any time call a meeting of holders of 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 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 the Outstanding (as defined in the Fiscal Agency Agreement) Bonds shall, after the occurrence and during the continuance of any Event of Default under the Bonds, have requested the Fiscal Agent to call a meeting of the holders 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 the Bonds, a person shall be a holder 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 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 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 the outstanding Bonds which shall constitute a quorum. Any Bondholder 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).

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 Bonds with respect to the proof of the holding 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 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 the Bonds then Outstanding represented at such meeting (or of such other percentage as may be set forth in 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 the Bonds then Outstanding (or of such other percentage as may be set forth in 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 the Bonds or, insofar as respects the Bonds, the Fiscal Agency Agreement, in any way, and the holders 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 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 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, (B) reduce the principal amount of any Bond, the portion of such principal amount that is payable upon acceleration of the maturity of such Bond, 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 the Bonds is payable, (D) shorten the period during which the Republic is not permitted to redeem the Bonds, or permit the Republic to redeem the Bonds if, prior to such action, the Republic is not permitted to do so, (E) reduce the proportion of the principal amount 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 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 the Bonds, (H) change the governing law provisions 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 the Bonds as set forth in the Bonds or (K) in connection with an offer to acquire all or any portion 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 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 Bonds is present at a meeting of holders for quorum purposes or has approved any amendment, modification or change to, or waiver of, the Bonds or the Fiscal Agency Agreement, or whether the required percentage of holders has delivered a notice of acceleration of the Bonds, Bonds 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 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 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 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 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. Euroclear and Clearstream, Luxembourg will communicate such notices to their participants in accordance with their standard practices. In addition, all notices to holders of the Bonds will be published, if and for so long as the Bonds are listed on the Official List of the Luxembourg Stock Exchange, 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 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 have as of the date of the issue of such additional Bonds.

Listing

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.

RECENT DEVELOPMENTS

This section provides information that supplements the information about the Republic in the section entitled "COUNTRY DESCRIPTION" below. To the extent that the information in this section is inconsistent with the information contained in that section, the information in this section replaces such information. Capitalized terms not defined in this section have the meanings ascribed to them in that section.

Capital Market Issues of External Public Debt

The following table sets out a summary of the principal features of the long-term outstanding bonds and notes publicly issued in external capital markets, as of September 30, 2011.

Security	Currency of Issue	Original Issue Size	Principal Outstanding	Interest Rate[(1)]	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[(2)]	Aug. 18	United States
ROV 13.625%	U.S.$	300	300	13.625%	Sept. 01	Aug. 18	United States
ROV 10.75%	U.S.$	1,559	1,559	10.75%	Sept. 03[(3)]	Sept. 13	Euromarket
ROV 7.00%	U.S.$	1,000	1,000	7.00%	Dec. 03	Dec. 18	Euromarket
ROV 9.375%	U.S.$	1,500	1,500	9.375%	Jan. 04[(4)]	Jan. 34	United States
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	United States
ROV €-7.00%	€	1,000	1,000	7.00%	Mar. 05	Mar. 15	United States
ROV 7.65%	U.S.$	1,600	1,600	7.65%	Apr. 05	Apr. 25	Euromarket
ROV 5.75%	U.S.$	1,500	1,500	5.75%	Dec. 05	Feb. 16	Euromarket
ROV 6.00%	U.S.$	1,500	1,500	6.00%	Dec. 05	Dec. 20	Euromarket
ROV 7.00%	U.S.$	1,250	1,250	7.00%	Nov. 07[(5)]	Mar. 38	Euromarket
ROV 9.00%	U.S.$	2,000	2,000	9.00%	May 08	May 23	Euromarket
ROV 9.25%	U.S.$	2,000	2,000	9.25%	May 08	May 28	Euromarket
ROV 7.75%	U.S.$	2,496	2,496	7.75%	Oct 09	Oct. 19	Euromarket
ROV 8.25%	U.S.$	2,496	2,496	8.25%	Oct 09	Oct. 24	Euromarket
ROV 12.75%	U.S.$	3,000	3,000	12.75%	Aug. 10	Aug. 22	Euromarket
ROV 11.95%	U.S.$	4,200	4,200	11.95%	Aug. 11	Aug. 31	Euromarket

(1) Interest is paid on a semi-annual basis except on the issues denominated in Euro on which interest is paid annually and the issue denominated in ¥ on which interest is paid quarterly.

(2) 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.

(3) 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.

(4) 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.

(5) 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*

In addition to the bonds and notes referred to in the above table, the Republic has outstanding Oil-Indexed Payment Obligations issued to holders of its par and discount bonds due 2020 under the 1990 Financing Plan of the Republic.

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 semi-annually through October 2020 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.

Petróleos de Venezuela, S.A. - Indebtedness

On June 30, 2011, PDVSA reopened the U.S.$618 million Notes due 2013 originally issued in November 2010, through the issuance of approximately U.S.$1.8 billion of Notes in a private placement made directly to Banco Central. These Notes bear interest at the rate of 8.0% per annum, mature in November 2013 and are payable in U.S. dollars upon maturity.

Trading Partners

Since the beginning of 2011, the Republic has entered into a series of agreements with Russia. On October 7, 2011, the Republic signed a declaration of intent with Russia for a U.S$4.0 billion loan to be used in connection with defense expenditures. The final agreement is to be signed during the next Inter-governmental Venezuela-Russia Commission (*Comisión Intergubernamental de Alto Nivel Venezuela-Rusia*), or CIAN, which is expected to take place in December 2011. In a separate agreement the Republic and Russia have agreed to boost the capital of the bi-national bank, Evrofinance Mosnarbank S.A. ("Evrofinance"), to U.S.$4.0 billion for purposes of providing lending for housing projects and financing a joint-venture oil project in the Junin 6 block of the Orinoco Belt, which is expected to begin production in May 2012. Evrofinance is 49.8% owned by FONDEN while the remaining 50.2% is controlled by Russian banks VTB Group and Gazprombank Group. In August 2011, Evrofinance, along with Deutshe Bank AG, was engaged to co-manage the Republic's $4.2 billion bond issuance.

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 joint investment fund between the Governments of Venezuela and China to finance development and infrastructure projects in Venezuela, referred to as the Sino-Venezuelan Joint Fund. The credit facility had a term of three years and was extendible for a total of 15 years. In connection with the credit facility, PDVSA entered into a supply agreement for crude oil and refined products with China National United Oil Corporation (CNPC) calling for the application of the proceeds of sales under the supply agreement to pay amounts due under BANDES's loan with the China Development Bank. In addition, FONDEN contributed U.S.$2.0 billion. In September 2008, the two countries agreed to double the Sino-Venezuelan Joint Fund to U.S.$12.0 billion, pursuant to which China Development Bank extended a second credit facility of U.S.$4.0 billion and FONDEN contributed an additional U.S.$2.0 billion.

On June 18, 2011, BANDES signed an agreement to renew the Sino-Venezuelan Joint Fund. China will make its contribution to the Sino-Venezuelan Joint Fund by extending a credit facility of U.S.$4.0 billion to BANDES and FONDEN will contribute an additional U.S.$2.0 billion to the Fund. The first credit facility extended by the China Development Bank has been repaid and the second credit facility is scheduled to be repaid in February 2012, in both cases through the application of the proceeds from the PDVSA supply agreement.

Multilateral Subscriptions

Venezuela is one of the founding members of the IMF. As of May 31, 2011, its subscription to the IMF, which corresponds to its quota, was SDR 2.66 billion or U.S.$4.3 billion. As of August 31, 2011, the Republic has no outstanding loans with the IMF. Venezuela's subscription to the capital of the World Bank was U.S.$2.46 billion at June 30, 2010. Of that amount, U.S.$150.8 million has been disbursed as of June 30, 2010. 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 following other World Bank Group affiliates: International Finance Corporation (IFC), with subscriptions of U.S.$27.6 million; and MIGA, with subscriptions of U.S.$15.4 million, both as of June 30, 2010.

Geography

Part of the eastern border with the Cooperative Republic of Guyana, or 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. In September 2011, Guyana presented to the Continental Platform Limits Commission of the United Nations a petition to extend its maritime borders. The extended exclusive economic zone would increase Guyana's gas and petroleum reserves and also have an impact on Venezuelan fishing. The Ministers of Foreign Affairs of the Republic and the Republic of Guyana issued a joint statement in which the two countries will continue negotiating on the maritime borders. Both Ministers expressed satisfaction with the excellent relations developed between the two countries and reiterated their commitment to maintaining good relations.

Other Nationalizations and Expropriations

On May 7, 2009, Ternium agreed to receive an aggregate amount of U.S.$1.97 billion from CVG as compensation for the sale of the 59.73% ownership interest of SIDOR held by Ternium. Of the remaining 40.3% ownership interest, 20.3% was held by CVG and 20.0% was held by the employees of SIDOR. The Government made an initial payment of U.S$400.0 million on May 7, 2009 and agreed to make six quarterly payments and pay any remaining balance in October 2010. In March 2010, the Government paid SIDOR U.S.$300.2 million in compensation payments to Ternium consisting of U.S.$158.2 million due under the first tranche and a U.S.$142.0 million mandatory prepayment due under the second tranche. On December 21, 2010, Ternium announced that it had reached an agreement with the Republic and PDVSA to reschedule the payment periods for the remaining payments.

Stabilization Fund

Since its original enactment in 1998, the law governing the Stabilization Fund has been amended several times. Pursuant to the current law and regulations governing the Stabilization Fund, the amounts to be deposited for each participating entity are subject to the following limits: (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 Public Finance Law

The LOAFSP has been modified from time to time, having most recently been amended pursuant to Decree No. 8,414 published in the Official Gazette No. 39,741 on August 23, 2011. This amendment modified the definitions of different types of income by (a) eliminating the requirement that items of income must recur for at least three years in order to be classified as ordinary income and (b) removing the limitation that previously provided that an item of income could not recur for more than three years in order to be classified as extraordinary income. The amendment also eliminated the definitions of the terms Current, Capital and Total Income.

Exchange Control Regime

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. Public sector entities are allowed to keep up to 30% of their income in foreign currency in order to cover those administrative expenses defined by *Convenio Cambiario No. 12*. Additionally, all foreign currency that enters the country must be registered through banks and financial institutions authorized by CADIVI.

PDVSA and the Venezuelan Economy-Taxes

On April 18, 2011, President Chávez issued by law-decree an increase in the Oil Windfall Tax on petroleum companies in light of rising oil prices. This law supersedes the Law Creating a Special Contribution Deriving from Extraordinary Crude Prices in the International Markets of 2008 and repeals the provisions of the Banco Central Law governing PDVSA's contributions to FONDEN. Pursuant to the new law-decree, in any month in which the average Venezuelan oil basket price exceeds the budgeted price per barrel, but equal to or less than U.S.$70 per 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 20% of the amount of the average Venezuelan oil basket price for such month that is greater than the budgeted price per barrel and equal to or less than U.S.$70. In any month in which the average Venezuelan oil basket price is greater than U.S.$70 and less than U.S.$90 per barrel, the tax is assessed at the amount specified in the preceding sentence for the first U.S.$70 and at 80% of the total amount of the difference between U.S.$70 and the average price. In any month in which the average Venezuelan oil basket price is equal to or greater than U.S.$90 and less than U.S.$100 per barrel, the tax is assessed at the amount specified in the preceding sentences for the first U.S.$90 and at 90% of the amount in the excess of U.S.$90. Finally, in any month in which the average Venezuelan oil basket price is equal to or greater than U.S.$100, the tax is assessed as specified in the preceding sentences for the first U.S.$100 and at 95% of the excess of the average Venezuelan oil basket price over U.S.$100. The contributions received from this tax are paid monthly to FONDEN to carry out social production, development and infrastructure projects.

COUNTRY DESCRIPTION

This section provides information about the Republic for its fiscal year ended December 31, 2010. It contains the same information as can be found in Exhibit D to the Republic's Annual Report on Form 18-K for its fiscal year ended December 31, 2010, filed with the U.S. Securities and Exchange Commission on October 3, 2011. To the extent that the information in "RECENT DEVELOPMENTS" above differs from the information in this section, the information in that section replaces such information.

PRINCIPAL ECONOMIC INDICATORS

	As of or For the Year Ended December 31,				
	2006	**2007[(1)]**	**2008[(1)]**	**2009[(1)]**	**2010**
			(percentage change)		
Real GDP Growth (Decline)[(2)]	9.9%	8.8%	5.3%	(3.2)%	(1.5)%
Petroleum Sector	(2.0)	(3.3)	2.9	(7.4)	0.1
Non-petroleum Sector	10.9	9.7	5.7	(1.7)	(1.6)
Consumer Prices[(3)]					
End of Period	17.0	22.5	31.9	26.9	27,4
Average	13.7	18.7	31.4	28.6	29,0
Wholesale Prices					
End of Period	18.0	18.0	36.7	22.2	28.8
Average	14.6	18.1	25.1	31.5	27.5
Unemployment (in %)	9.3%	7.5%	6.9%	7,5%	8,5%
			(in millions of U.S. dollars, except where noted)		
Balance of Payments					
Exports (f.o.b.)	$65,578	$69,010	$95,138	$57,595	$65,786
Imports (f.o.b.)	(33,583)	(46,031)	(49,482)	(38,442)	(38,613)
Trade Balance	31,995	22,979	45,656	19,153	27,173
Current Account Surplus (Deficit)	26,462	18,063	37,392	8,561	14,378
Overall Balance	4,964	(5,742)	9,275	(10,262)	(8,060)
International Reserves					
Gross Banco Central Reserves	$36,672	$33,477	$42,299	$35,000	$29,500
Liquid Banco Central Operating Reserves	28,933	23,686	32,581	17,687	9,192
Net Liquid Operating Reserves at Central Bank	28,731	23,094	31,804	17,446	8,831
Net International Reserves at Central Bank	36,470	32,885	41,522	34,759	29,139
Other International Monetary Assets[(4)]	430	97	207	279	164
Stabilization Fund	768	809	828	830	832
Average Petroleum Export Price (U.S.$/barrel)	56.5	65.0	86.5	57.0	72.7
Imports Coverage[(5)]	13.7	9.4	10.3	10.9	9.2
			(in millions of 2007 Constant Bolívares)		
Central Government					
Total Revenues	133,154.6	141,333.4	126,362.9	89,647.0	90,772.5
Total Expenditures	133,361.0	126,462.1	132,475.3	110,714.4	107,268.3
Overall Surplus (Deficit)	(206.4)	14,871.3	(6,112.4)	(21,067.4)	(16,495.8)
(as percentage of GDP)	0.0%	3.1%	(1.2)%	(5.1)%	(3.9)%
			(percentage change in real terms)		
Monetary Aggregates[(6)]					
Money Supply (M2)	44.8%	4.4%	(3.9)%	(4.5)%	(2.6)%
Monetary Base	65.9%	17.0%	(1.0)%	(7.0)%	0.2%

(1) Preliminary figures.
(2) Based on constant Bolívares of 1997 purchasing power, referred to as 1997 Constant Bolívares. Calculations of Real GDP Growth figures include certain import rights that are not itemized as components of petroleum or non-petroleum Real GDP Growth.
(3) Figures correspond to the Consumer Price Index (CPI), calculated on the basis of 1997 Constant Bolívares and not the National Consumer Price Index (INPC). For more information on the INPC, refer to "The Venezuelan Economy—Inflation".
(4) Other than amounts in the Stabilization Fund.
(5) Number of months of Imports (fob) covered by Gross Banco Central Reserves.
(6) Calculated by dividing Money Supply (M2) and Monetary Base nominal levels by Consumer Price Index in 2007 Constant Bolívares.

Sources: *Banco Central de Venezuela*, referred to as Banco Central, Ministry of Popular Power for Planning and Finance, referred to as the Ministry of Finance, and National Institute of Statistics, referred to as INE.

INTRODUCTION

Political Developments

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. The administration of President Chávez has contended 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 of President Chávez, referred to as the Government, has introduced further social and economic reforms aimed at benefiting the poor.

Beginning in December 2001, there was a period of intense political and social turmoil involving groups that opposed and those that supported the Government. In April 2002 a group of high-ranking military officers effected a brief *coup d'etat*, and 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 last elections for state and local officials were held on November 23, 2008 and included over 500 races, including 23 state governors, 335 mayors and 167 state legislative council members. Candidates from the party headed by President Chávez won 17 of the 23 gubernatorial elections and approximately 80% of the mayoral offices, but candidates associated with opposition parties were elected in Venezuela's three most populous states, as well as several major cities including the metropolitan district of Caracas and Maracaibo. The next elections for state and local officials are scheduled for December 2012.

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, *Partido Socialista Unido de Venezuela*, or 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, then comprised of six political parties, officially registered with the National Electoral Council, referred to as the CNE, on April 17, 2008. The PSUV is one of many political parties in Venezuela. The next presidential election is scheduled for October 7, 2012, with the new six-year term to begin in January 2013.

President Chávez's Health

On June 30, 2011, President Hugo Chávez addressed the nation for the first time since undergoing surgery in Cuba earlier that month, announcing that he was being treated for cancer. As of September 2011, President Chávez had undergone several sessions of chemotherapy. He has announced that he is recovering from his treatments. If President Chávez were to become incapable of maintaining his duties as President, the person acting as Vice President would assume presidential responsibilities for the remainder of President Chávez's six-year term under Article 233 of the Constitution.

Constitutional Amendment

On August 15, 2007, President Chávez submitted to the *Asamblea Nacional*, or 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. According to the figures announced by the CNE, on December 2, 2007, 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.

In December 2008, President Chávez submitted a new proposal to the National Assembly to amend the 1999 Constitution to eliminate all limits on the number of times elected officials may hold the same office. The National Assembly called for a referendum to be held February 15, 2009 to decide whether to approve or disapprove of the proposed amendment. According to the figures announced by the CNE, approximately 54.9% of the voters approved the changes to the 1999 Constitution and the amendment entered into force on February 19, 2009.

National Assembly Elections

On September 26, 2010, elections were held for the 165 seats in the National Assembly. President Chávez's political party won 98 seats, other parties aligned with the Chávez administration won 2 seats and the opposition won the remaining 65 seats.

Domestic and Regional Initiatives

President Chávez's administration has been 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 cornerstones. 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, have been or are currently 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, gender equality and financial aid;
- the mandatory allocation of a portion 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;
- the purchase 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 on inflation;
- the formation of joint ventures for certain cement and chemical companies and foodstuff producers and retailers;
- the purchase of all companies in the cement sector and *Siderúrgica del Orinoco, C.A.*, referred to as SIDOR, Venezuela's largest steelmaker, to help reduce prices in Venezuela;
- the nationalization of the briquettes producers located in the Guayana region of southern Venezuela; and

- the purchase of *Banco de Venezuela*, the fourth largest bank in Venezuela, and the nationalization of additional banks.

Regional Initiatives

The Chávez administration is pursuing 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;

- Enhanced relations with Latin American and Caribbean countries- strengthening economic ties with Argentina, 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, and the subsequent addition of Honduras, Nicaragua and the Caribbean nation of Dominica, that cover 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;

- Banco del Sur- promoting the creation and operation of an institution for development financing in the region 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 seven countries: Argentina, Brazil, Bolivia, Ecuador, Paraguay, Uruguay and Venezuela and in March 2009, the countries agreed to contribute a total of U.S.$7.0 billion in initial capital. In September 2009, the seven countries signed the constitutive act officially creating *Banco del Sur*;

- Bank of the ALBA- creating a regional bank 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 Bank of the Bolivarian Alliance for the Americas, or the Bank of the ALBA was created in January 2008 with initial start-up capital of U.S.$1.0 billion. The Bank of the ALBA is headquartered in Caracas and Venezuela is the principal contributor with a contribution of 85% of the bank's capital;

- UNASUR- promoting the creation of an intergovernmental regional body aimed at improving economic and political integration in South America. The South American Union of Nations, or UNASUR, was officially established on May 23, 2008 when the leaders of the 12 member nations signed the Constitutive Treaty of UNASUR. The UNASUR members are: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, Uruguay and Venezuela; and

- SUCRE- creating a unified instrument for commercial transactions among ALBA member countries that enables ALBA members to buy and sell goods using their domestic currency. Use of the *Sistema Unitario de Compensación Regional de Pagos*, or Unified System for Regional Compensation, referred to as the SUCRE, is designed to enable countries to conserve foreign currency and lower transaction costs, opening the way for further trade developments between the member countries. In October 2009, ALBA members signed a treaty establishing the SUCRE and it has been used as a common form of payment between importers and exporters since February 2010.

Enabling Laws

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 the 18 months that the 2007 Enabling Law was in effect, a total of 67 laws were decreed governing the following areas, among others:

- the redenomination of the Bolívar, effective January 1, 2008;
- the amendment of the law governing the regulation of the administration of public sector finances and the annual budget;
- the amendment of the law governing the regulation of the banking and financial sector;
- the establishment of new mechanisms promoting economic development at the community level;
- the establishment of new regulations in support of small and medium enterprises;
- the amendment of the law governing the *Banco de Desarrollo Económico y Social de Venezuela*, or BANDES;
- the establishment of a new social fund for the effective distribution of the excess revenues of the entities in the consolidated public sector; and
- the establishment of mechanisms to prevent food hoarding and speculation.

In December 2010, the National Assembly passed the 2010 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 infrastructure, transportation and housing and public services, among others. The passage of the 2010 Enabling Law resulted in part from the need for the Government to act quickly and decisively in response to record rains and floods that left thousands of Venezuelans without homes, jobs and access to basic services, seriously affecting agricultural production.

Since the 2010 Enabling Law has been in effect, the President has issued law-decrees for the following purposes, among others:

- addressing the need for permanent housing for those who lost their homes to floods or mudslides;
- the creation of a US$2.3 billion emergency fund that will direct resources to help those affected by the rains. The fund includes US$117 million for the construction of 4,000 new homes in the heavily affected western state of Zulia;
- the adoption of the Special Tax Law. For information about this law, refer to "*Recent Developments—Repeal of Central Bank Law Provisions*"
- a law-decree on fair costs and prices that, as of November 2011, will create a new commission to regulate prices and profit margins.

Law of Fair Costs and Prices

On July 14, 2011, President Chávez issued law-decree No. 8,331, known as the Law of Costs, Prices and Salary Protection (*Ley de Costos y Precios Justos*), published in Official Gazette No. 39,715 dated July 18, 2011. The

Law of Costs, Prices and Salary Protection, which became effective as of July 5, 2011, was implemented in order to address the high inflation rate of the Republic. The law provides legislation that sets maximum retail prices on goods across various economic sectors and includes the creation of a special committee that will monitor cost structures for companies involved in importing and selling of goods. On September 13, 2011, the appointment of the National Superintendent of Fair Cost and Prices was published in the Official Gazette.

Nationalization and Expropriations in the Oil Industry

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*, were mandatorily converted into *Empresas Mixtas*, or Mixed Companies, in which *Corporación Venezolana del Petróleo*, or CVP, a wholly-owned subsidiary of *Petróleos de Venezuela, S.A.*, referred to as PDVSA, or another PDVSA subsidiary, in which it holds 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 the International Centre for Settlement of Investment Disputes, or ICSID, because of its 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.$12.0 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. On March 18, 2008, the High Court of Justice in London lifted the U.S.$12.0 billion freeze order. 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 June 10, 2010, the ICSID tribunal ruled on the first phase of the case, which focused solely on jurisdictional issues and not on the merits of the claims nor the damages. According to the decision, the ICSID tribunal has jurisdiction only over disputes that occurred after February 2006. In October 2010, ExxonMobil reduced the amount it was seeking through international arbitration from U.S.$12.0 billion to U.S.$7.0 billion plus interest. The hearing on all issues in the arbitration concluded on September 24, 2010. It is expected that a decision will be rendered in 2011.

On May 7, 2009, the National Assembly passed a law that grants the President the power to declare a total or partial nationalization of stock or assets of companies that are essential to the petroleum industry. PDVSA, or its affiliates, have taken possession of these assets and assumed control of operations of nationalized entities, including employment of petroleum sector employees. Under this new law, any controversy arising from actions taken under this law will be heard exclusively in Venezuelan tribunals under Venezuelan law. Since the passage of this law, the Republic has acquired over 70 companies from the petroleum sector.

On February 16, 2010, New Orleans-based company Tidewater, Inc., which provided transportation services to petroleum companies in Venezuela, initiated an arbitration proceeding against the PDVSA resulting from the

Republic's takeover of 15 company vessels in May and July 2009 as well as the Republic's takeover of the company's operations in Lake Maracaibo and the Gulf of Paria. As of April 2011, this case remains pending.

On March 26, 2010, Simco Consortium, formed by Wood Engineering Limited, filed an arbitration request against PDVSA before ICSID, claiming that PDVSA breached a contract for the provision of water treatment and injection services in Lake Maracaibo. Simco seeks damages in the amount of approximately U.S.$62.2 million and a local currency payment of Bs.163 million (U.S.$37.9 million). The Tribunal was formed on December 2, 2010 and a hearing is expected to take place in 2011.

On April 12, 2010, Houston-based Exterran Holdings, through its subsidiary Universal Compression International Holdings, S.L.U., filed an ICSID arbitration proceeding against PDVSA resulting from the nationalization of its gas services support business in the Republic. Universal Compression Holdings principally operated compression pumps used to extract and transport natural gas as well as electrical generators in Venezuela. As of April 2011, this case remains pending.

The Government contends that nationalized oil rigs and power plants are being utilized by PDVSA with a view to increasing oil production and the capacity of the electricity grid. On June 30, 2010, Venezuela took control of eleven oil rigs that were the property of U.S. driller Helmerich & Payne, Inc., or H&P, after H&P and PDVSA could not agree on renegotiated rates and service plans. PDVSA submits that it plans to use the drills to increase oil production by approximately 300,000 bpd and to strengthen the country's sovereignty over the oil sector. In September 2011, H&P sued PDVSA in the U.S. District Court for the District of Columbia for U.S.$32 million in alleged back payments from previous services provided to PDVSA as well as for the value of 11 drilling rigs seized in June 2010.

Other Nationalizations and Expropriations

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 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 Venezuela 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. After the Government acquired the majority interest in CANTV, on March 24, 2008, Brandes Investment Partners, LP, filed a request for arbitration with ICSID alleging expropriation of their shares in CANTV. On August 2, 2011 the arbitral tribunal dismissed the case for lack of jurisdiction.

On April 16, 2008, *Ternium, S.A.*, *Consorcio Siderurgia Amazonia, Ltd.*, referred to as Ternium, 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 Mining, referred to as MPPIBAM, to liaise with SIDOR's Board of Directors in connection with the transfer of the shares and operations of SIDOR to the Government. This Commission will have oversight powers over SIDOR's activities to ensure the protection of the 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 Government has been completed. The agreement also contemplates that the Government will undertake the negotiation of a new collective bargaining agreement with SIDOR's workers' union.

On May 7, 2009, Ternium agreed to receive an aggregate amount of U.S.$1.97 billion from CVG as compensation for the sale of the 59.73% ownership interest of SIDOR held by Ternium. Of the remaining 40.3% ownership interest, 20.3% was held by CVG and 20.0% was held by the employees of SIDOR. In March 2010, the Government paid SIDOR compensation payments to Ternium consisting of U.S.$158.2 million due under the first tranche and a U.S.$142.0 million mandatory prepayment due under the second tranche. On December 21, 2010, Ternium announced that it had reached an agreement with the Republic and PDVSA to reschedule the payment periods for the remaining payments (U.S.$257.4 million).

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. On May 11, 2008, pursuant to Decree Law No. 6,058, dated April 30, 2008, SIDOR and its subsidiaries and associated companies were designated as state-owned enterprises and the activities of such companies were declared to be of public and social interest. In connection with that designation and declaration, SIDOR has been under operational control of *Corporación Venezolana de Guayana*, a Venezuelan governmental entity referred to as CVG, since July 12, 2008.

On June 18, 2008, President Chávez signed a decree ordering the nationalization of the cement sector, including *Cemex Venezuela, S.A.C.A.* (*Vencemos*), or Cemex, Holcim (Venezuela) C.A., or Holcim, and *Fabrica Nacional de Cementos, S.A. C.A.* (Lafarge Group), or Lafarge. The Government set a 60-day deadline to negotiate the companies' compensation, among other matters. In August 2008, the Government acquired control of approximately 89% of Lafarge's local operations and approximately 85% of Holcim. Holcim failed to reach agreement regarding adequate compensation and on April 10, 2009, Holcim filed a request for arbitration with ICSID. On September 13, 2010, an agreement was reached whereby the Government will pay U.S.$650 million as compensation for the Holcim nationalization, with an initial payment of U.S.$260 million. The remaining U.S.$390 million will be paid in four equal annual installments. As a result of this agreement, the ICSID arbitration proceeding has been suspended. In addition, the Government also has agreed to pay U.S.$264 million as compensation for the Lafarge nationalization.

On August 18, 2008, the Government took operational control of Cemex upon expiration of the negotiation period, but President Chávez subsequently signed a decree extending the negotiation period upon an official request by the Mexican government. Cemex failed to reach agreement regarding adequate compensation and on October 30, 2008, Cemex filed a request for arbitration with ICSID. On September 1, 2009, Cemex filed a request for provisional measures asking the ICSID Tribunal to order the Republic to cease and desist any further efforts to seize the former assets of Cemex Venezuela. On December 30, 2010, the Tribunal issued a decision rejecting the provisional measures proposed by Cemex. As a result, since January 2011, the Government and Cemex have continued discussions aimed at achieving an amicable settlement**.**

In July 2009, the Government purchased *Banco Santander, S.A.*'s stake in *Banco de Venezuela*, the Republic's then fourth-largest bank by assets, for approximately U.S.$1.1 billion in order to strengthen the public banking system. Approximately U.S.$630 million was paid in July 2009, U.S.$210 million was paid in October 2009 and the final U.S.$210 million was paid in December 2009.

In late 2009 and early 2010, the Government took control of certain hotels, banks, energy plants and oil rigs, insurance firms, farms, industrial warehouses, investment firms and supermarkets, among other entities and assets.

Between July 2009 and July 2010, President Chávez announced that the Government was taking control of eleven privately-run financial institutions. Citing non-transparency, non-compliance with government-imposed quotas on lending to the manufacturing, agriculture and tourism industries, improper use of depositors' funds and insolvency, the Government liquidated two banks and nationalized the remainder of the institutions. The Government created a state-run bank, *Banco Bicentenario*, by merging four of the nationalized banks—Banco Confederado, Central Banco Universal, Banorte and Bolivar Banco—with the state-run bank, Banfoandes Bank. *Banco Bicentenario* is expected to hold approximately 20% of deposits in Venezuela. The Government insured deposits in the nationalized banks up to Bs.30,000 and guaranteed that more than 90% of the depositors in each of the nationalized banks will recover their deposits. On June 14, 2010, the Government announced the intervention of Banco Federal, C.A.

Other nationalized assets are being used to further social and economic development. In January 2010, *Hipermercados Éxito*, a superstore chain in Venezuela, was nationalized by presidential decree following charges of price gouging in defiance of the newly established economic policies. The stores purchased by the Government will be used to expand *Comerso*, a Government-run, low-cost retail chain. In August 2010 the Government expropriated an insurance firm, *Seguros la Previsora*, citing non-transparency and non-compliance with Government regulations, and merged it with the state-owned insurance company, *Bolivariana de Seguros y Reasuguros S.A.*, in order to allow different sectors of the economy to have access to insurance coverage, including organized groups such as communal councils, taxi drivers associations and students.

In May 2010, the Government began to focus on the food industry as a sector of strategic importance and announced its intention to nationalize several foodstuff producers and retailers. That month, the Government announced that it was nationalizing Molinos Nacionales C.A., or Monaca, a food company that is a subsidiary of Gruma, S.A.B de C.V., or Gruma.

On October 25, 2010, President Chávez ordered the nationalization of U.S.-based glass container manufacturer Owens-Illinois Inc. Owens-Illinois had been operating in Venezuela for more than 50 years producing glass bottles for customers in the food production business such as Nestle S.A., PepsiCo Inc., Anheuser-Busch InBev NV and Diageo Plc. The Government contends that the nationalization, carried out pursuant to Decree No. 7,751, was a legitimate use of state power to combat the company's monopolistic practices in the bottling industry. The nationalization was part of the Government's efforts to exercise control over the food supply chain.

On October 14, 2010, the Government intervened *Bancoro,* a private sector bank, due to serious liquidity problems and its inability to meet its financial obligations. As a result of the government intervention, *Bancoro* ceased financial operations. In January 2011, the Government intervened *Banvalor, Banco Comercial*, a private sector bank, due to its inability to meet its financial obligations. As a result of the Government intervention, *Banvalor* ceased operations and February 2011, the government ordered its liquidation.

In August 2011, President Chávez signed a law-decree nationalizing the gold industry in order to preserve one of Venezuela's most significant sources of wealth and secure a more environmentally friendly exploitation of this natural resource. Among other things, one of the main objectives of this law-decree is to convert the gold into international reserves. On September 16, 2011, the nationalization of the exploration and production of gold came into effect pursuant to law-decree 8,413, published in the Official Gazette No. 39,759.

As of October 2011, there are 18 ICSID arbitrations against the Republic that remain pending as a result of expropriations and nationalizations in various sectors of the economy. The Republic continues to vigorously defend these matters.

Recent Economic Developments

In 2010, Gross Domestic Product, or GDP, totaled approximately Bs.55.8 billion in 1997 Constant Bolívares, a decrease of 1.5% as compared to 2009. The decrease in 2010 was primarily due to a decrease in construction and trade sectors by 7.0% and 6.1%, respectively. The non-petroleum sector decreased by 1.6% in 2010.

On April 3, 2008, INE, in affiliation with the Ministry Finance, and Banco Central issued Resolution No. 08-04-01 regulating the National Consumer Price Index or INPC (*Indice Nacional de Precios al Consumidor*) effective as of April 3, 2008. INPC covers the same items as the consumer price index (*Indice de Precios al Consumidor*), or CPI, but with a national geographic scope. The previous system only covered the Caracas and Maracaibo metropolitan areas.

Inflation figures from January 1, 2008 have been calculated using INPC. Figures prior to January 1, 2008 will not be re-calculated. INPC has as its base period December 2007 and is published monthly within the first ten days of each month. For the year ended December 31, 2008, the rate of inflation, as measured by the INPC, was 30.9%, and for the year ended December 31, 2009, the rate of inflation, as measured by the INPC, was 25.1%.

For the year ended December 31, 2010, the rate of inflation, as measured by the INPC, stood at 27.4%. The increase in inflation is attributable mainly to the increase in food prices, a major component of the CPI basket, and an adjustment in public transport fares. For the twelve-month period ended May 31, 2011, inflation, as measured by the INPC, was 22.8%, representing a decrease of 8.4% as compared to the same period in 2010.

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.

The Government is taking a series of economic measures in 2011 in order to: (1) strengthen regional economic integration; (2) decrease inflation by defining monetary policies to limit the structural causes of inflation while improving efficiency in the foreign exchange market; and (3) increase investment levels for productive activities in order to reduce economic vulnerabilities. To date in 2011, the Government has continued taking measures aimed at controlling inflation, most notably in the food sector, by organizing food distribution and improving the foreign exchange market for imports through a new system for transactions of securities in foreign currency under the supervision of Banco Central. The Government has stated that additional structural measures are being evaluated.

On July 18, 2011, the Government enacted the law-decree on fair prices and costs. This law, which will become effective on November 22, 2011, creates a new commission that will be in charge of setting wholesale and retail prices for all goods and services sold in Venezuela.

At December 31, 2010, the unemployment rate was 8.5%, compared to 7.5% in 2009. In August 2011, the unemployment rate was 8.3%.

Gross international reserves stood at approximately U.S.$29.5 billion at December 31, 2010 (excluding amounts deposited in the Stabilization Fund), representing a decrease of approximately U.S.$5.5 billion compared to the same period in 2009. The decrease in the gross international reserves was primarily due to increased sales of foreign exchange to operators for the importation of goods and services as well as the assignment of foreign exchange to travelers.

For 2010, the overall balance of payments recorded a deficit of approximately U.S.$8.1 billion and the current account had a total surplus of U.S.$14.3 billion. The deficit in the 2010 overall balance of payments is primarily due to expenses of the financial account, and the result of the errors and omissions account. The increase in the current account surplus is primarily due to an increase in oil export revenues. In the first three months of 2011, the overall balance of payments recorded a deficit of approximately U.S.$3.7 billion and the current account had a total surplus of U.S.$7.5 billion. The deficit in the balance of payments for the first three months of 2011 is primarily due to the deficit in the capital account. During 2010, the capital account recorded a deficit of U.S.$18.8 billion, primarily due to an increase in external assets by both the public sector and the non-financial private sector. During the first three months of 2011, the capital account recorded a deficit of U.S.$10.5 billion.

The Government's external public debt as of December 31, 2010 totaled approximately U.S.$37.0 billion and the Government's internal public debt as of December 31, 2010 totaled approximately U.S.$34.7 billion. At March 31, 2011, the Government's external public debt totaled approximately U.S.$37.3 billion and the Government's internal public debt as of March 31, 2011 totaled approximately U.S.$26.8 billion. The decrease in the Government's internal public debt was primarily due to the exchange rate adjustment that took place in the beginning of 2011.

On June 13, 2011, the Special Debt Law was enacted, which allows the Republic to issue up to Bs.45.0 billion (U.S.$10.5 billion) in new bonds in 2011. The proceeds will be used to invest in the agricultural sector, build new housing, develop the new job creation program, respond to natural disasters and other emergencies and refinance the public debt.

In August 2011, President Chávez announced the repatriation of Venezuelan gold reserves currently held in foreign banks in UK, Canada, France and the U.S. in order to protect the Venezuelan economy from the global economic crisis. The President explained that the Government plans to transfer the country's international cash reserves out of the U.S. and Europe and into Brazilian, Chinese, and Russian banks. In addition, UNASUR has proposed establishing a fund that could draw from monetary reserves of central banks from countries in the region, which manage approximately U.S.$600.0 billion and will serve as a regional response to the recent global financial crisis.

Relations with Multilateral Institutions

In April 2007, President Chávez indicated the possibility that Venezuela would separate itself from the International Monetary Fund, or 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. As of October 2011, the Republic has not taken any formal steps to withdraw its membership in the IMF and the World Bank.

In September 2009, Venezuela received a disbursement of approximately U.S.$3.5 billion equivalent of Special Drawing Rights, or SDRs, from the IMF,which provided an aggregate of approximately U.S.$33.0 billion to central banks worldwide in order to boost their reserves and increase liquidity in their financial systems.

In September 2011, President Chávez indicated the possibility that the Republic might separate itself from ICSID. To date, no official action has been taken by the Republic in this regard.

Amendments to Central Bank Law

In July 2005, the National Assembly approved an amendment to the 2002 Central Bank Law. The reform retains PDVSA's entitlement 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. In April 2011, President Chávez issued by law-decree the Law Creating the Special Tax on Extraordinary Prices and Exorbitant Prices in the International Oil Market, also known as the Oil Windfall Profits Tax Law, which repeals the provisions of the Central Bank Law governing PDVSA´s contributions to FONDEN.

Under the July 2005 amendment, Banco Central is required to determine the optimum level of international reserves on an annual basis, with the assistance of the National Assembly, if required. All amounts of foreign exchange above this level are redirected to FONDEN every six months. The reform also required 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 was added by Banco Central and approximately U.S.$15.1 billion was contributed by PDVSA. In 2008, Banco Central transferred an additional U.S.$1.5 billion and PDVSA added an additional U.S.$12.4 billion to FONDEN. In 2009, Banco Central transferred U.S.$12.3 billion and PDVSA added U.S.$600 million to FONDEN and in 2010, Banco Central transferred U.S.$7.0 billion and PDVSA added U.S.$ 1.3 million to FONDEN. At December 31, 2010, total FONDEN contributions amounted to U.S.$67.3 billion. For more information on FONDEN, refer to "The Financial System—FONDEN".

On May 7, 2010, the Central Bank Law was again amended. Among other changes, the amendment required Banco Central to create a Strategic Financial and Exchange System to monitor the flow of monetary and financial information in order to guarantee the proper functioning of the economy. Under the amended law, Banco Central's regulatory powers over the Republic's payment systems (domestic, bilateral and regional) were enhanced. The May 2010 amendment also modified Banco Central's operations with other financial institutions which, among other things, expanded the categories of assets Banco Central could receive from financial institutions as collateral or a guarantee in connection with lending operations in exceptional circumstances.

Repeal of Central Bank Law Provision

The provision in the Banco Central Law governing PDVSA's contributions to FONDEN was repealed by the Oil Windfall Profits Tax Law, issued by President Chávez by law-decree No. 8,163, published in Official Gazette No. 6,022 dated April 18, 2011. Before the repeal, the Central Bank Law required PDVSA to transfer to FONDEN any proceeds not required to cover capital or operating expenses, dividends and fiscal contributions made in accordance with the laws of the Republic and the amount established in the Budget Law. This new Oil Windfall Profits Tax Law provides that the revenue from this tax be deposited directly into FONDEN and used to finance the *Grandes Misiones* created by the government as well as infrastructure, road, health, education, communication, agriculture and food projects, among others. The sale of U.S. dollars from PDVSA to Banco Central, as required by the Central Bank Law, was not affected and still remains in place.

Exchange Control Regime

In May 2010, the Government instituted a partial reform to the Exchange Crimes Law in order to prevent the local market from circumventing the CADIVI system through trading in Bolívares securities denominated in foreign currency. In order to prevent these types of trading activities, Banco Central is the sole entity that will manage the system by which these transactions will take place. With the reform, the foreign exchange regime now includes securities that are denominated, or may be settled in, foreign currency. Prior to this reform, these types of activities were typically made through authorized exchange operators, including banks and brokerage firms.

On June 4, 2010, *Convenio Cambiario No.18* was enacted in an effort to curtail the inflationary pressures due in part to local currency trading. This new regulation establishes that Banco Central will govern the terms and conditions of local currency trading of all international bonds issued by the Republic, its decentralized entities or any other issuer, which are denominated in foreign currency. On June 9, 2010, the System of Transactions with Securities in Foreign Currency (*Sistema de Transacciones con Títulos en Moneda Extranjera*, or SITME) came into operation. SITME is an electronic system which regulates the buying and selling operations in Bolívares of securities denominated in foreign currency, in which only financial institutions may participate on behalf of their clients or in their own name but only with the approval of the Board of Directors of Banco Central. Under SITME, Banco Central determines which securities are to be traded and the price parameters for such trades in Venezuela and also determines the qualifications of the buyers and sellers that may participate in SITME.

SITME allows private entities and individuals to obtain U.S. dollars in exchange for Bolívares by paying Bolívares in exchange for foreign currency denominated securities that are issued by the Republic or entities directly or indirectly owned by the Republic that are ultimately sold in exchange for U.S. dollars.

Private entities may only use SITME to purchase U.S. dollars to pay for imported goods, capital goods and services which are not eligible to be paid through CADIVI, or, if they are eligible to be paid through CADIVI, the importer may not have purchased U.S. dollars through CADIVI for 90 days prior to submitting the request to SITME. Currently, private entities may acquire up to U.S.$50,000 per day, up to a U.S.$350,000 non-cumulative limit per month. As of May, 2011, SITME has provided, since its creation, approximately U.S.$5.3 billion of foreign exchange for imports, which represents 97.4% of total liquidations of SITME.

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 2010, the population of Caracas, which includes the Capital District and the Miranda state, was approximately 5.09 million. As of the same date, the Zulia state, which includes Maracaibo, the nation's second-largest city, located near Venezuela's most important petroleum fields and richest agricultural areas, had a population of 3.82 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.

During 2007, Colombia was among Venezuela's largest trading partners. 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 Revolutionary Armed Forces of Colombia, or FARC, including one of its leaders. 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.

On July 28, 2009, President Chávez announced the suspension of diplomatic relations with Colombia, the withdrawal of Venezuela's ambassador from Colombia and the review of all economic agreements between the nations, as a result of accusations made by Colombian president, Álvaro Uribe, of an alleged weapons delivery from the Venezuelan Army to the FARC. On August 8, 2009, President Chávez ordered the return of Venezuela's top diplomat to Colombia, but expressed disagreement over President Uribe's decision to permit U.S. military personel to use Colombian military bases in Colombia. On August 28, 2009, the presidents from the twelve UNASUR countries met to discuss the agreement between Colombia and the United States and signed a joint declaration focused on expressing the need to respect the sovereignty of each nation in the region and to strengthen peace throughout the region.

On July 22, 2010, President Chávez announced the suspension of diplomatic relations with Colombia, after Venezuela was accused by President Uribe of harboring Colombian guerrillas on Venezuelan soil before the OAS. On August 10, 2010, President Chávez and new Colombian president, Juan Manuel Santos, restored diplomatic relations between the two countries and agreed to create joint committees dealing with trade relations and economic cooperation, among other topics. On August 12, 2011, President Santos announced that of the U.S.$880 million trade debt arrearages owed to Colombian companies identified by Venezuela, approximately U.S.$765 million had been paid.

Population

Venezuela had an estimated population of approximately 28.8 million as of December 31, 2010, of which approximately 64.9% were between the ages of 15 and 64. The Republic has estimated that its labor force will be approximately 13.3 million at December 31, 2011.

The Government has implemented a number of programs called *Misiónes* to improve the social welfare of poor and extremely poor Venezuelans. According to *Instituto Nacional de Estadistica*, referred to as INE, at June 30, 2010, the poor and extremely poor represented approximately 32.5% of the Venezuelan population.

The following table sets forth, based on the 2010 Human Development Report, 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, unless otherwise noted)				
GDP (2008)(billions)(1)	$314.2	$328.5	$1,575.2	$169.5	$243.8	$1,088.1	$129.1
GDP per capita (2008)(1)	$11,246	$8,236	$8,205	$10,084	$5,416	$10,232	$4,477
Life expectancy at birth (2011) (years)	74.2	75.7	72.9	78.8	73.4	76.7	73.7
Adult literacy rate (2005-2008) (%)	95.2	97.7	90.0	98.6	93.4	92.9	89.6

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

Source: United Nations Development Program, Human Development Report, 2010.

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 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.

Current Presidential Administration

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 *Movimiento Quinta República*, or 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.

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, in a two-day general strike which culminated in a public rally by thousands of opposition demonstrators demanding the resignation of President Chávez on April 11, 2002.

A group of high-ranking military officers participating in an already launched *coup d'etat* publicly blamed President Chávez for 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

On September 26, 2010, elections were held for the 165 seats in the National Assembly. President Chávez's political party won 98 seats, other parties aligned with the Chávez administration won 2 seats and the opposition won the remaining 65 seats.

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 last elections for state and local officials were held on November 23, 2008 and included over 500 races, including 23 state governors, 335 mayors and 167 state legislative council members. Candidates from the party headed by President Chávez won 17 of the 23 gubernatorial elections and approximately 80% of the mayoral offices, but candidates associated with opposition parties were elected in Venezuela's three most populous states, as well as several major cities including the federal district of Caracas and Maracaibo. The next elections for state and local officials are scheduled for December 2012.

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. According to the figures announced by the CNE, on December 2, 2007, 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.

In December 2008, President Chávez submitted a new proposal to the National Assembly to amend the 1999 Constitution to eliminate all term limits on the number of times elected officials may hold the same office. The National Assembly called for a referendum to be held on February 15, 2009 to decide on whether to approve or disapprove of the proposed amendment. According to the figures announced by the CNE, approximately 54.9% of the voters approved the changes to the 1999 Constitution and the amendment entered into force on February 19, 2009.

Organization of the 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 based on the February 2009 constitutional amendment, may be re-elected for unlimited six-year terms. 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, based on the February 2009 constitutional amendment, may be re-elected for unlimited five-year 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 March 2010, a nominating committee was appointed to designate nominees to fill several expected vacancies. In December 2010, the National Assembly selected 9 new justices to replace outgoing judges, and 32 stand-ins.

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 September 26, 2010, elections were held for the 165 seats in the National Assembly. President Chávez's political party, the PSUV, won 98 seats, the other parties aligned with the Chávez administration won 2 seats and the opposition won the remaining 65 seats. Prior to such election, the PSUV controlled 84.4% of the seats in the National Assembly. On December 22, 2010, prior to the start of the new Assembly session, the National Assembly approved an amendment to its Internal Rules of Debates, lowering the minimum number of meetings and limiting the time for speeches in the Assembly. The next elections for the National Assembly are scheduled in 2015.

While a three-fifths majority is required to enact enabling laws *(Leyes Habilitantes*, laws that give the President the power to issue laws without the approval of the National Assembly*)*, a two-thirds majority is required to pass organic laws *(Leyes Orgánicas*, laws related to the structure and function of the Republic*)* and a simple majority is required to approve ordinary laws. Currently, the PSUV has enough seats on the National Assembly to pass legislation that requires a simple majority. Most of the Commissions in the National Assembly are led by the PSUV party.

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. The PSUV officially registered with the CNE on April 17, 2008. In 2010, the PSUV joined other political parties that support President Chávez and created the *Alianza Patriótica*, or Patriotic Alliance, to campaign for the September 2010 National Assembly elections. Parties that supported the President are not obligated to join PSUV and can remain autonomous.

The following table sets forth the number and party affiliations of the National Assembly as of January 5, 2011 (the first day of session of Congress):

Political Party	**No. of Seats**
PSUV	**98**
Acción Democratica	**22**
Primero Justicia	**15**
Others	**30**
Total	**165**

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. During the period in which the 1999 Enabling Law was in effect, the President issued law-decrees in furtherance of the *Programa Económico de Transición 1999-2000*, referred to as the Economic Plan of 1999-2000, including the following:

- the approval of a broadly-based 15.5% 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. During the period in which the 2000 Enabling Law was in effect, the President issued law-decrees governing the following areas, among others:

- a new Hydrocarbons Law, the *Ley Orgánica de Hidrocarburos*, governing royalty payments on oil extraction and control over petroleum sector projects;
- the conversion of *Fondo de Inversiones de Venezuela*, known as FIV, into BANDES;
- a Lands and Agricultural Development Law, referred to as the Lands Law, introducing land and agricultural reform; and
- a new General Law of Banks and Other Financial Institutions.

On January 31, 2007, the National Assembly passed a new enabling law, referred to as 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 period in which the 2007 Enabling Law was in effect, President Chávez issued law-decrees governing the following areas, among others:

- the redenomination of the Bolívar, 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 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 VAT from 14% to 11%, effective March 1, 2007 and then a further reduction to 9%, effective July 1, 2007;
- the amendment of the law governing the regulation of the banking and financial sector;
- the establishment of new mechanisms promoting economic development at the community level;
- the establishment of new regulations in support of small and medium enterprises;
- the amendment of the law governing BANDES;
- the establishment of a new social fund for the effective distribution of the excess revenues of the entities in the consolidated public sector; and
- the establishment of mechanisms to prevent food hoarding and speculation.

In December 2010, the National Assembly passed the 2010 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 infrastructure, transportation and housing and public services, among others. The passage of the 2010 Enabling Law resulted in part from the need for the Government to act quickly and decisively in response to record rains and floods that left thousands of Venezuelans without homes, jobs, and access to basic services, seriously affecting agricultural production.

Since the 2010 Enabling Law has been in effect, the President has issued law-decrees for the following purposes, among others:

- addressing the need for permanent housing for those who lost their homes to floods or mudslides;
- the creation of a US$2.3 billion emergency fund that will direct resources to help those affected by the rains. The fund includes US$117 million for the construction of 4,000 new homes in the heavily affected western state of Zulia;
- the adoption of the Special Tax Law. For information about this law, refer to "*Recent Developments—Repeal of Central Bank Law Provisions*"

- a law-decree on fair costs and prices that, as of November 2011, will create a new commission to regulate prices and profit margins.

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.14.9 billion were allocated in the 2006 national budget to fund these social programs. In 2007, Bs.11.9 billion was allocated in the national budget to fund the Missions. In 2008, Bs.5.6 billion were allocated in the national budget to fund the Missions and in 2009, Bs.5.6 billion were allocated for that purpose. In 2010, Bs.5.6 billion were allocated in the national budget to fund the Missions and in 2011, Bs.6.1billion were allocated in the national budget to fund the Missions.

At December 2010, there were 14 Missions nationwide and the Government believes that they have proven to be a successful mechanism to help relieve the major problems of those most in need. The Special Law of Complementary Indebtedness for Fiscal Year 2011 that passed in June, 2011 incorporated three new missions: "*AgroVenezuela*", "*Vivienda Venezuela*" and "*Trabajo Venezuela*".

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 international airline, *Conviasa* and *Venirauto* (formerly known as *Venezuela Móvil*), a joint car company owned 51% by Iran and 49% by Venezuela, which was created in 2006 in order to stimulate the production and distribution of low-cost automobiles. In 2009, a presidential law decree created a state-owned insurance company *Bolivariana de Seguros y Reaseguros S.A.* in order to provide insurance coverage to government employees that did not previously have such service as well as to improve the coverage of those with limited protection. In August 2010, this company merged with *Seguros la Previsora* (a private company expropriated in 2010) in order to expand insurance coverage to non-covered sectors of the economy.

Housing Programs

In November 2010, in response to heavy flooding caused by two weeks of torrential rains, the Government declared a 90-day state of emergency in several states and announced a U.S.$2.3 billion (Bs.10.0 billion) special fund for flood victims. By declaring an official state of emergency, the Central Government was able to make decisions that transcend the power and capacity of local governments. The torrential rains, flooding and landslides caused approximately 130,000 people to flee their homes in 11 of the 23 states. Approximately 35 bridges collapsed, 264 roads were damaged or destroyed and 46,000 hectares (113,620 acres) of cultivated land were ruined.

President Chávez, through the Enabling Law of 2010, issued a law-decree to create the *Ley Orgánica de Creación del Fondo Simón Bolívar para la Reconstrucción*, or the Simon Bolivar Fund for Reconstruction, to provide U.S.$2.3 billion in relief aid for the construction of housing in order to help thousands of people displaced by the severe rains that hit the nation. Approximately Bs.506 million (U.S.$117.7 million) of the newly created Simon Bolivar Fund is being used to construct four thousand new homes in the western state of Zulia, one of the regions most affected by the downpours. The Simon Bolivar Fund will be managed by the Ministry of Popular Power of Energy and Petroleum, or MENPET.

On January 18, 2011, President Chávez issued a decree to create the *Ley de Refugios Dignos Para Proteger a La Población en Caso de Emergencias o Desastres*, or the Law Decree of Decent Shelters to Protect the Population in Case of Emergency or Disaster, establishing a shared responsibility between the Government and the population to protect the well-being of all those affected by natural disasters. The law classifies all shelters into categories and stipulates that economic support such as scholarships, pensions and special allotments of resources is to be provided to resident families depending on the situation of each family unit. The law calls for the creation of Popular Housing Committees to create organized networks of shelter residents, and stipulates that every 20 families are to elect their own representatives to those Committees. The Committees have the legal authority to call meetings, form commissions and organize the internal day-to-day operations of these shelters.

The Special Debt Law enacted in June 2011 allocates Bs.10.0 billion (approximately U.S.$2.3 billion) for the Government housing program *Gran Misión Vivienda 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 Televisión, 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 the promotion of the national production of programs that suit the current needs of the population. In July 2007, RCTV began broadcasting on cable and satellite television as Radio Caracas Televisión Internacional. In January, 2010, Radio Caracas Televisión Internacional, along with other, smaller stations, ceased cable broadcasting after the Government determined that they had failed to abide by Venezuelan media law. RCTV rejected the Venezuelan media regulator's finding that it was a domestic media provider and refused to broadcast the state announcements required by this classification. Venezuelan law establishes that a channel will be considered "national" if the percentage of its programming produced in Venezuela exceeds 70% and "international" if 30% of its programming is of foreign origin.

In July 2009, the Ministry of Popular Power for Housing and Public Works, which was by that time the body with competence in the field of broadcasting licensing, declared the extinguishment of the permits and/or licenses to 34 broadcasting stations (radio and television stations) due to various circumstances, among which are: resignation of the original owner and expiration of the licenses, among others. Interested parties, who in their opinion were affected by such resolutions, requested review of the decision to the appropiate authorities under the Law.

On December 22, 2010, a partial reform of the Social Responsibility in Radio and Television Law was enacted. The Law aims to strengthen national content production and incorporates within its scope the regulation of messages distributed through electronic media. The legislation prohibits the dissemination on television, radio or electronic media of messages that incite or promote hatred and intolerance based on race, religion, politics, gender as well as racist or xenophobic messages. The legislation also prohibits the dissemination via the media of any messages that incite or promote and/or justify crime, constitute war propaganda, provoke unrest in the population or disturb the public order, disregard a public officer's authority, or promote the violation of the law. Providers of electronic media were required to promptly establish mechanisms to restrict the dissemination of messages in violation of the Law; otherwise they are subject to penalties as delineated by the Law.

TELESUR

In 2005, TELESUR, the Latin American television network sponsored and originally owned by the governments of Venezuela, Argentina, Cuba and Uruguay, began broadcasting that can now be seen in at least 30 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 and in 2007, Nicaragua and Ecuador also became shareholders of the television station. In August 2008, Paraguay signed an agreement to incorporate Paraguay in TELESUR's broadcasting. Other Latin American countries may join in the future. In 2010, TELESUR signed an agreement to expand its broadcast in Europe, the Middle East and North Africa in order to reach approximately 130 million potential viewers.

Mandatory Allocations of Bank Credits

In 2005, the National Assembly passed a resolution that requires private commercial banks to allocate certain percentages for specified projects. As of 2011, private and public sector banks must allocate approximately 52% of their total loan portfolio to certain defined essential segments of the economy. The Venezuelan banking industry had a total of five mandatory credit allocations, including an average of 22.0% for the farming sector, 12.0% for mortgage loans, 3.0% for microloans, 1.5% for tourism for the first semester of 2011 and 3.0% for the second semester of 2011, and 10.0% for the manufacturing sector. In September 2011, the Central Bank reduced the reserve requirements for Venezuelan banks that have agreed to use the released funds to finance housing projects and purchase housing-related securities.

Education Reform

In August 2009, the National Assembly unanimously approved the Organic Education Law in order to guarantee that all citizens have access to high quality education, free of charge, from childhood through the undergraduate university level. The law requires an annual increase in spending on education and mandates equality of conditions and opportunities, gender equity and the extension of educational facilities to rural and poor areas. Under the new Education Law, the state is in charge of several aspects of the education system, including infrastructure, curriculum and other administrative tasks. The passage of the Education Law was met with demonstrations both in support of and against the law.

On December 23, 2010, after the National Assembly passed the University Education Law, a law aimed at democratizing higher education by including professors, students, workers and local community members in university decision-making matters and eliminating barriers to higher education. Students in Caracas demonstrated in protest of the law. On January 4, 2011 President Chávez announced he would not sign the University Education Law as it was passed by the National Assembly, becoming a subject of wide national debate. As a result, the Law was returned to the National Assembly with changes recommended by the President. The National Assembly was free to accept or reject the recommendations of the President.

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. EPSs are primarily operated by the Ministry of Popular Power for Basic Industry and Mining (MPPIBAM) through CVG, and by PDVSA. As of December 31, 2010, PDVSA was operating 6,842 EPSs and contributed U.S.$4.2 billion in support of social projects developed by the Government.

Communal Laws

The National Assembly approved a group of five "popular power" organic laws, published in Official Gazette No. 6,011, on December 21, 2010. The five laws are: (1) The Organic Law of Popular Power, (2) The Organic Law of Popular and Public Planning, (3) The Organic Law of Communes, (4) The Organic Law of Social Auditing and (5) The Organic Law for the Communal Economic System. These communal laws are intended to strengthen the popular power and complement already existing laws such as The Communal Council Law and The Government Federal Council Law.

The Organic Law of Popular Power aims at developing and consolidating the popular power in order to allow the public to exercise its rights in a more participatory democracy and create communal forms of self-government. The Law of Popular and Public Planning outlines the organization and functions of the National System of Public Planning, a system that aims to optimize the processes of defining, formulating, executing and evaluating public policies. The Organic Law of Communes relates to the establishment and organization of communes in the country, as well as the creation of Communal Parliament. The Organic Law of Social Auditing puts the auditing of both public and private entities into the hands of organized communities. This law was passed by the National Assembly in order to create a culture of social responsibility and to gain better control of public, private and community affairs that affect the public good. The Organic Law for the Communal Economic System provides the legal basis for a collective ownership regime. Under it, people are permitted to organize in direct collective social ownership of businesses, household production units and exchange groups.

Nationalization or Expropriations 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. During 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 Venezuela 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. After the Government acquired the majority interest in CANTV, on March 24, 2008, Brandes Investment Partners, LP, filed a request for arbitration with ICSID alleging expropriation of their shares in CANTV. On August 2, 2011, the ICSID arbitration panel dismissed the case against the Republic based on lack of jurisdiction.

On April 16, 2008, *Ternium, S.A.*, *Consorcio Siderurgia Amazonia, Ltd.*, referred to as Ternium, 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 Mining, referred to as MPPIBAM, to liaise with SIDOR's Board of Directors in connection with the transfer of the shares and operations of SIDOR to the Government. This Commission will have oversight powers over SIDOR's activities to ensure the protection of the 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 Government has been completed. The agreement also contemplates that the Government will undertake the negotiation of a new collective bargaining agreement with SIDOR's workers' union.

On May 7, 2009, Ternium agreed to receive an aggregate amount of U.S.$1.97 billion from CVG as compensation for the sale of the 59.73% ownership interest of SIDOR held by Ternium. Of the remaining 40.3% ownership interest, 20.3% was held by CVG and 20.0% was held by the employees of SIDOR. The Government made an initial payment of U.S$400.0 million on May 7, 2009 and agreed to make six quarterly payments and pay any remaining balance in October 2010. In March 2010, the Government paid SIDOR U.S.$300.2 million in compensation payments to Ternium consisting of U.S.$158.2 million due under the first tranche and a U.S.$142.0 million mandatory prepayment due under the second tranche. On December 21, 2010, Ternium announced that it had reached an agreement with the Republic and PDVSA to reschedule the payment periods for the remaining payments (U.S.$257.4 million).

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. On May 11, 2008, pursuant to Decree Law No.

6,058, dated April 30, 2008, SIDOR and its subsidiaries and associated companies were designated as state-owned enterprises and the activities of such companies were declared to be of public and social interest. In connection with that designation and declaration, SIDOR has been under operational control of *Corporación Venezolana de Guayana*, a Venezuelan governmental entity referred to as CVG, since July 12, 2008.

On June 18, 2008, President Chávez signed a decree ordering the nationalization of the cement sector, including *Cemex Venezuela, S.A.C.A.* (*Vencemos*), or Cemex, Holcim (Venezuela) C.A., or Holcim, and *Fábrica Nacional de Cementos, S.A. C.A.* (Lafarge Group), or Lafarge. The Government set a 60-day deadline to negotiate the companies' compensation, among other matters. In August 2008, the Government acquired control of approximately 89% of Lafarge's local operations and approximately 85% of Holcim. Holcim failed to reach agreement regarding adequate compensation and on April 10, 2009, Holcim filed a request for arbitration with ICSID. On September 13, 2010, an agreement was reached whereby the Government will pay U.S.$650 million as compensation for the Holcim nationalization, with an initial payment of U.S.$260 million. The remaining U.S.$390 million will be paid in four equal annual installments. As a result of this agreement, the ICSID arbitration proceeding has been suspended. In addition, the Government also has agreed to pay U.S.$264 million as compensation for the Lafarge nationalization.

On August 18, 2008, the Government took operational control of Cemex upon expiration of the negotiation period, but President Chávez subsequently signed a decree extending the negotiation period upon an official request by the Mexican government. Cemex failed to reach agreement regarding adequate compensation and on October 30, 2008, Cemex filed a request for arbitration with ICSID. On September 1, 2009, Cemex filed a request for provisional measures asking the ICSID Tribunal to order the Republic to cease and desist any further efforts to seize the former assets of Cemex Venezuela. On December 30, 2010, the Tribunal issued a decision rejecting the provisional measures proposed by Cemex. As a result, since January 2011, the Government and Cemex have continued discussions aimed at achieving an amicable settlement**.**

In late 2009 and early 2010, the Government took control of certain hotels, banks, energy plants and oil rigs, insurance firms, farms, industrial warehouses, investment firms and supermarkets, among other entities and assets.

In July 2009, the Government purchased *Banco Santander, S.A.*'s stake in *Banco de Venezuela*, the Republic's then fourth-largest bank by assets, for approximately U.S.$1.1 billion in order to strengthen the public banking system. Approximately U.S.$630 million was paid in July 2009, U.S.$210 million was paid in October 2009 and the final U.S.$210 million was paid in December 2009.

Between July 2009 and July 2010, President Chávez announced that the Government was taking control of eleven privately-run financial institutions. Citing non-transparency, non-compliance with government-imposed quotas on lending to the manufacturing, agriculture and tourism industries, improper use of depositors' funds and insolvency, the Government liquidated two banks and nationalized the remainder of the institutions. The Government created a state-run bank, *Banco Bicentenario*, by merging four of the nationalized banks—Banco Confederado, Central Banco Universal, Banorte and Bolivar Banco—with the state-run bank, Banfoandes Bank. *Banco Bicentenario* is expected to hold approximately 20% of deposits in Venezuela. The Government insured deposits in the nationalized banks up to Bs.30,000 and guaranteed that more than 90% of the depositors in each of the nationalized banks will recover their deposits. On June 14, 2010, the Government announced the intervention of Banco Federal, C.A.

Other nationalized assets are being used to further social and economic development. In January 2010, *Hipermercados Éxito*, a superstore chain in Venezuela, was nationalized by presidential decree following charges of price gouging in defiance of the newly established economic policies. The stores purchased by the Government will be used to expand *Comerso*, a Government-run, low-cost retail chain. In August 2010, an insurance firm, *Seguros la Previsora*, was expropriated and merged with the state-owned insurance company, *Bolivariana de Seguros y Reasuguros S.A.*, in order to allow different sectors of the economy to have access to insurance coverage, including organized groups such as communal councils, taxi drivers associations and students.

Nationalized oil rigs and power plants are being utilized by PDVSA with a view to increasing oil production and the capacity of the electricity grid. On June 30, 2010, Venezuela took control of eleven oil rigs that were the property of U.S. driller Helmerich & Payne, Inc., or H&P, after H&P and PDVSA could not agree on renegotiated rates and service plans. PDVSA plans to use the drills to increase oil production by approximately 300,000 bpd and to strengthen the country's sovereignty over the oil sector. In September 2011, H&P sued PDVSA in the U.S. District

Court for the District of Columbia for U.S.$32 million in alleged back payments from previous services provided to PDVSA as well as for the value of 11 drilling rigs seized in June 2010.

In May 2010, the Government began to focus on the food industry as a sector of strategic importance and announced its intention to nationalize several foodstuff producers and retailers. That month, the Government announced that it was nationalizing Molinos Nacionales C.A., or Monaca, a food company that is a subsidiary of Gruma, S.A.B de C.V., or Gruma.

On October 25, 2010, President Chávez ordered the nationalization of U.S.-based glass container manufacturer Owens-Illinois Inc. Owens-Illinois had been operating in Venezuela for more than 50 years producing glass bottles for customers in the food production business such as Nestle S.A., PepsiCo Inc., Anheuser-Busch InBev NV and Diageo Plc. The Government contends that the nationalization, carried out pursuant to Decree No. 7,751, was a legitimate use of state power to combat the company's monopolistic practices in the bottling industry. The nationalization was part of the Government's efforts to exercise control over the food supply chain.

On October 14, 2010, the Government intervened *Bancoro,* a private sector bank, due to serious liquidity problems and its inability to meet its financial obligations. As a result of the government intervention, *Bancoro* ceased financial operations. In January 2011, the Government intervened *Banvalor, Banco Comercial,* a private sector bank, due to its inability to meet its financial obligations. As a result of the Government intervention, *Banvalor* ceased operations and February 2011, the government ordered its liquidation.

For information about nationalizations or expropriations in the oil industry, refer to "*Principal Sectors of the Venezuelan Economy——Petroleum and Natural Gas——Recent Developments Concerning the Oil Industry*".

For more information about nationalizations or expropriations in the mining sector, refer to "*Principal Sectors of the Venezuelan Economy——Manufacturing and Mining——Mining Sector*".

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 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. 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. On April 22, 2011, the withdrawal of Venezuela from *Comunidad Andina de Naciones*, or the Andean Community of Nations (CAN) became effective; however, trade relations with Colombia, Peru, Bolivia and Ecuador will continue on the basis of rules and principles similar to those that applied under the CAN. In recent years, Venezuela has entered into a series of new trade and economic agreements with Bolivia and Ecuador, aimed at establishing fair trade, such as the Bolivarian Alternative for Latin American and the Caribbean (ALBA in Spanish). Venezuelan officials agreed to extend current trade rules with Colombia and Peru for 90 days to ease the transition period.

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 agreed to adhere to all key Mercosur codes and adopt Mercosur's common external tariffs before admission as a full member. Lawmakers from Argentina, Brazil and Uruguay had approved Venezuela's entry as a full member of Mercosur. Paraguay's lawmakers have yet to formalize Venezuela's entry into the trade bloc.

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 with 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. As of June 2011, Venezuela's Government has not taken any formal steps to withdraw its membership in the IMF and the World Bank.

In December 2004, the Bolivarian Alternative for the Americas, or ALBA, became effective when Venezuela and Cuba signed the first ALBA exchange agreement. Since that time, ALBA has become an international cooperation organization based upon the idea of social, political and economic integration between the countries of Latin American and the Caribbean. As of July 2010, ALBA countries included Venezuela, Cuba, Bolivia, Nicaragua, Ecuador, St. Vincent and the Grenadines, Dominica and Antigua and Barbuda.

In January 2008, the member nations of ALBA created the Bank of the ALBA 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 Bank of the ALBA has an initial start-up capital of U.S.$1.0 billion and is headquartered in Caracas. The Bank of the ALBA's aim is to boost industrial and agricultural production among its members, support social projects, as well as multilateral cooperation agreements among its members, particularly in the field of energy. In 2008, the Bank of the ALBA began participating in a joint venture with PetroCaribe as part of an effort to address food shortage problems in Central American and Caribbean countries. Venezuela is the principal contributor of the Bank of the ALBA with a contribution of 85% of the bank's capital. In April 2010, the president of the Bank of the ALBA stated that it has over U.S.$85 million to finance different projects.

In October 2009, the member countries of ALBA signed a treaty to establish the *Sistema Unitario de Compensación Regional de Pagos*, or the Unified System for Regional Compensation, referred to as SUCRE. In January 2010, the SUCRE officially came into effect, creating an instrument for commercial transactions among ALBA member countries. The SUCRE system allows the ALBA member countries that buy goods from each other to pay and receive payment using their domestic currency. This is designed to enable countries to conserve foreign currency and lower transaction costs, opening the way for further trade developments between the member countries. Initially, the SUCRE will serve only as a common type of payment for commercial transactions between the member countries. As the system further develops, the SUCRE will serve as a common unit of account between importers and exporters. At its final stage, the SUCRE is expected to reach a consolidation phase, which will give the SUCRE value as a means of payment and value in its reserve among the member countries. As of August 31, 2011, one unit of the SUCRE is the equivalent of U.S.$1.25, which represents an intermediate value between the U.S. dollar and the Euro.

On February 3, 2010, the first transaction using the SUCRE was made between Venezuela and Cuba for the amount of 108,000 SUCREs, the equivalent of approximately U.S.$135,000, for the sale of 360 tons of rice. On July 7, 2010, Venezuela and Ecuador conducted their first bilateral trade using the SUCRE instead of the U.S. dollar, which involved the purchase of 5,430 tons of rice. Since then, two more transactions have occurred. Both transactions were between Venezuela and Bolivia.

Tensions at the diplomatic level between Venezuela and the United States have led to the expulsion of their respective ambassadors. This friction has not resulted in a commercial disruption to date. In May 2011, the U.S. imposed sanctions on seven companies, including PDVSA, under the Iran Sanctions Act of 1996, as amended by the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010, for their activities in support of Iran's energy sector. PDVSA was santioned due to the delivery of at least two cargoes of reformate to Iran between December 2010 and March 2011, worth approximately $50 million. Reformate is a blending component that improves the quality of gasoline. The sanctions imposed on PDVSA prohibit the company from competing for U.S.

government procurement contracts, from securing financing from the Export-Import Bank of the United States and from obtaining U.S. export licenses. These sanctions do not apply to PDVSA subsidiaries and do not prohibit the export of crude oil to the United States.

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 2010*, Venezuela is the eleventh-largest oil producer in the world. From 2006 through 2010, petroleum products accounted for an average of approximately 91% of Venezuela's total exports. During the same period, petroleum sector revenues accounted for an average of approximately 45% of Venezuela's total Central Government revenues and petroleum sector activities accounted for an average of approximately 12% of GDP. In 2010, petroleum activities accounted for approximately 11.7% of GDP, compared to approximately 11.6% in 2009.

Venezuela's economy is diversified, with non-petroleum activities generating an average of approximately 88% of GDP between 2006 and 2010. Major non-petroleum components of GDP in 2010 included manufacturing (15%), trade (9%), financial institutions (4%) and transportation (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 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 2010

In 2010, GDP totaled approximately Bs.55.8 billion in 1997 Constant Bolívares, representing a contraction of 1.5% as compared to 2009. The economic contraction in 2010 was primarily due to a decrease of 1.6% in the non-petroleum sector. However, the petroleum sector increased by 0.1% in 2010 as compared to 2009. The contraction in the non-petroleum sector in 2010 resulted primarily from a decrease in construction and trade sectors by 7.0% and 6.1%, respectively.

The aggregate demand totaled approximately Bs. 77.2 billion in 1997 Constant Bolívares, decreasing by 1.9% as compared to 2009. This contraction in aggregate demand was primarily due to a decrease in private final consumption expenditure and capital formation by 1.9% and 6.3%, respectively.

For the year ended December 31, 2010, the rate of inflation, as measured by the INPC, stood at 27.4%. The inflationary pressures were due mainly to the increase in food prices, a major component of the CPI basket, and the adjustment in public transport fares.

During the fourth quarter of 2010, short-term interest rates on commercial bank loans averaged 18.1%, compared to 19.8% for the fourth quarter of 2009. The deposit rate on 90-day certificates of deposit averaged 14.7% for the fourth quarter of 2010, compared to 15.7% for the fourth quarter of 2009.

As of December 31, 2010, the Central Government's revenues totaled Bs.13.5 billion in 1997 Constant Bolívares and the Central Government's expenditures totaled Bs.16.0 billion in 1997 Constant Bolívares. As a result, the Central Government accounts recorded a deficit of Bs.2.46 billion in 1997 Constant Bolívares, or 0.1% of GDP, for 2010.

Gross international reserves at the end of 2010 totaled U.S.$29.5 billion, representing a decrease of U.S.$5.5 billion since December 31, 2009. The decrease in the gross international reserves was primarily due to increased sales of foreign exchange for the importation of goods and services, and for travelers. On December 31, 2010, total international monetary assets totaled U.S.$30.5 billion, liquid operating reserves at Banco Central totaled U.S.$9.2 billion and net international reserves at Banco Central (excluding funds in the Stabilization Fund) totaled U.S.$29.1 billion. On December 31, 2010, the balance in the Stabilization Fund, a government fund designed to provide fiscal stability to the Venezuelan economy, totaled U.S.$832 million. Since 2004, no new contributions have been made to the Stabilization Fund.

During 2010, the Foreign Currency Administration Commission, referred to as CADIVI, expanded the availability of foreign exchange in order to address the needs of the local economy. In 2010, imports remained relatively stable compared to 2009, showing an increase of 0.4%. The increase was primarily due to adjustments in the exchange market earlier in 2010, requiring changes in CADIVI's system. In the second quarter of 2010 the buying and selling of government securities denominated in foreign currency was suspended, and SITME was implemented. As a result, imports of capital goods increased 5.3% while the imports of intermediate goods and final consumption goods decreased 1.5% and 0.2%, respectively, as compared to 2009.

During 2010, the capital account recorded a deficit of U.S.$18.8 billion. The deficit in the capital account in 2010 was due to an increase in external assets by both the public sector and the non-financial private sector.

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.

Within the Development Plan, the objectives for fiscal year 2009 focused on sustaining economic growth from previous years while continuing investment in social development programs and strengthening the social economy; the objectives for fiscal year 2010, however, were more focused on economic recovery and improving plans developed in previous years. Within the Development Plan, the objectives for fiscal year 2010 include the following goals:

- strengthening regional economic integration by establishing a regional financial structure through an association among *Banco del Sur*, the Bank of the ALBA and existing investment funds to implement and develop the SUCRE, becoming a full member of MERCOSUR and strengthening UNASUR;
- decreasing inflation by defining monetary policies to limit the structural causes of inflation while improving efficiency in the foreign exchange market; and
- increasing investment levels for productive activities in order to reduce economic vulnerabilities.

Some goals for 2011 include:

- Limiting inflationary pressures;
- Maintaining the stability of the Republic's payments system;
- Promoting a positive rate of economic growth;
- Maintaining a prudent level of international reserves while ensuring an adequate supply of currency to the productive sectors;
- Implementing policies aimed towards housing, construction and energy; and
- Strengthening regional economic integration.

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 2006, the VAT generated revenues of Bs.20.8 billion and the Government eliminated the Bank Debit Tax (*Impuesto al Débito Bancario*, or 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.27.5 billion and in 2008, the VAT generated revenues of approximately Bs.31.4 billion. In March 2009, the VAT was increased from 9% to 12%. During 2010, the VAT generated revenues of approximately Bs.45.6 billion.

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. In May 2005, the *Superintendencia Nacional de Auditoría Interna*, or the National Superintendency of Internal Audits, was created under the LOAFSP, and is responsible for auditing the public accounts. The LOAFSP reaffirms the role of 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 corresponds to the period 2011 through 2013, the LOAFSP contained transitory provisions that were applicable from 2005 through 2010. Beginning with the period 2011 through 2013, the Pluriannual Framework had to be approved by the National Assembly covering three-year periods in the manner contemplated by the LOAFSP. Before that time, in accordance with the law-decree, the Government has submitted 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 approved. In 2007, the Government submitted the Pluriannual Framework for the period 2008 though 2010 under the informative conditions set forth in the law-decree. On July 14, 2010, the LOAFSP was again amended. Pursuant to the amendment, the Government must submit the Pluriannual Framework to the National Assembly for the period 2011 through 2013, for informational purposes, when presenting the budget for 2011 for approval. The Pluriannual Framework was presented to the National Assembly on October 14, 2010, covering a three-year period in the manner contemplated by the LOAFSP.

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 December 2009, the National Assembly approved the budget for 2010. The 2010 budget, as approved, projected total revenues of approximately U.S.$57.7 billion (14.5% of GDP) and total expenditures of approximately U.S.$74.1 billion (18.7% of GDP). The 2010 budget also contemplated a legal limit on borrowing by the Republic of U.S.$16.4 billion (4.1% of GDP). The budget for 2010 was based on certain assumptions, including real GDP growth of 0.5%, an average price for the Venezuelan oil basket of U.S.$40.00 per barrel, an average exchange rate of Bs.2.15 = U.S.$1.00 and average inflation at a rate of 22%.

In December 2010, the National Assembly approved the budget for 2011. The 2011 budget, as approved, projects total revenues of approximately Bs.204.2 billion (U.S.$47.5 billion), or 4.3% of GDP, and total expenditures of approximately Bs.204.2 billion (U.S.$47.5 billion), or 4.3% of GDP. The 2011 budget also contemplates a legal limit on borrowing by the Republic of Bs.54.0 billion (U.S.$12.6 billion), or 4.9% of GDP. However, on June 13, 2011, the Special Debt Law was enacted, which allows the Republic to issue up to Bs.45.0 billion (U.S.$10.5 billion) in new bonds in 2011. The budget for 2011 is based on certain assumptions, including real GDP growth of 2.0%, an average price for the Venezuelan oil basket of U.S.$40.00 per barrel, an exchange rate of Bs.2.60 = U.S.$1.00 for essential goods and Bs.4.30 = U.S.$1.00 for non-essential goods and an inflation rate of between 23% and 25%.

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 Popular Power for Planning and Finance, also referred to as 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 as infringing 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.

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 June 27, 2011, this implementing legislation remained pending.

Stabilization Fund

Commencing with the enactment of a law in 1998 providing for the Stabilization Fund, the Government sought to provide fiscal stability to the Venezuelan economy through the savings of unanticipated revenues from petroleum sales. 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 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.

Since its original enactment in 1998, the law governing the Stabilization Fund has been amended several times. Pursuant to the current law and regulations governing the Stabilization Fund, the amounts to be deposited for each participating entity are subject to the following limits: (1) amounts deposited for the Republic may not exceed 20% of the excess, in real terms and comparable between income and expenditure incurred in the preceding fiscal period 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.

Withdrawals from the Stabilization Fund are less discretionary in nature and 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 funds are managed by Banco del Tesoro. These funds do not constitute part of the Republic's international reserves or part of Banco del Tesoro's assets. Banco del Tesoro is required to submit a description of the status of the Stabilization Fund and its investments to the Permanent Finance Commission of the National Assembly each month.

The balance in the Stabilization Fund was approximately U.S.$768 million as of December 31, 2006 and approximately U.S.$809 million as of December 31, 2007. The balance in the Stabilization Fund was approximately U.S.$828 million as of December 31, 2008 and approximately U.S.$830 million as of December 31, 2009. The balance in the Stabilization Fund as of December 31, 2010 was approximately U.S.$832 million.

Financing Policy

The Government's primary financing efforts have been directed at tapping local investor funds in order to use national savings generated by individuals and corporations. This enables the Government to minimize foreign exchange risk and reduce the cost of debt by increasing internal debt in comparison to external 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, at lower rates of interest than could be obtained in the international financial markets.

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. The Government has taken measures to improve its debt profile by reducing the concentration of debt maturities by spreading them across different years and by implementing strategies to reduce its cost of borrowing. The Government has focused on maintaining a positive correlation between the amount of debt and the country's GDP, which has been lower than the average among Latin American countries and other developed economies. This debt strategy has enabled the Government to pay its internal debt obligations, including reducing its stock of outstanding labor liabilities, while ensuring resources for investment projects and fulfilling its foreign debt obligations.

Exchange Control Regime

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 Bolívar 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.

From its inception through December 31, 2010, a total of U.S.$215.05 billion in foreign exchange had been approved for imports under the exchange control regime. In 2010, CADIVI approved approximately U.S.$29.16 billion in foreign exchange, as compared to approximately U.S.$29.0 billion in foreign exchange approved in 2009. For the five years leading up to the introduction of the exchange control regime, Venezuela spent an average of approximately U.S.$1.18 billion per month on imports.

During 2009, there was a significant reduction in the amount of U.S. dollars available to CADIVI, primarily due to the decline in the price of oil. As a result, the Government, together with Banco Central, agreed to pay up to 85% of CADIVI's obligations in an effort to increase the supply of dollars and to reduce the gap between the official exchange rate and the non-official swap exchange rate. In September 2009, Banco Central approved an extraordinary budget of U.S.$2.7 billion in order to inject foreign currency into the economy to meet the foreign exchange demands of different sectors.

During 2010 CADIVI expanded the availability of foreign exchange in order to address the needs of the local economy. In 2010, the domestic market experienced a contraction in the demand for goods and services. As a result, imports for final consumption and intermediate goods decreased 11.1% and 2.4%, respectively, and imports for capital goods increased 8.0%, as compared to 2009. In 2010, imports increased by 0.7% as compared to 2009, primarily due to the 7.0% increased allocation of foreign exchange by Banco Central due to the increase in the price of oil for that period.

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 redenominated. Accordingly, from that date the U.S. dollar exchange rate has been set at Bs.2.14 = U.S.$1.00 for purchase operations and Bs.2.15 = U.S.$1.00 for sale operations.

In an effort to promote and encourage the development of the Republic's national economy and stimulate exports, President Chávez announced on January 8, 2010 the implementation of *Convenio Cambiario No. 14*, which established a new exchange rate system that included two official prices for the dollar. The first exchange rate was set at Bs.2.60 = U.S.$1.00 for sale operations, which will be the official exchange rate for essential goods, including food, health, imports of machinery and equipment, science and technology, as well as all non-petroleum public sector transactions and other special cases. The exchange rate for all other transactions was set at Bs.4.30 = U.S.$1.00 for sale operations, with the exception of the provisions of Article 5 of the *Convenio Cambiario No. 14*, which covers, among others, transactions within the automotive sector, the telecommunications sector, the steel sector and the construction sector.

The exchange rate applicable to purchases of foreign exchange obtained by the public sector, other than those specified in Article 5 of the *Convenio Cambiario No. 14* and those obtained by public non-oil exports, was set at Bs.2.5935 = U.S.$1.00. The exchange rate applicable to purchases of currencies other than those previously indicated and those referred to in Article 5 of *Convenio Cambiario No. 14*, including exports from non-oil public and private sectors, was set at Bs.4.2893 = U.S.$1.00

On December 30, 2010, the Government eliminated the dual-exchange rate regime and established a single-exchange rate. According to *Convenio Cambiario No. 14*, the Ministry of Finance, together with Banco Central, established an exchange rate of Bs.4.30 = U.S.$1.00 for all transactions. Effective January 1, 2011, the U.S. dollar exchange rate was set at Bs.4.2893 = U.S.$1.00 for purchase operations and Bs.4.30 = U.S.$1.00 for sale operations.

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

Year and Quarter	Exchange (Bolívar/ U.S. dollar)[1]
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
2008	
First Quarter	Bs.2.15
Second Quarter	2.15
Third Quarter	2.15
Fourth Quarter	2.15
2009	
First Quarter	Bs.2.15
Second Quarter	2.15
Third Quarter	2.15
Fourth Quarter	2.15
2010[2]	
First Quarter	Bs.2.60 / Bs.4.30
Second Quarter	2.60 / Bs.4.30
Third Quarter	2.60 / Bs.4.30
Fourth Quarter	2.60 / Bs.4.30
2011	
First Quarter	Bs.4.30
Second Quarter	4.30

(1) The Bolívar/U.S. dollar exchange rates listed above and elsewhere herein do not reflect the redenomination of the Bolívar for periods prior to January 1, 2008 or the related calculation methodology described in "Currency of Presentation".
(2) According to *Convenio Cambiario No. 14*, the Ministry of Finance, together with Banco Central, established an exchange rate of Bs.2.60 = U.S.$1.00 for essential goods, including food, health, imports of machinery and equipment, science and technology, as well as all non-petroleum public sector transactions and other special cases. The exchange rate for all other transactions was set at Bs.4.30 = U.S.$1.00 for sale operations, with the exception of the provisions of Article 5 of the *Convenio Cambiario No. 14*, which covered, among others, transactions within the automotive sector, the telecommunications sector, the steel sector and the construction sectors.

Source: *Banco Central.*

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 and defense; (5) urgent health and food provisions; (6) travel expenses of government employees for attending official events; (7) ordinary expenses and investments of the Government; and (8) currency requirements of the Republic to manage the needs of the national treasury. BANDES and *Banco de Comercio Exterior* are also allowed to request foreign currency directly from Banco Central. 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 certain operations, entities 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 180 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 certain 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.

In May 2010, the Government instituted a partial reform to the Exchange Crimes Law in order to prevent the local market from circumventing the CADIVI system through trading securities denominated in foreign currency. In order to prevent these types of trading activities, Banco Central is the sole entity that will manage the system by which these transactions will take place. With the reform, the foreign exchange regime now includes securities that are denominated, or may be settled in, foreign currency. Prior to this reform, these types of activities were typically made through authorized exchange operators, including banks and brokerage firms.

On June 4, 2010, *Convenio Cambiario No.18* was enacted in an effort to curtail the inflationary problems due in part to local currency trading. This new regulation establishes that Banco Central will govern the terms and conditions of local currency trading of all international bonds issued by the Republic, its decentralized entities or any other issuer, which are denominated in foreign currency. On June 9, 2010, the SITME came into operation. SITME is an electronic system which regulates the buying and selling operations in Bolívares of securities denominated in foreign currency, in which only financial institutions may participate on behalf of their clients or in their own name but only with the approval of the Board of Directors of Banco Central. Under SITME, Banco Central determines which securities are to be traded and the price parameters for such trades in Venezuela and also determines the qualifications of the buyers and sellers that may participate in SITME.

SITME allows private entities and individuals to obtain U.S. dollars in exchange for Bolívares by paying Bolívares in exchange for foreign currency denominated securities that are issued by the Republic or entities directly or indirectly owned by the Republic that are ultimately sold in exchange for U.S. dollars.

Private entities may only use SITME to purchase U.S. dollars to pay for imported goods, capital goods and services which are not eligible to be paid through CADIVI, or, if they are eligible to be paid through CADIVI, the importer may not have purchased U.S. dollars through CADIVI for 90 days prior to submitting the request to SITME. Currently, private entities may acquire up to U.S.$50,000 per day, up to a U.S.$350,000 non-cumulative limit per month. As of May 2011, SITME has provided, since its creation, approximately U.S.$5.3 billion of foreign exchange for imports**..**

On June 15, 2010, the System for the Initial Placement of Bonds denominated in Foreign Currency (*Sistema de Colocación Primaria de Títulos en Moneda Extranjera*, or SICOTME) came into operation. SICOTME is an electronic system which regulates the initial placement of Government securities denominated in foreign currency and sold in Bolívares, in which only financial institutions authorized by Banco Central may participate, either on their own behalf or on behalf of their clients.

Trading on the exchange has decreased since the Government intervened trading companies and it has been stagnant since securities regulators shut down and took over management of 47 brokerage companies last year. The Government has defended its takeover of 47 private brokerage businesses last year on the basis that those firms had arbitrarily undervalued Venezuela's currency in a bond market that was widely used for currency trading and that the practices of the brokerage firms that were shut down contributed to capital flight.

Gross Domestic Product

In 2006, GDP totaled approximately Bs.51.1 billion in 1997 Constant Bolívares, registering a 9.9% rate of growth for the year compared to 2005. The increase was primarily due to 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 10.9%. The growth in the non-petroleum sector in 2006 resulted primarily from growth of 15.6% in the trade sector, 30.6% in the construction sector, 18.3% in the financial institutions sector and 18.9% in the transportation sector, compared to 2005.

In 2007, GDP totaled approximately Bs.55.3 billion in 1997 Constant Bolívares, registering a 8.2% 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 9.6%. The growth in the non-petroleum sector in 2007 resulted primarily from growth of 16.7% in the trade sector, 16.6% in the transportation sector and 15.5% in the construction sector, compared to 2006.

In 2008, GDP totaled approximately Bs.57.9 billion in 1997 Constant Bolívares, registering a 4.8% rate of growth for the year compared to 2007. The increase was primarily due to an overall increase in consumption. During this period, the petroleum sector expanded by 2.5% and the non-petroleum sector expanded by 5.1%. The growth in the non-petroleum sector in 2008 resulted primarily from growth of 5.7% in the trade sector, 3.7% in the construction sector and 11.4% in the transportation sector, compared to 2007.

In 2009, GDP totaled approximately Bs.56.0 billion in 1997 Constant Bolívares, representing a contraction of 3.3% in real terms compared to 2008. The economic contraction was primarily due to decreases in the petroleum sector of 7.2% and in the non-petroleum sector of 2.0%. The contraction in the petroleum sector in 2009 was due in large part to the December 2008 production cuts agreed upon by OPEC. The contraction in the non-petroleum sector in 2009 resulted primarily from decreases of 11.2% in the mining sector, 7.9% in the trade sector and 6.4% in the manufacturing sector, as compared to 2008.

In 2010, GDP totaled approximately Bs.55.8 billion in 1997 Constant Bolívares, representing a contraction of 1.5% in real terms compared to 2009. The decrease in 2010 was primarily due to a decrease in construction and trade sectors by 7.0% and 6.1%, respectively. As a result of the foregoing factors, the non-petroleum sector decreased 1.6% in 2010.

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

	Year Ended December 31,									
	2006[1]		**2007**[1]		**2008**[1]		**2009**[1]		**2010**[1]	
	Value	**Share**	**Value**	**Share**	**Value**	**Share**	**Value**	**Share**	**Value**	**Share**
	(in millions of 1997 Constant Bolívares and as percentage share of GDP)									
Aggregate Global Demand	Bs. 51,116.5	100.0%	Bs. 55,591.1	100.0%	Bs. 58,525.1	100.0%	Bs. 56,650.9	100.0%	Bs. 55,807.5	100.0%
Aggregate Internal Demand	60,021.9	117.4	72,046.3	129.6	75,450.9	128.9	69,655.1	123.0	69,332.7	124.2
Gross Capital Formation	15,315.9	30.0	19,239.9	34.6	19,707.5	33.7	18,062.9	31.9	16,925.9	30.3
Consumption	41,020.2	80.2	47,693.0	85.8	50,563.9	86.4	49,516.4	87.4	48,984.6	87.8
Public	8,098.2	15.8	9,211.7	16.6	9,651.9	16.5	9,800.4	17.3	10,010.5	17.9
Private	32,922.0	64.4	38,481.3	69.2	40,912.0	69.9	39,716.0	70.1	38,974.0	69.8
Variation of Stock	3,685.7	7.2	5,113.4	9.2	5,179.5	8.9	2,075.8	3.7	3,422.2	6.1
Net External Demand[2]	(8,905.3)	(17.4)	(16,455.3)	(29.6)	(16,925.8)	(28.9)	(13,004.1)	(23.0)	(13,525.2)	(24.2)
Gross Domestic Product	51,116.5	100.0	55,591.1	100.0	58,525.1	100.0	56,650.9	100.0	55,807.5	100.0
Petroleum Activities	7,108.7	13.9	6,870.7	12.4	7,072.1	12.1	6,550.8	11.6	6,554.3	11.7
Non-petroleum Activities	38,474.3	75.3	42,213.4	75.9	44,602.4	76.2	43,829.1	77.4	43,127.0	77.3
Agriculture	2,450.9	4.8	2,514.2	4.5	2,601.9	4.4	2,627.9	4.6	2,652.1	4.8
Mining	355.9	0.7	360.2	0.6	339.4	0.6	304.3	0.5	264.8	0.5
Manufacturing	8,463.4	16.6	8,834.3	15.9	8,960.9	15.3	8,383.2	14.8	8,095.5	14.5
Water and Electricity	1,191.7	2.3	1,222.3	2.2	1,283.7	2.2	1,336.8	2.4	1,258.9	2.3
Construction	3,242.3	6.3	3,916.5	7.0	4,328.0	7.4	4,318.7	7.6	4,018.5	7.2
Trade[3]	5,740.8	11.2	6,674.4	12.0	6,991.4	11.9	6,450.3	11.4	6,050.7	10.8
Transportation[4]	3,851.1	7.5	4,526.4	8.1	5,108.1	8.7	5,282.3	9.3	5,501.7	9.9
General Government	5,799.9	11.3	6,144.4	11.1	6,469.8	11.1	6,625.6	11.7	6,798.4	12.2
Financial Institutions[5]	7,358.6	14.4	8,169.0	14.7	8,078.6	13.8	7,979.9	14.1	7,755.1	13.9
Other[6]	19.6	0.0	(148.4)	(0.3)	440.7	0.8	520.1	0.9	731.3	1.3
Other Net Taxes on Products	5,533.5	10.8	6,506.9	11.7	6,850.6	11.7	6,271.0	11.1	6,126.2	11.0

(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,				
	2006[1]	**2007**[1]	**2008**[1]	**2009**[1]	**2010**[1]
	(percentage change in real terms)				
Aggregate Global Demand	9.9%	8.8%	5.3%	(3.2)%	(1.5)%
Aggregate Internal Demand	20.4	20.0	4.7	(7.7)	(0.5)
Gross Capital Formation	29.3	25.6	2.4	(8.3)	(6.3)
Consumption	14.3	16.3	6.0	(2.1)	(1.1)
Public	9.6	13.8	4.8	1.5	2.1
Private	15.5	16.9	6.3	(2.9)	(1.9)
Gross Domestic Product	9.9	8.8	5.3	(3.2)	(1.5)
Petroleum Activities	(2.0)	(3.3)	2.9	(7.4)	0.1
Non-petroleum Activities	10.9	9.7	5.7	(1.7)	(1.6)
Agriculture	1.0	2.6	3.5	1.0	0.9
Mining	7.2	1.2	(5.8)	(10.3)	(13.0)
Manufacturing	8.3	4.4	1.4	(6.4)	(3.4)
Water and Electricity	4.9	2.6	5.0	4.1	(5.8)
Construction	30.6	20.8	10.5	(0.2)	(7.0)
Trade[2]	15.6	16.3	4.7	(7.7)	(6.2)
Transportation[3]	18.9	17.5	12.9	3.4	4.2
General Government	3.0	5.9	5.3	2.4	2.6
Financial Institutions[4]	18.3	11.0	(1.1)	(1.2)	(2.8)
Other[5]	(95.7)	(856.9)	(397.0)	18.0	40.6
Adjustments	21.2	17.6	5.3	(8.5)	(2.3)

(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, 2006, the rate of inflation, as measured by the CPI, stood at 17.0% 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 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 rate of inflation, as measured by the CPI, increased to 31.9% for year-end 2008 and averaged 31.4% for the whole of 2008.

On April 3, 2008, INE, in affiliation with the Ministry of Finance, and the Central Bank issued Resolution No. 08-04-01 regulating the INPC effective as of April 3, 2008. INPC covers the same items as the CPI, but with a national geographic scope. The previous system only covered the Caracas and Maracaibo metropolitan areas.

Inflation figures from January 1, 2008 have been calculated using INPC. Figures prior to January 1, 2008 will not be re-calculated. INPC has as its base period December 2007 and is published monthly within the first ten days of each month. For the year ended December 31, 2008, the rate of inflation, as measured by the INPC, was 30.9%, and for the year ended December 31, 2009, the rate of inflation was 25.1%. For the year ended December 31, 2010, the rate of inflation stood at 27.4%.

Between 2008 and 2010, the Government developed a series of measures aimed at continuing the reduction of inflationary pressures, including: (1) granting subsidies to importers and producers; (2) rehabilitating and consolidating agricultural infrastructure to improve production levels; (3) granting fiscal incentives to the industrial sector; (4) regulating the foreign exchange market; (5) the issuance by the Government and PDVSA of dollar-denominated debt instruments in the local market; and (6) the creation of the CVAL *(Corporación Venezolana de Alimentos)*, which focuses on the production, processing, distribution and exchange of all types of foodstuffs, as well as the manufacture, purchase, sale, marketing and storage of agricultural products, and the creation of the *Red de Comercio Bicentenario*. Additionally, PDVAL (*Producción y Distribución Venezolana de Alimentos*), which was originally a PDVSA subsidiary and is now directly owned by the Republic through the Ministry of Nutrition, continued to assist in the distribution of foodstuffs throughout the country.

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

	2006 Quarters				2006 Full Year	2007 Quarters				2007 Full Year	2008 Quarters				2008 Full Year	2009 Quarters		
	I	**II**	**III**	**IV**		**I**	**II**	**III**	**IV**		**I**	**II**	**III**	**IV**		**I**	**II**	**III**
Producer Price Index(1):																		
Manufacturing Goods(2):																		
Average	2.6	2.9	3.3	3.0	11.3	3.1	2.4	2.6	5.1	12.6	7.6	8.4	5.4	3.1	25.2	3.4	8.6	7.0
End of Period(3)	3.0	3.3	3.1	2.7	12.7	2.7	3.1	2.8	5.6	14.9	8.5	8.1	4.6	2.2	25.2	4.3	10.0	5.6
Raw Materials for Construction:																		
Average	3.3	4.8	5.1	2.2	13.8	6.7	2.8	1.7	4.3	17.0	8.2	8.6	5.4	1.7	24.4	1,7	8,1	7,8
End of Period(3)	4.8	4.8	3.8	2.0	16.4	6.9	3.5	0.8	5.0	17.0	10.2	8.4	3.1	1.3	24.8	1,7	11,6	4,9
Wholesale Price Index(4) (6):																		
Domestic Goods(1):																		
Average	3.3	3.9	5.5	3.6	14.6	5.5	3.9	2.0	4.6	18.1	7.2	5.6	6.2	11.9	25.1	7.0	4.0	7.9
End of Period	3.3	6.2	3.6	3.8	18.0	5.1	4.5	1.5	5.8	18.0	6.6	5.5	8.1	12.4	36.7	3.8	5.2	8.4
Imported Goods(1):																		
Average	2.1	2.1	1.2	2.6	7.6	3.6	2.3	1.9	5.0	11.0	5.8	4.5	3.0	3.3	17.8	4.9	12.8	9.3
End of Period	3.0	1.7	1.5	2.7	9.2	2.5	3.5	1.1	6.8	14.6	5.6	3.5	2.5	4.6	17.1	4.2	15.5	8.8
Consumer Price Index(5)																		
(Caracas Metro Area):																		
Average	1.7	2.8	6.4	4.3	13.7	4.4	3.1	3.4	7.9	18.7	9.6	7.1	6.4	6.8	31.4	6.4	6.0	6.8
End of Period(3)	1.3	4.1	6.6	3.9	17.0	2.6	5.0	2.9	10.4	22.5	8.2	7.5	5.9	7.1	31.9	5.4	6.6	7.2

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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 B
(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
(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*

The following table sets forth the INPC for the periods indicated:

National Consumer Price Index (Base: December 2007 = 100)	
Year and Month	**INPC**
2007	
December	100.0
2008	
January	103.1
February	105.3
March	107.1
April	108.9
May	112.4
June	115.1
July	117.3
August	119.4
September	121.8
October	124.7
November	127.6
December	130.9
2009	
January	133.9
February	135.6
March	137.2
April	139.7
May	142.5
June	145.0
July	148.0
August	151.3
September	155.1
October	158.0
November	161.0
December	163.7
2010	
January	166.5
February	169.1
March	173.2
April	182.2
May	187.0
June	190.4
July	193.1
August	196.2
September	198.4
October	201.4
November	204.5
December	208.2
2011	
January	213.9
February	217.6
March	220.7
April	223.9
May	229.6
June	235.3

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 2010 were approximately U.S.$70.6 billion. During the same period, average annual imports were approximately U.S.$41.2 billion.

In 2010, Venezuela's total exports were U.S.$65.8 billion. Petroleum products represent the overwhelming component of total exports, totaling U.S.$62.3 billion during 2010. During the same period, total imports, consisting mainly of raw materials, machinery, equipment and manufactured goods, were U.S.$38.6 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 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 American and South American states, such as Argentina, Bolivia, Ecuador and Uruguay. In exchange, these countries are permitted to supply goods and services in several areas as well as technical assistance to Venezuela, including agricultural advising and medical personnel.

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 such as ALBA and 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. In 2007 and 2008, the treaty was expanded to include Honduras, Nicaragua and the Caribbean nation of Dominica.

Trading Partners

The United States is Venezuela's most important trading partner. As of December 31, 2010, Venezuela was the fourth-largest exporter of petroleum products to the United States. In addition to the United States, Venezuela's significant trading partners include various Latin American and Asian countries.

In 2006, Venezuela and China signed several oil agreements, building on the various energy, agricultural and technical cooperation agreements entered into between the two countries in December 2004. By year-end 2006, Venezuela was shipping approximately 300,000 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 joint investment fund between the Governments of Venezuela and China to finance development and infrastructure projects in Venezuela, referred to as the Sino-Venezuelan Joint Fund. 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 (CNPC). The proceeds of sales under the supply agreement will be applied to pay amounts due under BANDES's loan with the China Development Bank. In addition, FONDEN contributed U.S.$2.0 billion. In September 2008, the two countries agreed to double the Sino-Venezuelan Joint Fund to U.S.$12.0 billion.

In September 2009, PDVSA and the National Oil Consortium, a joint venture comprised of five Russian companies, signed agreements aimed at establishing a Mixed Company to develop heavy crude oil in the Orinoco Oil Belt. In April 2010, the National Oil Consortium paid the Republic a U.S.$600 million bonus for participation in the development of the participation in the development of the Junin-6 block deposit. The project is expected to produce an estimated 400,000 bpd to 500,000 bpd of extra heavy crude oil. The investment for this project is estimated to be approximately U.S.$20.0 billion and the National Oil Consortium will own a 40% stake in the Mixed Company and PDVSA will own the remaining 60%. The Mixed Company will have a duration of 25 years. During 2010, the Mixed Company was formally incorporated, under the name of PetroMiranda.

Since 2006, the Government has purchased approximately U.S.$4.4 billion in Russian arms in an effort to modernize the Republic's armed forces. In September 2009, President Chávez announced that Russia would finance arms purchases valued at U.S.$2.2 billion. The arms purchase would increase the Republic's defensive capacity with more tanks, missiles and anti-aerial defense systems.

For the twelve-month period ended December 31, 2010, the United States accounted for 31.6% of Venezuela's total imports, China accounted for 10.9% of Venezuela's total imports and Colombia accounted for 4.7% of Venezuela's total imports. For the twelve-month period ended December 31, 2010, the United States accounted for 48.9% of Venezuela's total exports, China accounted for 7.7% of Venezuela's total exports and Colombia accounted for 0.4% of Venezuela's total exports. As a result of disagreements between Venezuela and Colombia, starting in the third quarter of 2009, both countries began pursuing a policy of diversification of their trading counterparties. On August 10, 2010, President Chávez and new Colombian president, Juan Manuel Santos, restored diplomatic relations between the two countries and agreed to create joint committees dealing with trade relations and economic cooperation, among other topics.

In September 2010, China and Venezuela signed a long term financing agreement in which China agreed to extend U.S.$20.0 billion in loans to Venezuela with a term of 10 years. China National United Oil Corporation (CNPC) and *Petróleos de Venezuela* signed oil supply contracts that will enable the Republic to generate the cash flows necessary to service the loans.

The following tables set out the geographical distribution of Venezuela's imports and exports for the periods indicated:

	Imports				
	Year Ended December 31,				
	2006	2007(1)	2008(1)	2009(1)	2010(1)
	(as a percentage of total)				
Brazil	9.6%	9.8%	9.0%	8.4%	9.4%
Colombia	10.0	12.4	15.0	11.8	4.7
China	--	9.6	9.4	10.1	10.9
Germany	2.4	2.3	3.0	2.8	3.0
Italy	2.1	2.3	2.5	2.3	2.2
United States	29.0	27.4	26.3	27.0	31.6
Others	46.9	36.2	34.8	37.6	38.2
Total	100.0%	100.0%	100.0%	100.0%	100.0%

	Exports				
	Year Ended December 31,				
	2006	2007(1)	2008(1)	2009(1)	2010(1)
	(as a percentage of total)				
Brazil	0.8%	0.3%	0.2%	0.5%	0.7%
Colombia	1.8	1.8	1.0	0.8	0.4
China	0.3	2.9	3.7	5.8	7.7
Germany	0.4	1.1	1.1	0.8	0.9
Italy	0.7	1.1	1.0	0.8	0.1
United States	49.1	44.8	40.9	37.8	48.9
Others	46.9	48.0	52.1	53.5	41.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Preliminary figures.

Sources: *INE and PDVSA.*

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 2006, non-petroleum exports totaled U.S.$7.6 billion, representing 11.6% of Venezuela's total exports during that period. During 2007, non-petroleum exports totaled U.S.$6.4 billion, representing 9.2% of Venezuela's total exports during that period. In 2008, non-petroleum exports totaled U.S.$6.0 billion, representing 6.3% of Venezuela's total exports during that period. In 2009, non-petroleum exports totaled U.S.$3.4 billion, representing 5.9% of Venezuela's total exports during that period. As of December 31, 2010, non-petroleum exports totaled U.S.$3.5 billion, representing 5.3% of Venezuela's total exports during that period.

Balance of Payments

Because Venezuela is a major oil producer and exporter, it has historically recorded trade and current account surpluses. For 2006, the overall balance of payments recorded a surplus of approximately U.S.$5.0 billion and the current account surplus was U.S.$26.5 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.$58.0 billion, or 88.4% of total exports. Non-oil exports, estimated at U.S.$7.6 billion, showed a slight increase 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.$5.7 billion and the current account had a total surplus of U.S.$18.0 billion. The deficit in the 2007 overall balance of payments was primarily due to FONDEN transfers and PDVSA's maintenance of increased levels of foreign currency holdings offshore. For 2008, the overall balance of payments recorded a surplus of approximately U.S.$9.3 billion and the current account surplus was U.S.$37.4 billion. The increase in the current account surplus was due primarily to an increase in oil exports. For 2009, the overall balance of payments recorded a deficit of approximately U.S.$10.3 billion and the current account had a total surplus of U.S.$8.6 billion. The deficit in the 2009 overall balance of payments is primarily due to expenses in the financial account and a decreased surplus in the current account. The decrease in the current account surplus was primarily due to a reduction of oil export revenues caused by decreases in both oil production and prices. For 2010, the overall balance of payments recorded a deficit of approximately U.S.$8.06 billion and the current account had a total surplus of U.S.$14.34 billion. The deficit in the 2010 overall balance of payments is primarily due to net outflows in the financial account and the result of errors and omissions account. The increase in the current account surplus is primarily due to an increase in oil export revenues.

During 2006, the capital account recorded a deficit of U.S.$19.3 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.$22.1 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. During 2008, the capital account recorded a deficit of U.S.$24.9 billion. The deficit in the capital account in 2008 was due primarily to an increase in deposits abroad and oil sector accounts receivable. The capital account recorded a deficit of U.S.$14.0 billion for 2009. The capital account deficit in 2009 was primarily due to an increase of deposits abroad by the non-financial private sector, a decrease in public sector liabilities to foreign investors and an increase in PDVSA assets, primarily in the form of short-term loans to foreign affiliates. During 2010, the capital account recorded a deficit of U.S.$18.8 billion. The deficit in the capital account in 2010 was due to an increase in external assets by both the public sector and the non-financial private sector.

In 2006, foreign direct investment inflows totaled U.S.$1.9 billion and foreign direct investment inflows in 2007 totaled U.S.$2.6 billion. In 2008, foreign direct investment inflows decreased to approximately U.S.$1.1 billion and in 2009, foreign direct investment inflows totaled U.S.$147 million. In 2010, foreign direct investment inflows totaled U.S.$ 668 million.

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

	Year Ended December 31,				
	2006	2007[(1)]	2008[(1)]	2009[(1)]	2010[(1)]
	(in millions of U.S. dollars)				
Current Account	$ 26,462	$ 18,063	$ 37,392	$ 8,561	$ 14,378
Trade Balance	31,995	22,979	45,656	19,153	27,173
Oil Exports (f.o.b.)	57,972	62,640	89,128	54,201	62,317
Non-oil Exports (f.o.b.)	7,606	6,370	6,010	3,394	3,469
Imports (f.o.b.)	(33,583)	(46,031)	(49,482)	(38,442)	(38,613)
Services	(4,410)	(6,952)	(8,354)	(7,617)	(8,857)
Transportation	(2,276)	(3,936)	(4,111)	(3,331)	(3,468)
Travel	(461)	(703)	(867)	(780)	(957)
Communications	32	(98)	(141)	(191)	(225)
Insurance	(323)	(421)	(530)	(446)	(476)
Government	(105)	(160)	(284)	(199)	(269)
Other	(1,277)	(1,634)	(2,421)	(2,670)	(3,462)
Investment Income	(1,045)	2,467	698	(2,652)	(3,379)
Inflows	8,226	10,165	8,049	2,313	1,940
Public Sector Interest	1,172	1,500	1,015	214	167
Private Sector Interest	267	445	488	82	45
Other	6,787	8,220	6,546	2,017	1,728
Outflows	(9,271)	(7,698)	(7,351)	(4,965)	(5,319)
Public Sector Interest	(2,121)	(2,401)	(3,018)	(2,896)	(3,264)
Private Sector Interest	(364)	(342)	(49)	(23)	(17)
Other	(6,786)	(4,955)	(4,284)	(2,046)	(2,038)
Current Transfers	(78)	(431)	(608)	(323)	(559)
Capital and Financial Account	(19,287)	(22,059)	(24,820)	(14,040)	(18,799)
Inflows	14,256	27,803	44,057	44,915	32,602
Direct Investment	1,949	2,567	1,104	147	668
Public Debt (long-term)	1,680	8,134	1,236	4,451	6,260
Bonds	0	3,982	413	2,182	3,441
Loans and Trade credits	1,680	4,152	823	2,269	2,819
Private Debt (long-term)	0	0	109	102	0
Bonds	0	0	0	0	0
Loans	0	0	109	102	0
Imports Financing	1,243	1,840	4,218	1,472	3,121
Other	9,384	15,262	37,480	38,743	22,553
Outflows	(33,543)	(49,862)	(68,877)	(58,955)	(51,190)
Direct Investment	(3,981)	(1,589)	(2,028)	(5,086)	(4,462)
Public Debt (long-term)	(6,124)	(2,991)	(5,614)	(1,253)	(1,921)
Bonds	(4,188)	(569)	(3,040)	(1)	(109)
Loans and Trade credits	(1,936)	(2,422)	(2,574)	(1,252)	(1,812)
Private Debt (long-term)	(910)	(728)	(327)	(1)	(77)
Bonds	(62)	(115)	0	0	0
Loans	(848)	(613)	(327)	(1)	(77)
Imports Financing	(1,290)	(587)	(874)	(1,587)	(164)
Other	(21,238)	(43,967)	(60,034)	(51,028)	(44,566)
Net Errors and Omissions	(2,211)	(1,746)	(3,297)	(4,783)	(3,639)
Overall Balance	4,964	(5,742)	9,275	(10,262)	(8,060)
Change in Reserves (Increase)[(2)]	(4,964)	5,742	(9,275)	10,262	8,060
Assets	(4,904)	5,357	(9,456)	10,799	7,939
Banco Central[(3)]	(4,868)	5,398	(9,437)	10,801	7,941
BANDES	0	0	0	0	0
Stabilization Fund	(36)	(41)	(19)	(2)	(2)
Obligations	(60)	385	181	(537)	121
Banco Central[(3)]	(60)	385	181	(537)	121

(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 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.$28.7 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 and totaled U.S.$33.5 billion at year-end 2007. At December 31, 2007, international monetary assets stood at U.S.$34.3 billion, liquid operating reserves at Banco Central totaled U.S.$23.0 billion and net international reserves (excluding funds in the Stabilization Fund) totaled U.S.$32.9 billion.

Gross international reserves stood at U.S.$42.3 billion at December 31, 2008 (excluding funds in the Stabilization Fund), representing an increase of U.S.$8.8 billion since December 31, 2007. In addition, funds in the Stabilization Fund totaled U.S.$828 million. At the same date, international monetary assets stood at U.S.$43.3 billion, liquid operating reserves at Banco Central totaled U.S.$32.6 billion and net international reserves (excluding funds in the Stabilization Fund) totaled U.S.$41.5 billion.

Gross international reserves at Banco Central decreased by U.S.$7.3 billion between December 31, 2008 and December 31, 2009, totaling U.S.$35.0 billion at year-end 2009. The 17.3% decrease in gross international reserves was primarily due to a reduction in export revenues and a continued increase in foreign assets by private agents. At December 31, 2009, international monetary assets stood at U.S.$36.1 billion, liquid operating reserves at Banco Central totaled U.S.$17.7 billion and net international reserves (excluding funds in the Stabilization Fund) totaled U.S.$34.2 billion. At the same date, the balance in the Stabilization Fund was U.S.$830 million.

Banco Central's gross international reserves at the end of 2010 totaled U.S.$29.5 billion, representing a decrease of U.S.$5.5 billion since December 31, 2009. In addition, funds in the Stabilization Fund totaled U.S.$832.0 million. At December 31, 2010, total international monetary assets totaled U.S.$30.5 billion, liquid operating reserves at Banco Central totaled U.S.$8.8 billion and net international reserves (excluding funds in the Stabilization Fund) at Banco Central totaled U.S.$29.1 billion.

At December 31, 2010, Total Liquid Operating Reserves at Banco Central were U.S.$9.2 billion, a 48.0% decrease from 2009. Banco Central uses its liquid operating reserves for servicing external debt, making contributions to FONDEN and liquidating dollar purchases approved by CADIVI for imports and other transactions. The decrease in the liquid operating reserves was due to the contributions made by Banco Central to FONDEN and a decrease in the volume of U.S. dollars sold by PDVSA to Banco Central.

The Republic and Banco Central undertake efforts to maintain the level of total international reserves, including gold and SDRs, between U.S.$28.0 and U.S.$30.0 billion. Banco Central designates an optimal reserve level within this range, from time to time, after taking into consideration it's contributions to FONDEN and the historical decrease in U.S. dollars sold to it by PDVSA in light of the legal regime attributable to PDVSA's holdings of U.S. dollars abroad and the recent requirements regarding contributions to FONDEN.

In August 2011, President Chávez announced the repatriation of Venezuelan gold reserves currently held in foreign banks in UK, Canada, France and the U.S. in order to protect the Venezuelan economy from the global economic crisis. The President explained that the government plans to transfer the country's international cash reserves out of the U.S. and Europe and into Brazilian, Chinese, and Russian banks. In addition, UNASUR has proposed establishing a fund that could draw from monetary reserves of central banks from countries in the region, which manage approximately U.S.$600.0 billion and will serve as a regional response to the recent global financial crisis.

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

	Year Ended December 31,				
	2006	**2007**	**2008**	**2009**	**2010**
	(in millions of U.S. dollars)				
Gross International Reserves at Banco Central	$36,672	$33,477	$42,299	$35,000	$29,500
Gold(1)	7,255	9,281	9,201	13,297	16,363
Special Drawing Rights	0	1	21	3,511	3,449
IMF Position(2)	484	509	496	505	496
Total Liquid Operating Reserves at Banco Central	28,933	23,686	32,581	17,687	9,192
Reserves Liabilities of Banco Central	(202)	(592)	(777)	(241)	(361)
Net Liquid Operating Reserves at Banco Central	28,731	23,094	31,804	17,446	8,831
Net International Reserves at Banco Central	36,470	32,885	41,522	34,759	29,139
Stabilization Fund (3)	768	809	828	830	832
Other International Monetary Assets(4)	430	97	207	279	164
International Monetary Assets(5)	37,870	34,383	43,334	36,109	30,496

(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) Other than amounts in the Stabilization Fund.
(5) Other than amounts in the Stabilization Fund.
(6) Includes monetary assets denominated in units of exchange other than Bolívares owned or controlled by Banco Central and PDVSA, but excluding FONDEN and other public sector assets.

Source: *Banco Central.*

Banco Central Transfers

In July 2005, the National Assembly approved an amendment to the Central Bank Law that was originally enacted on October 3, 2001 and that superseded the previous Central Bank Law dated as of December 4, 1992. As in previous laws, a purpose of the Central Bank Law of 2005 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. The law 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 on an annual basis, with the assistance of the National Assembly, if required, and to distribute the excess to FONDEN. The reform also required Banco Central to make a one-time special contribution to FONDEN of U.S.$6.0 billion from Venezuela's foreign currency reserves. That deposit was completed on November 7, 2005. Since that date through December 31, 2007, approximately U.S.$17.0 billion was added by Banco Central. In 2008, Banco Central transferred an additional U.S.$1.5 billion to FONDEN and in 2009, Banco Central transferred an additional U.S.$12.3 billion to FONDEN. In 2010, Banco Central transferred an additional U.S.$7.0 billion to FONDEN.

In April 2011, President Chávez issued by law-decree the Law Creating the Special Tax on Extraordinary Prices and Exorbitant Prices in the International Oil Market, which repeals the provisions of the Central Bank Law governing PDVSA's contributions to FONDEN.

Redenomination of the Bolívar

On March 6, 2007, President Chávez issued a law-decree that established a redenomination of the Bolívar, which became fully effective on January 1, 2008. Under the redenomination plan, all amounts expressed in the national currency before the redenomination were divided by 1,000. Effective January 1, 2008, the U.S. dollar exchange rate was set at Bs.2.14 = U.S.$1.00 for purchase operations and Bs.2.15 = U.S.$1.00 for sale operations.

In an effort to promote and encourage the development of the Republic's national economy and stimulate exports, President Chávez announced on January 8, 2010 the implementation of *Convenio Cambiario No. 14*, which established a new exchange rate system that includes two official prices for the dollar. The first exchange rate was set at Bs.2.60 = U.S.$1.00 for sale operations, which was the official exchange rate for essential goods, including food, health, imports of machinery and equipment, science and technology, as well as all non-petroleum public sector transactions and other special cases. The exchange rate for all other transactions was set at Bs.4.30 = U.S.$1.00 for sale operations, with the exception of the provisions of Article 5 of the *Convenio Cambiario No. 14*, which covers, among others, transactions within the automotive sector, the telecommunications sector, the steel sector and the construction sector.

The exchange rate applicable to purchases of foreign exchange obtained by the public sector, other than those specified in Article 5 of the *Convenio Cambiario No. 14* and those obtained by public non-oil exports, was set at Bs.2.5935 = U.S.$1.00. The exchange rate applicable to purchases of currencies other than the previously indicated and those referred to in Article 5 of *Convenio Cambiario No. 14*, including exports from non-oil public and private sectors, was set at Bs.4.2893 = U.S.$1.00.

On December 30, 2010, the Government eliminated the dual-exchange rate regime and established a single-exchange rate. Effective January 1, 2011, the U.S. dollar exchange rate was set at Bs.4.2893 = U.S.$1.00 for purchase operations and Bs.4.30 = U.S.$1.00 for sale operations.

Employment and Labor

Labor Policies

The composition of the labor force in Venezuela has undergone substantial changes during the last 50 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, at December 31, 2010, approximately 44.0% 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.

In 2010, the government implemented a new management model in the companies controlled by CVG and other companies in the basic industries sector, such as the state-owned steel company Sidor. Such management model is named "workers' control" ("*control obrero*"). On May 15, 2010 President Chávez appointed a group of workers/presidents of CVG Alcasa who were in charge of implementing this new management model by creating working panels in the administrative and operative departments in which all workers can express their opinions and vote in order to take decisions. CVG Alcasa nearly closed its operations; with the help of this management model, however, the company has been able to improve its productivity.

Labor Force

As the labor force of Venezuela has grown in recent years, there have been numerous efforts to absorb the increasing number of workers in Venezuela, particularly persons migrating from rural to urban areas. 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 and increased to 12.4 million to at the end of 2007. The rate of unemployment decreased from 9.3% at year-end 2006 to 7.5% at year-end 2007, which was due primarily to increased public sector opportunities including the expanding social Missions. At the end of 2008, the labor force totaled approximately 12.7 million and the rate of unemployment decreased to 6.8% at year-end 2008. At the end of 2009, the labor force totaled approximately 13.0 million. The rate of unemployment increased to 7.5% at year-end 2009, primarily due to the impact of the global economic crisis on the Venezuelan economy. At the beginning of 2011, the labor force totaled approximately 13.3 million. The rate of unemployment increased to 8.5% at year-end 2010, primarily due to the slow growth in labor demand since the national economy is still recovering.

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

	Year Ended December 31,									
	2006		2007		2008		2009(1)		2010(1)	
Labor Force:										
Employed	11,116,925	90.7%	11,503,869	92.5%	11,813,095	93.2%	11,981,789	92.5%	12.053.477	91.5%
Unemployed	1,143,653	9.3	932,448	7.5	861,749	6.8	974,940	7.5%	1.120.852	8.5%
Total	**12,260,578**	**100.0**	**12,436,317**	**100.0**	**12,674,844**	**100.0**	**12,956,729**	**100.0**%	**13.174.329**	**100.0**%
By Sector:										
Petroleum and Mining	77,872	0.7	99,225	0.9	101,944	0.9	103,903	0.9	128,659	1.1
Agriculture, Fishing and Hunting	1,016,049	9.1	992,832	8.6	1,014,834	8.3	1,165,832	9.7	1,044,452	8.7
Manufacturing	1,350,895	12.2	1,415,538	12.3	1,410,960	11.7	1,458,545	12.2	1,384,812	11.5
Water, Electricity and Gas	50,352	0.5	48,031	0.4	54,991	0.5	48,470	0.4	58,789	0.5
Construction	1,057,616	9.5	1,104,538	9.6	1,147,871	10.3	1,072,561	9.0	1,089,121	9.0
Commerce, Restaurant and Hotels	2,620,025	23.6	2,712,478	23.6	2,760,921	23.1	2,602,269	21.7	2,828,308	23.5
Transportation, Storage and Communications	913,558	8.2	1,025,498	8.9	1,055,775	8.8	1,044,893	8.7	1,123,048	9.3
Financial Institutions, Insurance and Real Estate	551,031	5.0	587,139	5.1	617,971	5.2	661,363	5.5	660,606	5.5
Community, Social and Personal Services	3,452,568	31.1	3,492,273	30.4	3,628,918	30.2	3,807,561	31.8	3,697,732	30.7
Others	26,959	0.2	26,517	0.2	11,813	1.0	16,392	0.1	37,950	0.3
Total	**11,116,925**	**100.0**	**11,503,869**	**100.0**	**11,813,095**	**100.0**	**11,981,789**	**100.0**%	**12,053,477**	**100.0**%

(1) Preliminary figures.

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 the Public Function (*Estatuto de la*

Funcion Publica). 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 had 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, 2007, the estimated total amount of the Government's Labor Liabilities was calculated to be approximately Bs.25.8 billion. At December 31, 2008, the estimated total amount of the Government's Labor Liabilities was calculated to be approximately Bs.31.2 billion and at December 31, 2009, the estimated total amount of the Government's Labor Liabilities was calculated to be approximately Bs.19.1 billion. At May 31, 2011, the estimated total amount of the Government's Labor Liabilities was calculated to be approximately Bs.24.5 billion.

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 for a period of one year through the end of 2008 and on December 29, 2008 and December 23, 2009, the freeze was extended again for a period of one year. On December 16, 2010, the freeze was further extended for an additional year through the end of 2011.

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 26, 2011, in the form of a presidential decree which set the minimum wage for all public and private sector employees at Bs.1,407.47, or approximately U.S.$327, beginning May 1, 2011, representing a 15% increase over the previous minimum wage. Beginning in September 1, 2011, the monthly minimum wage for all public and private sector employees will increase an additional 10% to Bs.1,548.21, or approximately U.S.$360.

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. In 2010, the National Assembly continued the debate concerning reforms to the Organic Labor Law, discussing the elimination of penalties for employers, outsourcing and unfair termination of employees, among other matters.

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.

On April 30, 2010, President Chávez issued Exceptional Decree No. 7401 which was in force through December 31, 2010. Under the Decree, all women 55 and older and men 60 and older who are not working and who have made contributions to the social security system, but not enough to enable them to receive a retirement pension under the terms of the Organic Law of Social Security, could apply to receive a retirement pension. Eligible individuals still must make the required payments, but they may do so in installments until May 1, 2012 and the Government can assume the responsibility to make a certain number of the contributions.

Labor Unions

Venezuela has numerous labor unions. *Unión Nacional de Trabajadores de Venezuela*, or UNT, and CTV are among the largest labor unions in Venezuela. From 2007 to 2009, there was an increase in the number of labor unions, due in part to the nationalizations of the various sectors of the Venezuelan economy. In 2009, there were 6,000 registered labor unions as compared to 1,200 in 1998.

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.

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:

	2006		2007		2008		2009		2010	
	Total	**%**	**Total**	**%**	**Total**	**%**	**Total**	**%**	**Total**	**%**
Households:										
Non-Poor	4,268,125	69.4%	4,522,513	71.5%	4,701,432	74.3%	4,792,777	73.6%	4,878,907	73.2%
Poor										
Extremely Poor	558,257	9.1	497,427	7.9	422,528	6.7	473,728	7.3	473,728	7.1
Non-Extremely Poor	1,326,399	21.6	1,307,201	20.7	1,203,588	19.0	1,246,589	19.1	1,309,094	19.7
Total	1,884,656	30.6	1,804,628	28.5	1,626,116	25.7	1,720,317	26.4	1,782,822	26.8
All Households	6,152,781	100.0%	6,327,141	100.0%	6,625,056	100.0%	6,513,094	100%	6,661,729	100%
Population:										
Non-Poor	16,551,960	63.7%	17,704,193	66.4%	18,222,348	69.0%	19,398,718	68.3%	18,757,231	67.5%
Poor										
Extremely Poor	2,878,008	11.1	2,559,833	9.6	2,130,631	8.1	2,538,630	8.9	2.507.969	9.0
Non-Extremely Poor	6,555,637	25.2	6,412,957	24.0	6,037,195	22.9	6,446,784	22.7	6.528.547	23.5
Total	9,433,645	36.3	8,972,790	33.6	8,167,826	31.0	8,985,414	31.7	9.036.516	32.5
Total Population	25,985,605	100.0%	26,676,983	100.0%	26,390,174	100.0%	28,384,132	100.0%	27.793.747	100%

Source: *INE.*

The percentage of poor and extremely poor among the Venezuelan population decreased from 36.3% in 2006 to 32.5% in June 2010. 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	2006	2009	2009	2006	2008	2009
Gini Index[2]	43.5	53.9	22.6	58.5	51.7	48.0
Lowest 10%	1.9	1.2	3.1	0.9	1.5	1.4
Lowest 20%	4.9	3.3	8.6	2.5	3.9	3.9
Second 20%	9.6	7.2	15.5	6.0	7.9	8.4
Third 20%	14.7	11.9	20.2	10.7	12.5	13.6
Fourth 20%	21.8	19.5	24.7	18.7	19.4	21.5
Highest 20%	49.0	58.1	30.9	62.1	56.2	52.6
Highest 10%	33.0	42.5	16.5	46.2	41.4	35.9

(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 2011 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 75th among the 169 countries in the world in the UNDP's Human Development Report for 2010.

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 2010, the HDI for Venezuela was 0.696 for the year ended December 31, 2010.

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

	HDIndex and its Components	Sustainability and Vulnerability	Education	Multidimensional Poverty Index	
HDI Rank	Life Expectancy 2010	Population without access to water 2008	Adult literacy rate 1999-2008	U.S.$1.25 a day (PPP U.S.$)[1] 2000-08	National poverty line 2000-08
45 Chile	78.8	4%	98.6%	< 2.0%	n.a.
46 Argentina	75.5	3	97.7	3.4	n.a.
56 Mexico	76.7	6	92.9	4.0	47.0
63 Peru	73.7	18	89.6	7.7	51.6
73 Brazil	72.9	3	90	5.2	21.5
75 Venezuela	74.2	n.a.	95.2	3.5	n.a.
79 Colombia	73.4	8	93.4	16.0	45.1

Data refers to the most recent year available.
(1) Personal Purchasing Power used to measure the poverty line.

n.a.: Not available.

Source: *UNDP, Human Development Report, 2010* (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 95.2% in 2007. 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

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 2011*, Venezuela, a member of OPEC, is the world's tenth-largest oil producer, has the second-largest proven oil reserves in the world, the fifth-largest proven natural gas reserves in the world and the largest proven reserves of both oil and natural gas in Latin America. According to PDVSA, Venezuela is the fourth-largest oil exporter to the United States. From 2006 through 2010, petroleum products accounted for an average of approximately 91% of Venezuela's total exports. During the same period, petroleum sector revenues accounted for an average of approximately 45% of Venezuela's total Central Government revenues and petroleum sector activities accounted for an average of approximately 12% of GDP. In 2010, petroleum activities accounted for approximately 11.7% of GDP, compared to approximately 11.6% in 2009.

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 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 became Mixed Companies, with PDVSA the majority owner of the operations. The Ministry of Energy and Oil was 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 because of its 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. On March 18, 2008, the High Court of Justice in London lifted the U.S.$12 billion freeze order. 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 June 10, 2010, the ICSID tribunal ruled on the first phase of the case, which focused solely on jurisdictional issues and not on the merits of the claims nor the damages. According to the decision, the ICSID tribunal determined that it has jurisdiction only over disputes that occurred after February 2006. In October 2010, ExxonMobil reduced the amount it is seeking through international arbitration from U.S.$12.0 billion to

U.S.$7.0 billion plus interest. The hearing on all issues in the arbitration concluded on September 24, 2010. It is expected that a decision will be rendered in 2011.

On May 7, 2009, the National Assembly passed a law granting the President the power to declare a total or partial nationalization of stock, or assets, of companies that are essential to the petroleum industry. PDVSA, or its affiliates, has taken possession of these assets and assumed control of operations of nationalized entities, including employment of petroleum sector employees. Under this new law, any controversy arising from actions taken under this law will be heard exclusively in Venezuelan tribunals under Venezuelan law. Since the passage of this law, the Republic has acquired over 70 companies from the petroleum sector.

On February 16, 2010, New Orleans-based company Tidewater, Inc., which provided transportation services to petroleum companies in Venezuela, initiated an arbitration proceeding against PDVSA resulting from the Republic's takeover of 15 company vessels in May and July 2009 as well as the Republic's takeover of the company's operations in Lake Maracaibo and the Gulf of Paria. As of July 2011, this case remains pending.

On March 26, 2010, Simco Consortium, formed by Wood Engineering Limited, filed an arbitration request against PDVSA before ICSID, claiming that PDVSA breached a contract for the provision of water treatment and injection services in Lake Maracaibo. Simco seeks damages in the amount of approximately U.S.$62.2 million and a local currency payment of Bs.163 million (U.S.$37.9 million). The arbitral tribunal was formed on December 2, 2010, and a hearing is expected to take place in 2011.

On April 12, 2010, Houston-based Exterran Holdings, through its subsidiary Universal Compression International Holdings, S.L.U., filed an ICSID arbitration proceeding against PDVSA resulting from the nationalization of its gas services support business in the Republic. Universal Compression Holdings principally operated compression pumps used to extract and transport natural gas, as well as electrical generators, in Venezuela. As of April 2011, this case remains pending.

The Government contends that nationalized oil rigs and power plants are being utilized by PDVSA with a view to increase oil production and the capacity of the electricity grid. On June 30, 2010, Venezuela took control of eleven oil rigs that were the property of U.S. driller Helmerich & Payne, Inc., or H&P, after H&P and PDVSA could not agree on renegotiated rates and service plans. PDVSA plans to use the drills to increase oil production by approximately 300,000 bpd and to strengthen the country's sovereignty over the oil sector. In September 2011, H&P sued PDVSA in the U.S. District Court for the District of Columbia for U.S.$32 million in alleged back payments from previous services provided to PDVSA as well as for the value of 11 drilling rigs seized in June 2010.

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 the Ministry of Popular Power for Energy and Petroleum, or MENPET, 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 foreign currency in order to meet its foreign currency-denominated investments and expenses. Before April 2011, the balance of such proceeds, net of all applicable corporate income taxes, dividends and royalties, were required to be transferred to FONDEN to be used for social, educational, health care, liability management and special and strategic purposes. On April 2011, the Decree with Force of Law Creating the Special Tax on Extraordinary Prices and Exorbitant Prices in the International Oil Market was published, superseding the former dispositions of the Central Bank Law governing PDVSA´s contributions to FONDEN. For more information on FONDEN, refer to "*The Financial System—FONDEN*".

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. From 1978 through January 2006, PDVSA was responsible for the petrochemical sector, but this is now the responsibility of MENPET. 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, gas and coal industries in Venezuela.

MENPET oversees all activities with respect to hydrocarbons and determines overall policies concerning rates of production, new investments and resource conservation. In addition, MENPET is the chairman of PDVSA's General Shareholders' Assembly, which sets PDVSA's general policy. Currently, the minister of MENPET 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 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 September 2008, the Government appointed a new board of directors for PDVSA, comprised of the President, two Vice-Presidents, six internal directors and two external directors. At that time, PDVSA's new board of directors was sworn in and Rafael Ramírez was ratified as president of PDVSA. In May 2011, the Government appointed a new board of directors for PDVSA, which replaced the one designated in 2008. The new board is comprised of the President, two Vice-Presidents, six internal directors and three external directors. Rafael Ramírez, Minister of the MENPET, was ratified again as president of PDVSA.

PDVSA is structured into 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, the Orinoco Oil Belt Division and the Offshore 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 Oil Harvest Plan *(Plan Siembra Petrolera)* was updated in 2009, focusing on the impact of the global financial crisis on economic growth and global oil demand. The plan is fundamentally based on the guidelines established by the shareholder:

- to assure that the value of PDVSA's hydrocarbon natural resources benefits Venezuela;
- to contribute to the geopolitical positioning of the country in the international arena; and
- to be an instrument for the development of the country.

Pursuant to the strategic orientation, the 2010-2015 Oil Harvest Plan principally contemplates the following objectives:

- to accelerate the development of the Orinoco Belt with a goal of producing 3.8 million bpd by 2030;
- to develop offshore gas reservoirs to satisfy local demand and to export to strategic markets;
- to seek territorial balance and advance socialist development; and
- to attain complete sovereignty over the oil and gas resources of the country.

According to the Oil Opening Plan, PDVSA's main objectives include increasing the following: production capacity to 4,460 million bpd by 2015; refining capacity to 3.5 billion bpd by 2015; crude oil export volume to 4.0 billion bpd by 2015; and natural gas production to 13.8 billion cubic feet per day by 2015. The Oil Opening Plan also calls for the development of the Orinoco-Apure region to become a significant petrochemical region for the Republic.

PDVSA and the Venezuelan Economy

PDVSA is the largest corporation in Venezuela. As of December 31, 2010, PDVSA's total assets were U.S.$151.8 billion, compared to U.S.$149.6 billion at December 31, 2009, U.S.$131.8 billion at December 31, 2008, U.S.$107.7 billion at December 31, 2007 and U.S.$80.5 billion at December 31, 2006. At December 31, 2010, PDVSA's long-term debt and capital lease obligations (excluding its current portion) were U.S.$21.3 billion, compared to U.S.$18.9 billion at year-end 2009. PDVSA's total debt and capital lease obligations (including its current portion) as of December 31, 2010 totaled U.S.$25.0 billion, compared to U.S.$21.9 billion at year-end 2009.

In April 2010, PDVSA drew down U.S.$1.5 billion on a term loan facility with a syndicate of banks led by the China Development Bank and Banco Espiritu Santo. The term loan bears an interest rate of LIBOR plus 4.5% and is payable in April 2013 with nine months of grace period and monthly capital payments.

In June 2010, PDVSA signed a loan agreement with Deutsche Bank for U.S.$78.0 million to invest in the national refining system bearing an interest rate referenced to the "Commercial Interest Reference Rate" (CIRR) of 2.12% per annum. At December 31, 2010, PDVSA had drawn down only U.S.$27.0 million from the total line of credit.

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.

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 and supporting Venezuela's social development.

Various PDVSA contractors and joint venture partners have recently complained publicly about delays by PDVSA in making payments under existing contracts.

Domestic Subsidies for Fuel Consumption

Refined products for the local market are sold at a subsidized price. For this reason, pursuant to a resolution issued by MENPET, PDVSA discounts from the royalties received the difference between the settlement price of the royalty and U.S.$40.00 per barrel for volumes subsidized for the local market.

Hydrocarbons Law

On November 13, 2001, under the enabling law authorized by the National Assembly, President Chávez enacted the 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 Hydrocarbons Law of 2001, 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*.

The Hydrocarbons Law of 2001 decreased the income tax rate for oil exploration and production activities from 67.7% to 50% and to 34% for downstream activities. It increased the extraction royalty rate from 16.7% to 30%, which royalties are deductible for purposes of calculating income tax.

The Hydrocarbons Law of 2001 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. This tax was increased by 2% every year through 2007 and then 5% annually thereafter. The Hydrocarbons Law of 2001 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.

In May 2006, the Hydrocarbons Law was partially amended in order to, among other matters, create an extraction tax imposed at a fixed rate of one-third the value of all liquid hydrocarbons extracted from any well, calculated on the same basis as the Hydrocarbons Law provides for calculating royalties, and an export registration tax of 1/1,000 of the value of all hydrocarbons exported from any port in Venezuela, calculated on the sales price of such hydrocarbons.

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 became Mixed Companies, with PDVSA the majority owner of the operations. For more information on these acquisitions and related proceedings, refer to "—Recent Developments Concerning the Oil Industry".

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.

Since 2004, the Stabilization Fund law established that no new contributions would be made to the Stabilization Fund. At December 31, 2010, the balance in the Stabilization Fund was approximately U.S.$832 million.

Taxes

Domestic sales of petroleum products in Venezuela are subject to a value-added tax, which as of March 31, 2009 is currently 12%. As exporters, each of PDVSA's subsidiaries operating in Venezuela is entitled to a refund of a significant portion of value-added taxes paid. The Government reimburses taxes through special tax recovery certificates, or CERTs. PDVSA did not recover any CERTs during 2007, 2009 and 2010. In 2006, PDVSA recovered U.S.$647 million in CERTs and, in 2008, PDVSA recovered approximately U.S.$682 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.

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 per 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. The contributions received from this tax are paid monthly to FONDEN to carry out social production, development and infrastructure projects.

On April 18, 2011, President Chávez issued by law-decree an increase in the Oil Windfall Tax on petroleum companies in light of rising oil prices. This law supersedes the Law Creating a Special Contribution Deriving from Extraordinary Crude Prices in the International Markets of 2008 and repeals the provisions of the Banco Central Law governing PDVSA's contributions to FONDEN. Pursuant to the new law-decree, in any month in which the average Brent crude oil price exceeds the budgeted price per barrel, but less than U.S.$70 per 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 20% of the excess of the average Brent price per barrel for such month that range between the budgeted price per barrel and U.S.$70. In any month in which the average Brent price is between U.S.$70 and U.S.$90 per barrel, the tax is assessed at 80% of the total amount of the difference between both prices. In any month in which the average Brent price is between U.S.$90 and U.S.$100 per barrel, the tax is assessed at 90% of the total amount of the difference between both prices. Finally, in any month in which the average Brent price is greater than U.S.$100, the tax is assessed at 95% of the excess of the average Brent price over U.S.$100. The contributions received from this tax are paid monthly to FONDEN to carry out social production, development and infrastructure projects.

Social Fund

Article 5 of the Hydrocarbons Law mandates that all revenues generated by the Government from oil activities be used to promote health programs, contribute to macroeconomic stabilization funds and make investments in productive sectors of the economy. In this respect, PDVSA has made significant contributions to social programs, promoting and participating in Venezuela's social and economic development. For the years 2006 through 2010, PDVSA spent approximately U.S.$13.8 billion, U.S.$14.1 billion, U.S.$14.7 billion, U.S.$3.5 billion and U.S.$6.9 billion, respectively, in support of social projects developed by the Government.

Results of Operations

Results of Operations for 2010

In June 2011, PDVSA's Board of Directors approved its official audited consolidated financial statements for the year ended December 31, 2010. Pursuant to those financial statements, for the year ended December 31, 2010, PDVSA's revenues were approximately U.S.$94.9 billion and PDVSA's expenses were approximately U.S.$87.4 billion.

PDVSA's net cash provided by operating activities in 2010 totaled approximately U.S.$12.6 billion. This amount primarily reflects: U.S.$3.2 billion of net income; U.S.$6 billion of depreciation and depletion; U.S.$271 million of asset impairment; and U.S.$2 billion in provisions for employee termination, pension and other post-retirement benefits; less equity in earnings of non-consolidated investees of U.S.$184 million; less U.S.$3.1 billion of deferred income taxes; and less changes in working capital of U.S.$1 billion. PDVSA's social development expenditures in 2010 totaled U.S.$6.9 billion.

For the year ended December 31, 2010, consolidated net cash provided by financing activities totaled approximately U.S.$1.6 billion. This amount results primarily from payments of dividends in the amount of U.S.$1 billion; debt repayments of U.S.$3.3 billion; and U.S.$6.7 billion from the issuance of debt. Net cash used in PDVSA's investment activities totaled U.S.$13.7 billion. PDVSA's net income was approximately U.S.$3.2 billion for the year ended December 31, 2010 as compared to approximately U.S.$4.4 billion for the year ended December 31, 2009.

In 2010, the average crude oil and products export price was U.S.$72.18 per barrel as compared to U.S.$57.01 per barrel for 2009.

In 2010, PDVSA's capital expenditures in Venezuela for exploration and production totaled approximately U.S.$4.9 billion and its capital expenditures in Venezuela for refining and marketing totaled U.S.$3.3 billion. For the same year, capital expenditures in Venezuela for natural gas projects totaled U.S.$1.3 billion, while capital expenditures for PDVSA joint ventures totaled U.S.$1.5 billion. During the same year, capital expenditures for the Orinoco Belt totaled U.S.$2.1 billion and offshore capital expenditures totaled U.S.$200 million.

PDVSA's production of crude oil and liquid petroleum gas averaged 3.1 million bpd in 2010. At December 31, 2010, Venezuela had estimated proven crude oil reserves totaling approximately 296.5 billion barrels and had proven reserves of natural gas amounting to 195.1 billion cubic feet, or bcf.

Results of Operations for 2009

On March 31, 2010, PDVSA's Board of Directors approved the official, audited consolidated financial statements for the year ended December 31, 2009. Pursuant to those financial statements, for the year ended December 31, 2009, PDVSA's revenues were approximately U.S.$75 billion and PDVSA's expenses were approximately U.S.$67 billion.

PDVSA's net cash provided by operating activities in 2009 totaled approximately U.S.$7.9 billion, primarily reflecting U.S.$4.4 billion of net income, U.S.$5.8 billion of depreciation and depletion, U.S.$96 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.$140 million, less U.S.$2.5 billion of deferred income taxes and less changes in working capital of U.S.$6.0 million. PDVSA's social development expenditures in 2009 totaled U.S.$3.5 billion.

For the year ended December 31, 2009, consolidated net cash provided by financing activities totaled approximately U.S.$9.9 billion, resulting primarily from payments of dividends in the amount of U.S.$2.5 billion, debt repayments of U.S.$1.4 billion, U.S.$11.8 billion for the issuance of debt and U.S.$2.0 billion from funds received from stockholders. Net cash used in PDVSA's investment activities totaled U.S.$15.3 billion. PDVSA's net income was approximately U.S.$4.4 billion for the year ended December 31, 2009 as compared to approximately U.S.$9.5 billion for the year ended December 31, 2008.

In 2009, the average crude oil and products export price was U.S.$57.01 per barrel.

PDVSA's capital expenditures in Venezuela for exploration and production totaled approximately U.S.$4.4 billion in 2009 and its capital expenditures in Venezuela for refining and marketing totaled U.S.$2.7 billion. Capital expenditures in Venezuela for natural gas projects totaled U.S.$1.6 billion in 2009, while capital expenditures for PDVSA joint ventures totaled U.S.$650 million. Capital expenditures for the Orinoco Belt totaled U.S.$1.0 billion in 2009 and offshore capital expenditures totaled U.S.$963 million during the same year.

PDVSA's production of crude oil and liquid petroleum gas averaged 3.2 million bpd in 2009. At December 31, 2009, Venezuela had estimated proven crude oil reserves totaling approximately 211.2 billion barrels and had proven reserves of natural gas amounting to 178.9 billion cubic feet, or bcf.

Results of Operations for 2008

For the year ended December 31, 2008, PDVSA's revenues were U.S.$126.4 billion and PDVSA's expenses were approximately U.S.$112.9 billion.

PDVSA's net cash provided by operating activities in 2008 totaled approximately U.S.$16.5 billion, primarily reflecting U.S.$9.4 billion of net income, U.S.$5.2 billion of depreciation and depletion, U.S.$400 million of asset impairment and U.S.$3.8 billion in provisions for employee termination, pension and other post-retirement benefits, less equity in earnings of non-consolidated investees of U.S.$200 million, less U.S.$3.1 billion of deferred income taxes and less changes in working capital of U.S.$0.5 billion. PDVSA's social development expenditures in 2008 totaled U.S.$14.7 billion.

For the year ended December 31, 2008, consolidated net cash provided by financing activities totaled approximately U.S.$500 million, resulting primarily from payments of dividends in the amount of U.S.$2.0 billion, debt repayments of U.S.$5.4 billion, U.S.$3.9 billion for the issuance of debt, U.S.$5.0 billion from funds received from stockholders and net cash used in PDVSA's investment activities totaled U.S.$15.8 billion. PDVSA's net income was approximately U.S.$9.4 billion for the year ended December 31, 2008 compared to approximately U.S.$6.2 billion for the year ended December 31, 2007.

In 2008, the average crude oil and products export price was U.S.$86.49 per barrel.

PDVSA's capital expenditures in Venezuela for exploration and production totaled approximately U.S.$6.9 billion in 2008 and its capital expenditures in Venezuela for refining and marketing totaled U.S.$1.8 billion. Capital expenditures in Venezuela for natural gas projects totaled U.S.$2.2 billion in 2008, while capital expenditures for PDVSA joint ventures totaled U.S.$900 million. Capital expenditures for the Orinoco Belt totaled U.S.1.3 billion in 2008 and offshore capital expenditures totaled U.S.$400 million during the same year.

PDVSA's production of crude oil and liquid petroleum gas averaged 3.4 million bpd in 2008. At December 31, 2008, Venezuela had estimated proven crude oil reserves totaling approximately 172.3 billion barrels and had proven reserves of natural gas amounting to 176,015 bcf.

Results of Operations for 2007

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. PDVSA's net income was approximately U.S.$6.2 billion for the year ended December 31, 2007.

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 totaled 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 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.

Petroleum Production and Export Revenues of Crude Oil and Refined Products

In 2010, PDVSA's production of crude oil and liquid petroleum gas averaged 3.1 million bpd. In 2009, PDVSA's production of crude oil and liquid petroleum gas averaged 3.2 million bpd, a 7.1 % decrease from the 3.4 million bpd produced in 2008. PDVSA's production of crude oil and liquid petroleum gas averaged 3.1 million bpd in 2007 and 3.1 million bpd in 2006.

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, averaged 2.7 million bpd in 2009 and 2.5 million bpd in 2010. Of the total production of PDVSA's refineries during 2010, 46%, or 1.2 million bpd, was produced by its Venezuelan refineries and the Isla Refinery in Curaçao, 42%, or 1.1 million bpd, was produced by refineries in the United States in which PDVSA owned equity interests, 10%, or 266,000 bpd, was produced by refineries in Europe in which PDVSA owned equity interests and 2%, of 38 thousand bpd, was produced by refineries in the Caribbean (excluding the Isla Refinery in Curaçao) in which PDVSA owned equity interests.

Exports represented a significant portion of PDVSA's sales volume in 2010. The volume of PDVSA's exports decreased from approximately 2.7 million bpd in 2009 to approximately 2.4 million bpd in 2010, primarily due to production cutbacks. The average realized export price per barrel for Venezuelan crude oil and refined petroleum products increased by approximately 27% in 2010, from U.S.$57.01 per barrel in 2009 to U.S.$72.18 per barrel in

2010. As of June 2011, the average realized export price per barrel in 2011 for Venezuela crude oil and refined petroleum products was U.S.$98.43 per barrel.

PDVSA's primary markets for exports of its crude oil, refined petroleum products and liquid petroleum gas are North America, Latin America and the Caribbean and Asia. The United States and Canada continue to be the largest markets for PDVSA's export sales, with total sales volume of approximately 1.3 million bpd in 2010, as compared to approximately 1.4 million bpd in 2009. Latin America and the Caribbean continue to be important markets for PDVSA's export sales (primarily of refined petroleum products), with total sales of 398 thousand bpd in 2010, as compared to 530 thousand bpd in 2009. Asia also proved to be an important market for PDVSA's export sales with total sales of 541 thousand bpd in 2010, as compared to 520 thousand bpd in 2009

Trade Agreements

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.

On February 18, 2009, Venezuela and the China entered into 12 cooperation agreements in the areas of oil, agriculture and telecommunications and increased the bilateral fund *Fondo de Inversión China - Venezuela*, in which PDVSA participates as a crude oil supplier by selling up to 230,000 bpd to the CNPC.

On August 23, 2010, a crude oil supply agreement was executed between the Republic and the People's Republic of China with duration of ten years, through which PDVSA will supply the CNPC up to 300,000 bpd through the contract's expiration.

In September 2009, PDVSA and the National Oil Consortium, a joint venture comprised of five Russian companies, signed agreements aimed at establishing a Mixed Company to develop heavy crude oil in the Orinoco Oil Belt. The project is expected to produce an estimated 400,000 bpd to 500,000 bpd of extra heavy crude oil. The investment for this project is estimated to be approximately U.S.$20.0 billion and the National Oil Consortium will own a 40% stake in the Mixed Company and PDVSA will own the remaining 60%. The Mixed Company will have a duration of 25 years.

Also in September 2009, President Chávez announced that China had agreed to invest approximately U.S.$16.0 billion in a joint venture oil project in the Orinoco Oil Belt during the next three years. The daily output of this project is estimated to be as much as 450,000 bpd of extra heavy crude oil.

The governments of Venezuela and the Republic of Belarus signed a set of cooperation agreements in the areas of petroleum, infrastructure, energy and industrial sectors, among others. Among these agreements, PDVSA will supply approximately 30 million barrels of crude oil to state oil companies in Belarus during the period 2010 and 2011. The supply agreement includes a sale price equal to market value and payment terms of 35 days for a significant portion of each shipment.

During December 2009, the governments of Venezuela and the Islamic Republic of Iran signed a contract to supply 35,000 metric tons of gasoline to Iran. The supply agreement includes a sales price equivalent to market value and payment terms of 35 days. Payments received from this contract must be deposited in a trust created by Iran and Venezuela and will be used to make payments to companies located in Iran for the import of goods and services from that country.

In May 2011, the U.S. imposed sanctions on seven companies, including PDVSA, under the Iran Sanctions Act (ISA) of 1996, as amended by the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA) of 2010, for their activities in support of Iran's energy sector. PDVSA was santioned due to the delivery of at least two cargoes of reformate to Iran between December 2010 and March 2011, worth approximately $50 million. Reformate is a blending component that improves the quality of gasoline. The sanctions imposed on PDVSA prohibit the company from competing for U.S. government procurement contracts, from securing financing from the Export-

Import Bank of the United States and from obtaining U.S. export licenses. These sanctions do not apply to PDVSA subsidiaries and do not prohibit the export of crude oil to the United States.

On May 13, 2010, President Chávez signed contracts with oil companies from India, Japan, Spain and the United States in order to establish two joint-venture companies, *PetroIndependencia* and *Petrocarabobo*, which will exploit the oil fields along the Eastern Orinoco region. These companies will, in turn, invest U.S.$40.0 billion in Venezuela. Each joint venture is expected to begin producing 50,000 bpd by the end of 2010 and 400,000 bpd by 2016, with two refineries to be built to improve the quality of Venezuela's heavy crude and an oil pipeline to be built in the Araya Peninsula of Venezuela.

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.

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.

On July 9, 2009, PDVSA issued U.S.$3.0 billion aggregate principal amount of its zero-coupon bonds due 2011, referred to as Petrobonos 2011.

On October 28, 2009, PDVSA issued approximately U.S.$3.3 billion in aggregate principal amount of various bonds to local buyers that included U.S.$1.4 billion of PDVSA's 4.90% bonds due 2014, referred to as Petrobonos 2014, U.S.$1.4 billion of PDVSA's 5.00% bonds due 2015, referred to as Petrobonos 2015 and U.S.$434.8 million of PDVSA's 5.125% bonds due 2016, referred to as Petrobonos 2016.

On October 29, 2010, PDVSA completed a public offering of bonds in the amount of U.S.$3.0 billion. The Notes will mature on November 2, 2017, and will bear interest at the rate of 8.50% per annum payable semiannually. The principal and interest will be payable in U.S. dollars. The principal payments on the Notes will be in three equal installments. The principal installments for U.S.$1.0 billion each will be payable on November 2, 2015, 2016 and 2017. This bond issuance was authorized by the Venezuelan Securities Superintendency (*Superintendencia Nacional de Valores*) pursuant to article 2 of the Venezuelan Capital Markets Law (*Ley de Mercado de Valores*).

On November 17, 2010, the swap of unsecured zero coupon bonds, originally issued in July 2009 and maturing in 2011, payable in U.S. dollars upon maturity, was completed. The exchange rate used in this swap process was 1.125 and U.S.$550 million of the original bonds were redeemed. The new amount, payable in 2013, is U.S.$618 million, and was issued with an annual coupon of 8%, maturing 2013, payable in U.S. dollars upon maturity. This issuance generated a discount of U.S.$104 million and a profit of U.S.$36 million. This exchange and new issuance of bonds were authorized by the Venezuelan Securities Superintendency (*Superintendencia Nacional de Valores*) pursuant to article 2 of the Venezuelan Capital Markets Law (*Ley de Mercado de Valores*).

On January 17, 2011, PDVSA published the reopening of the public offering of bonds made on October 29, 2010 for $3.2 billion. These bonds will bear interest at the rate of 8.50% per annum payable semiannually. The principal and interest will be payable in U.S. dollars. The principal payments on the Notes will be in three equal installments. This issuance was primarily for purposes of providing Banco Central with payment of several of its debt instruments.

On February 17, 2011, PDVSA issued Notes for $3.0 billion, maturing on February 17, 2022, that will bear interest at the rate of 12.75% per annum, payable semi-annually on each February 17 and August 17, beginning on August 17, 2011. Principal payments on the Notes will be payable in three equal installments on February 17 of 2020, 2021 and 2022.

On January 4, January 14 and April 4 of 2011, PDVSA issued three short-term investment certificates to Banco del Tesoro, Banco Universal, amounting to Bs.2.0 billion ($465.11 million), Bs.500 million ($116.28 million) and Bs.1.6 billion ($372.09 million), with annual interest of 8.00% and renewable with terms to be agreed between the parties.

In June 2011, PDVSA signed two agreements with a number of Japanese lenders led by the Japan Bank for International Cooperation providing for loans of U.S.$1.5 billion to be applied to the development and expansion of two of PDVSA's domestic refinery complexes. The credit facilities have a term of 15 years. In connection with the credit facilities, PDVSA entered into contracts for the supply of crude oil and products with affiliates of Mitsubishi Corporation, Itochu Corporation, Marubeni Corporation and Mitsui & Co., Ltd. and that the proceeds of such sales will be applied to pay amounts due under the credit facilities.

Hydrocarbon Reserves and Exploration

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.

In 2009, one of the largest natural gas reservoirs in the Gulf of Venezuela was discovered. Referred to as Perla-1X, the natural gas reservoir is part of the Rafael Urdaneta project and is estimated to require four to five years for full development. According to reports from PDVSA, the field could contain between seven to eight trillion cubic feet of natural gas.

At December 31, 2010, proven developed reserves of crude oil and natural gas represented approximately 5% and 19%, 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 Anzoátegui states.

At December 31, 2010, Venezuela had estimated proven crude oil reserves totaling approximately 296.5 billion barrels (including an estimated 258.3 billion barrels of heavy and extra-heavy crude oil in the Orinoco Belt). Based on 2010 production levels, Venezuela's estimated proven reserves of crude oil have a remaining life of approximately 274 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 2010, PDVSA's exploration expenses totaled U.S.$147 million, as compared to U.S.$247 million in 2009. The decrease in exploration expenses was primarily due to the effect of the variation in the Bs./U.S.$ exchange rate on the costs of exploration, which are increased mostly in Bolívares.

At December 31, 2010, Venezuela had proven reserves of natural gas amounting to 195.1 bcf. Virtually all of Venezuela's natural gas reserves are composed of natural gas incidental to the development of crude oil reserves. During 2010, approximately 42% of the natural gas produced was re-injected for purposes of maintaining pressure in reservoirs.

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, 2010
	(million barrels, except where noted)
Proven Reserves[1]	
Condensate, light and medium crude oil (API gravity of 21° or more)	22,643
Heavy and extra heavy crude oil (API gravity of less than 21°)[2]	273,858
Total crude oil	296,501
Natural gas (bcf)	195,096
Remaining reserve life of crude oil (years)[3]	274
Proven Developed Reserves	
Condensate, light and medium crude oil (API gravity of 21° or more)	4,973
Heavy and extra heavy crude oil (API gravity of less than 21°)[2]	9,275
Total crude oil	14,248
Percentage of proven crude oil reserves[4]	5 %
Natural gas (bcf)	36,283

(1) Proven reserves include both proven developed reserves and proven undeveloped reserves.
(2) Includes reserves in the Orinoco Belt.
(3) Based on crude oil production and total proven crude oil reserves.
(4) Proven developed crude oil reserves divided by total proven crude oil reserves.

Source: *PDVSA.*

Refining

PDVSA's downstream strategy is oriented towards expansion and improvement of refining operations in Venezuela, the Caribbean, Central America and South America and maintenance of its refineries in the United States and Europe, which allow for increased manufacturing of refined products of high commercial value. PDVSA has been investing in its domestic and international refining chain in order to increase the capacity and complexity, as well to adapt its facilities to meet fuel quality improvements worldwide. For example, PDVSA has increased the deep conversion capacity of its refineries in Venezuela, which has improved the performance of high-value products and therefore strengthened its portfolio of export products.

PDVSA owns six refineries in Venezuela: Amuay, Bajo Grande, Cardón, El Palito, Puerto La Cruz and San Roques, 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, 2010, and it has an equity interest in two Caribbean refineries, located in Jamaica and Cuba, with a total rated crude oil refining capacity of 65,000 bpd and 45,000 bpd, respectively. PDVSA has equity or ownership interests in five refineries in the United States, three of which are wholly owned, and it 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 1.1 million bpd at December 31, 2010. PDVSA has equity interests in eight refineries in Western Europe with a total rated crude oil refining capacity at December 31, 2010 of 1.1million bpd, of which its net interest in crude oil refining capacity was 259 thousand bpd. PDVSA's net interest in refining capacity was 3 million bpd at December 31, 2010.

Certain aspects of the petrochemical sector were reserved to the Republic in a law enacted on June 18, 2009 called the Organic Law to Promote the Development of the Petrochemical Industry (Ley Orgánica para el Desarrollo de las Actividades Petroquímicas). Specifically, basic and intermediate petrochemical activities are reserved to the Government, which may undertake these activities directly, through wholly owned legal entities or legal entities controlled by the government through an equity participation of no less than 50%.

In the Caribbean, PDVSA plans to upgrade and expand the Kingston Refinery in Jamaica (49% PDVSA share), in order to increase production from 35,000 bpd to 50,000 bpd. The project is slated to begin in 2015. In 2014, PDVSA expects to start the expansion of the Camilo Cienfuegos refinery in Cuba (49% PDVSA share) from a production of 65,000 bpd to 150,000 bpd, with an estimated completion and commissioning in the same year. Also in Cuba, PDVSA plans to build a new refinery (49% PDVSA share) in the town of Matanzas, with a capacity of 150,000 bpd and to be completed by 2015, and another refinery (51% PDVSA share) in the Republic of Nicaragua called Complejo Industrial El Supremo Sueño de Bolívar also with a capacity of 150,000 bpd.

In South America, PDVSA is working on the construction of the Abreu e Lima refinery in Brazil (40% PDVSA share), with a capacity of 230,000 bpd, which is estimated to begin in 2012. In Ecuador, the Pacific Refining Complex Eloy Alfaro Delgado (49% PDVSA share) is estimated to begin production in 2015 and have a capacity of 300,000 bpd.

In Asia, PDVSA plans the construction of three new refineries in China with PDVSA owning 40% of the shares in each. In Jieyang City, the Nanhai refinery, with a capacity of 400,000 bpd, is expected to begin operations in 2014. The Weihai refinery, with a capacity of 200,000 bpd, is estimated to begin operations in 2016, and the Shanghai Refinery, with a capacity of 200,000 bpd, is estimated to begin operations in 2019. In Syria, PDVSA has made plans to build a 140,000 bpd capacity refinery through the Association of Venezuela, Syria and Iran (33% PDVSA share), which is estimated to start operations in 2014. In Vietnam, PDVSA plans the expansion of the Dzung Quat Refinery (40% PDVSA share) from 140,000 bpd to 210,000 bpd, with the refinery expected to be operational in 2016.

On August 2, 2010, the House of Representatives of the Dominican Republic approved the sale of 49% of the shares of Refinería Dominicana de Petróleo, S.A. (REFIDOMSA) to PDVSA for $135 million, as previously approved by that country’s Senate, based on a sale agreement in May 2010 between the Dominican Republic and Venezuela. In January 2011, the new Board of Directors of this entity was constituted and PDVSA thus gained the ability to exercise significant influence over the decisions of financial and operational policy.

In October 2010, PDVSA entered into a purchase agreement with Rosneft Holdings Limited S.A. (Rosneft) for U.S.$1.6 billion for all of the shares held in Ruhr Oël GMBH (ROG) and another amount determined by the values of accounts receivable and inventories of PDVSA Marketing International, S.A. (PMI Panamá) at the transaction date. The sale was completed by PDVSA in May 2011.

Petrochemicals and Extra Heavy Crude Oil

Petrochemicals

PDVSA was engaged in the Venezuelan petrochemical industry through its wholly-owned subsidiary, *Petroquímica de Venezuela, S.A.*, or Pequiven. In June 2005, the Government decided to transfer the activities, assets and shares held by PDVSA in Pequiven to MENPET. 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

In April 2001, a cooperation agreement for Orimulsión® was signed between Bitúmenes Orinoco, S.A. (BITOR) and China National Oil and Gas Exploration and Development Corporation (CNODC), a subsidiary of China National Petroleum Corporation (CNPC), the objective of which is to carry out a series of pre-investments necessary to determine definitively the project’s feasibility. On that same year, the National Assembly authorized BITOR to establish with CNODC a jointly-controlled entity named Orifuels Sinoven, S. A. (SINOVENSA).

Pursuant to “Plena Soberanía Petrolera” policies and to enhance the value of the natural resource and use extra-heavy crude oil for mixing, in the first quarter of 2006, the Company ceased production of Orimulsión® at its facilities in Morichal (Monagas State) and launched a negotiation process regarding existing Orimulsion® supply agreements. As part of the negotiation, certain clients have agreed to receive fuel oil instead of Orimulsión® whereas others have terminated their supply agreements.

During 2007, BITOR, CNPC Exploration and Development Company Limited, Petrochina Fuel Oil Company Limited (PETROCHINA) and SINOVENSA agreed to: (a) create a new "Empresa Mixta" named Petrolera Sinovensa, S.A., which will operate in the area of production of heavy and/or extra-heavy crude oil, and in which BITOR (or one of its non-consolidated investees or CVP), would own 60% of the shares, (b) transfer all assets owned by Sinovensa (except accounts receivable, cash and cash equivalents and tax credits) to the new "Empresa Mixta" Petrolera Sinovensa, S.A., (c) settle claims derived from termination of the Orimulsión® Supply Agreement, once the new "Empresa Mixta" is incorporated and granted rights to perform primary activities, BITOR would pay PETROCHINA $300 million, plus interest on the unpaid balance.

On February 1, 2008, a transfer decree, published in Official Gazette 38,863, authorized completion of the incorporation of Petrolera Sinovensa, S.A. for exploration and production activities in the Carabobo area (located in the Orinoco Oil Belt area), with CVP and CNPC Venezuela B.V., holding a share interest of 60% and 40%, respectively.

After February 1, 2008 and according to the agreement to settle claims related to termination of the Orimulsión® Supply Agreement, BITOR recognized $300 million, paid in full during 2008 through discounts on the amounts PDVSA Petróleo billed PETROCHINA for the sale of hydrocarbons; at December 31, 2008, interest payable amounting to $22 million remained outstanding and was paid in 2009 through discounts on the amounts billed by PDVSA Petróleo to PETROCHINA.

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.

The Government also subscribed the following agreements together with the governments of other countries, mainly from Latin America and the Caribbean: Caracas Energy Cooperation Agreement (CECA), Integral Agreement of Cooperation (IAC) and the Petrocaribe Energy Cooperation Agreement (PETROCARIBE). These agreements establish, among others, that PDVSA will supply crude oil and products to the state oil companies of the participating countries, for approximately 455,000 bpd and 484,000 bpd for the years ended December 31, 2010 and 2009, respectively. Most of these supply agreements establish, among other conditions, a selling price equivalent to the market value, payment terms between 30 and 90 days for a significant portion of each shipment, and long-term borrowings for the remaining portion, between 15 and 25 years. The agreements will be effective for a one-year period and may be renewed by mutual agreement between the parties involved.

OPEC

Venezuela is a founding member of OPEC. OPEC's members collectively produce approximately 41.9% of total world production of crude oil and 18.1% of the world production of natural gas. In addition, OPEC members account for approximately 44.0% 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.

During 2006, the price of oil was rising, 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 the beginning of 2008, the price of oil increased dramatically, averaging U.S.$88.35 per barrel in January 2008 and peaking at U.S.$131.22 per barrel in July 2008. However, beginning in July 2008, the price of oil started to experience an even sharper decline. In August 2008, the OPEC crude basket price decreased by U.S.$18.81, or 16.7%, to U.S.$112.41 and in September 2008, the price of oil decreased by an additional U.S.$15.56, or 16.1%, to U.S.$96.85. The OPEC basket price continued to decrease significantly, falling U.S.$27.69, or 40.0%, to U.S.$69.16 in October 2008 and an additional U.S.$19.40, or 39.0%, to U.S.$49.76 in November 2008. In December 2008, the price of oil decreased to U.S.$38.60 per barrel. Despite the decreasing oil prices in the second half of 2008, the OPEC crude basket price for 2008 was U.S.$94.45 per barrel, marking an increase of U.S.$25.37 per barrel as compared to 2007.

Beginning in 2009, the OPEC crude basket price began to rise. In January 2009, the OPEC crude basket price was U.S.$41.54 per barrel and the price of oil peaked for the year in November 2009, when it averaged U.S.$76.29 per barrel. Even though the price of oil steadily increased throughout most of the year, the OPEC crude basket price for 2009 was U.S.$61.06 per barrel, or U.S.$33.39 less per barrel compared to 2008. For the 2010 year, the OPEC crude basket price averaged U.S.$77.45 per barrel, and for May 2011, the basket price averaged U.S.$109.94 per barrel.

Acting through its members, OPEC has adopted and modified an overall production ceiling for its members and quotas for individual members in an effort to maintain stability in the petroleum markets and target per barrel price ranges. Generally, in periods in which oil prices and global economic activity have risen, OPEC has authorized an increase in production ceilings and quotas and in periods in which oil prices and global economic activity have fallen, OPEC and its members have sought to lower production in order to support a higher price for their products. In light of the international financial and economic crisis that commenced in the fourth quarter of 2008 and the rapid fall in petroleum prices after the record prices prevailing earlier that year, at a meeting held in December 2008, OPEC cut its production ceiling by 4.2 million bpd to approximately 24.8 million bpd, effective January 1, 2009. This production ceiling has remained unchanged, as member countries noted in the March 2010 meeting that there is a decline in world oil demand coupled with an increase in non-OPEC supplies.

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 2006, the manufacturing sector grew by 8.3% in real terms and comprised 16.6% 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 4.4% in real terms and comprised 15.9% of GDP. In 2008, the manufacturing sector grew by 1.4% in real terms and comprised 15.3% of GDP. The slower growth in the manufacturing sector compared to 2007 was primarily due to a decrease in the production of many goods, including metals, chemicals, vehicles and textiles. In 2009, the manufacturing sector contracted by 6.4% in real terms and comprised 14.8% of GDP. The contraction in the manufacturing sector in 2009 was primarily due to lower aggregate demand, temporarily restricted access to foreign exchange for imports of goods and services and lower levels of investment. In 2010, the manufacturing sector contracted by 3.4% in real terms and comprised 14.5% of GDP. The contraction in the manufacturing sector in 2010 was due to the effects of the electricity crisis and weak demand for household consumption, among other factors.

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 2006, the mining sector grew by 7.2% 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 1.2% in real terms and comprised 0.6% of GDP. In 2008, the mining sector contracted by 5.8% in real terms and comprised 0.6% of GDP. The contraction in the mining sector in 2008 was primarily due to a significant and widespread contraction in demand for minerals and metals, including an unprecedented decline in global demand for aluminum, iron and steel. In 2009, the mining sector contracted by 10.3% in real terms and comprised 0.5% of GDP. The contraction in the mining sector in 2009 was primarily due to the effect of the global economic crisis on the metals market. In 2010, the mining sector contracted by 13.0% in real terms and comprised 0.5% of GDP. The contraction in 2010 was due to a lower production of coal, gold and metallic minerals (such as granite, clay, limestone, sand and building stone). Factors affecting the performance of the extractive sector in 2010 were the following: (i) the power rationing plan, (ii) limitations in work of extraction, production and distribution of mineral by problems in obtaining permits, and (iii) lower operational capacity of the industry.

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.

On August 11, 2010, pursuant to Resolution No. 10-07-01, published in Official Gazette No. 39,485, individuals or entities that have been authorized to commercialize their gold production are required to offer to sell a minimum of 50% of their gold production to Banco Central. The remaining 50% may be sold in the international markets, subject to prior authorization from Banco Central. If a gold producer covered by this Resolution decides not to sell internationally the 50% of its exportable production, or if the producer fails to obtain the necessary authorizations from Banco Central, then such otherwise exportable 50% of the production would have to be offered to Banco Central. In addition, individuals or entities that have been authorized to commercialize their gold production and whose activities are considered small mining activities pursuant to the Mining Law are required to offer to sell a minimum of 15% of their gold production to Banco Central or to the general domestic market. The remaining 85% may be sold in the international markets, subject to prior authorization from Banco Central. This regime was abrogated by the law-decree issued by President Chávez in August 2011 that nationalized the gold industry in Venezuela.

On October 31, 2010, the government ordered the expropriation of *Siderúrgica del Turbio S.A.* (SIDETUR), a wholly owned subsidiary of private steelmaker *Siderúrgica Venezolana Sivensa S.A.*.

On January 5, 2011, ICSID registered a Request for Arbitration by Highbury International AVV and Ramstein Trading Inc. against the Republic for the expropriation of a gold and diamond concession. On November 9, 2009, ICSID registered a Request for Arbitration by Gold Reserve Inc. against the Republic for the expropriation of the copper and gold mines *Las Brisas* and *Choco 5*, respectively. As of July 2011, both cases remain pending.

In September 2002, Crystallex International Corporation signed a contract with CVG for the development and operation of the *Las Cristinas* mines. On February 3, 2011, CVG informed Crystallex that the contract had been cancelled due to non-performance of the project. On February 16, 2011, Crystallex filed a Request for Arbitration before ICSID against the Republic, registered by the Secretary General of ICSID on March 9, 2011.

Pursuant to presidential Decree 6,796 dated July 14, 2009 which ordered the nationalization of the briquette producers located in the Guayana Region, on June 25, 2011, CVG acquired 73.3% of the outstanding shares of Complejo Siderúrgico de Guayana, C.A (Comsigua), a hot briquetted iron producer located in Puerto Ordaz, southern Venezuela, from several Japanese shareholders including Kobe Steel K.K. The purchase price for these shares was US$232.9 million, composed of a US$78 million down payment and ten semiannual installments of US$15.4 million each.

In August 2011, President Chávez signed a law-decree nationalizing the gold industry in order to preserve one of Venezuela's most significant sources of wealth and secure a more environmentally friendly exploitation of this natural resource. The law-decree was published in the Official Gazette No. 39,759 dated September 16, 2011. One of the main objectives of this law-decree is to convert the gold into international reserves. In September 21, 2011, in accordance with such law-decree, the Ministry of Basic Industries and Mining and the Central Bank of Venezuela signed an agreement which establishes that the Central Bank will purchase all the gold produced in Venezuela.

Corporación Venezolana de Guayana

After PDVSA, the second-largest industrial complex in the country is made up of branches and subsidiary companies of *Corporación Venezolana de Guayana*, or CVG. CVG, an entity organized by the Government as an "autonomous institution", or *instituto autónomo*, in 1960, is a non-operating holding entity that, through its vertically-integrated operating subsidiaries, constitutes Venezuela's largest diversified mining and mineral processing business based on estimated market share and production volume. With operations throughout the Guayana region, which occupies more than 550,000 square kilometers in southern Venezuela, CVG is Venezuela's, and one of Latin America's, largest producers of aluminum (including its principal constituent elements, bauxite and alumina) and steel and iron products. CVG's business also includes an increasing emphasis on significant mining and production of gold. CVG is also engaged in the growing and harvesting of timber and production of lumber. CVG comprises 15 operating subsidiaries and approximately 18,000 employees.

CVG's mission is to sustainably exploit the abundant reserves of bauxite, iron, gold and other precious metals, and forestry resources in, and to promote the overall development of, the Guayana region. All land in the Guayana region is owned by Venezuela. However, under the Law Decree for the Partial Reform of the Organic Law of the Development of Guayana of 2001, political coordination of all activities relating to the exploration and exploitation of minerals and other natural resources in the Guayana region is vested in CVG. As such, CVG is authorized to undertake those activities directly or through agreements with public or private foreign or domestic entities.

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, MPPIBAM (previously referred to as *Ministerio para las Industrias Básicas y Minería* or, MIBAM), was created by presidential decree on January 21, 2005 for the purpose of promoting, developing and implementing public policies in the mining, forestry and basic industries sectors in Venezuela.

In July 2006, the Ministry of Council to the President established the Development Zone of the Guayana, with the purpose of strengthening the balanced development of the country. This area is approximately 554,101 square kilometers, or approximately 61% of the country. The Guayana region holds great reserves of iron ore, bauxite, gold, diamonds and limestone, among other minerals, in addition to great forestry reserves. Moreover, the region possesses approximately 80% of the natural water resources of the country, which provides energy production of approximately 63,500 million kilowatt-hours per year.

In January 2007, CVG began the construction of the Social Production Company National Iron and Steel, or *EPS Siderúrgica Nacional*, with an initial investment of approximately U.S.$2.1 billion. *EPS Siderúrgica Nacional* is expected to produce 1.55 million tons of liquid steel per year. In July 2007, CVG began the construction of the Social Production Company Services of Lamination and Smelting of Aluminum, C.A., or *Servicios de Laminación y Fundición de Aluminio*, referred to as EPS Serlaca, which has the capacity to laminate 114,000 tons of aluminum per year. The Republic invested U.S.$210.0 million into EPS Serlaca in order to process and increase the value of the primary aluminum produced by *CVG Aluminio del Caroni S.A.*, or CVG Alcasa and *CVG Industria Venezolana de Aluminio C.A.*, or CVG Venalum.

On May 11, 2008, pursuant to Decree Law No. 6,058, dated April 30, 2008, SIDOR and its subsidiaries and associated companies were designated as state-owned enterprises and the activities of such companies were declared to be of public and social interest. In connection with that designation and declaration, SIDOR has been under operational control of CVG since July 12, 2008. For more information on the transfer of the shares and operations of SIDOR to the Government, refer to "Bolivarian Republic of Venezuela—Domestic Initiatives—Nationalization of Private Companies". On July 26, 2010, Banco Central assisted in the structuring of a Bs.2.0 billion loan with various public sector banks to CVG in order to help SIDOR pay obligations owed to workers and contractors.

In June 2010, construction began for the Social Production Company Pulp and Paper C.A., or Pulpaca, a pulp and paper plant that is expected to produce approximately 250,000 tons of paper per year. In addition, construction of the Tocoma Hydroelectric Power Plant, or *Complejo Hidroeléctrico Represa de Tocoma Manuel Piar*, the fifth hydroelectric power plant in the Development Zone of the Guayana region continues to advance. This plant is expected to have an installed capacity of 2,250 megawatts, or MW. The first stage of this project is expected to be ready by 2012 and the entire project is expected to be completed by 2014.

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

CVG experienced a significant reduction in aluminum production in 2010 due to the closure of certain production lines at CVG Alcasa and electricity conservation efforts at CVG Venalum due to the National Energy Savings Plan implemented by the Government.

In March 2011, BANDES made available funds amounting to U.S.$403 million for CVG Alcasa to perform a technological upgrade on key systems and facilities, including the incorporation of an extrusion plant. The funds came from the China-Venezuela Fund and CVG Alcasa will receive the money after completing some administrative requirements. The decisions about how to invest the funds will not be made by the senior management, but rather by regular workers organized in working groups.

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

Production	Year Ended December 31,			
	2006	2007[(1)]	2008[(1)]	2009[(1)]
	(in thousands of metric tons, except as noted)			
Iron	22,100	20,650	20,020	13,802
Bauxite	5,928	5,323	4,192	3,611
Alumina	1,892	1,751	1,591	1,376
Aluminum	619	615	607	569
Gold (in kilograms)	3,947	4,030	4,244	4,263

(1) Preliminary figures.
Source: *MPPIBAM (Ministerio del Poder Popular para las Industrias Básicas y Minería)*.

Exports	Year Ended December 31,			
	2006	2007[(1)]	2008[(1)]	2009[(1)]
	(in millions of U.S. dollars)			
Iron Ore	$283.1	$382.9	$659.7	$392.4
Bauxite	5.3	3.1	0.0	0.0
Alumina	227.3	381.1	137.7	243.5
Aluminum	1,034.7	1,062.7	987.3	347.3
Total	$1,500.4	$1,829.9	$1,784.8	$983.2

(1) Preliminary figures.
Source: *MPPIBAM (Ministerio del Poder Popular para las Industrias Básicas y Minería).*

Agriculture and Livestock

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

In 2006, the agricultural sector grew by 1.0% as compared to 2005 and comprised 4.8% of GDP. In 2007, the agricultural sector grew by 1.8% as compared to 2006 and comprised 4.5% 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.

In 2008, the agricultural sector grew by 3.5% as compared to 2007 and comprised 4.4% of GDP. The growth in the agricultural sector in 2008 was primarily due to increased production of cereal, poultry and pork. During 2009, the agricultural sector grew by 1.0% as compared to 2008 and comprised 4.6% of GDP. The growth in the agricultural sector in 2009 was primarily due to an increase in Government loans and credits provided to farmers and other agricultural producers which were used to meet increased production and operational demands. In 2010, the agricultural sector grew by 0.9% as compared to 2009 and comprised 4.8% of GDP. The growth in the agricultural sector in 2010 was primarily due to an increase in credit access to farmers.

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

	Year Ended December 31,				
Exports	**2006**	**2007**	**2008**	**2009**	**2010**
	(in thousands of metric tons)				
Coffee	0.07	0.04	1.05	0.0	0
Cocoa	5.03	8.90	5.60	2.83	3.06
Sugar cane	0	0	0	0	0
Rice	0.16	0,03	0	0	0
Corn	0.02	0.03	0.01	0.02	0

Source: *Banco Central and INE.*

	Year Ended December 31,				
Imports	**2006**	**2007**	**2008**	**2009**	**2010**
	(in thousands of metric tons)				
Coffee	0	0	0	0	8.94
Cocoa	0	0	0	0.03	0
Sugar cane	68.63	55.25	73.99	27.75	0
Rice	3.36	0.20	36.97	29.77	0
Corn	41.65	546.11	1,147.3	1,235.09	1,201.41

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, or INTI, classifies rural land according to its best use, such as agriculture, cattle-raising or forestry. In addition, certain unused, uncultivated or idle rural lands are also 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 is by the right to work the land in a productive manner. Two additional agencies, the National Institute of Rural Development 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 connection with 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.

As of August 31, 2010, the National Lands Institute, or INTI, following current legal procedures, had recovered on a national level over 3 million hectares of land that was either owned by the state, declared unproductive or illegally occupied, and distributed the land 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.

On January 25, 2011, President Chávez used his legislative authority to issue *Ley de Atención al Sector Agrícola*, or the Law of Attention to the Agricultural Sector. The objective of the new law is to support producers, farmers and fishermen who were affected by the natural disasters that occurred during the last quarter of 2010. The law stipulates, among other things, the restructuring or forgiveness of debts accrued by the rural producers that were affected by record setting rainstorms.

In conjunction with the Law of Attention to the Agricultural Sector, President Chávez also anounced a new social initiative known as *Misión Agro-Venezuela*, or Agri-Venezuela Mission. This new initiative has three main goals:

(1) Increasing production of traditional crops; (2) increasing the amount of agricultural land that is cultivated; and (3) promoting and stimulating urban agriculture. The goal for the next two years is to increase production of basic food crops to 12 or 14 million tons with priority given to white and yellow corn, rice, beans, legumes and vegetables. The program includes a national agricultural census that will provide the Government with a better understanding of the situation of the producers in the country and allow them to implement a more effective agricultural policy**.**

Electric Sector

The electric power sector in Venezuela is made up of state-owned companies. It serves approximately 94% of the population. At June 2011, eight companies under *Corporación Eléctrica Nacional S.A* (CORPOELEC) are in charge of the generation, transmission, distribution and commercialization of Venezuela's electric power. These eight companies are *Electrificación del Caroní, C.A.* (EDELCA); *Compañía de Administración y Fomento Eléctrico* (CADAFE); *Energía Eléctrica de Venezuela* (ENELVEN); *C.A. Energía Eléctrica de Barquisimeto* (ENELBAR); *C.A. La Electricidad de Caracas* (EDC); *Empresa Nacional de Generación C.A.* (ENAGER); *Energía Eléctrica de la Costa Oriental del Lago C.A.* (ENELCO); and *Sistema Eléctrico del Estado Nueva Esparta* (SENECA).

Due to a drought that began in October 2009 and its effect on the country's hydroelectric-based energy grid, in February 2010, the Government announced that the country was facing an energy emergency. The drought severely depleted water reserves at the Guri hydroelectric dam, Venezuela's most important hydroelectric energy plant, which, at the time, produced approximately two-thirds of the country's electricity.

Through MPPEE the Government took preemptive measures in the fall of 2009 to decrease reliance upon hydroelectric energy and to increase thermoelectric capacity within the power grid. On February 8, 2010, pursuant to Presidential Decree No. 2,228, President Chávez announced rolling blackouts and a mandatory energy cut in order to ease pressure on the Guri dam. Some businesses were permitted to operate only during certain hours, while others operated on a four-day workweek schedule in order to meet the conservation requirement.

Modernization of the electric power sector has been difficult because of insufficiency of transmission, inefficiencies in plant and equipment and lack of investment funds. The Government estimates that the electric power sector will require approximately U.S.$35.0 billion in investment by 2015 in order to meet the Republic's electricity demand over the next 10 years.

On July 22, 2010, the National Assembly approved the Organic Law for the Reorganization of the Electric Power Sector, which was a partial reform of Presidential Decree No. 5,330 that extended the deadline for all electric companies to be brought together under CORPOELEC until December 31, 2011. The reorganization of the National Electric System (*Sistema Eléctrico Nacional*), referred to as SEN, is aimed at centralizing the generation, transmission, distribution and commercialization of Venezuela's electric power within CORPOELEC in order to reduce the current deficiencies in the electric sector. CORPOELEC invested U.S.$5.1 billion in 2010, primarily in power generation activities which represented 42% (U.S.$2.2 billion) of the investment for 2010. The remaining amount was spent as follows: 13% on power transmission lines (U.S.$655 million), 16% on distribution (U.S.$824.6 million) and 29% on other related electric sector activities (U.S.$1.5 billion).

The electric power demand in Venezuela decreased by 3.4% in 2010 as compared to 2009, from 17.046 MW to 16.755 MW. During 2010, CORPOELEC reached a maximum production capacity of 24.801 MW, a 5.6% increase from 2009. The electricity gross generation for the year 2010 totaled 116.702 GWh, a 6.7% reduction as compared to 2009. This electricity was produced using the following sources: 65.7% hydro power, 15.2% gas, 10.2% diesel, and 8.6% fuel oil. The net energy generated was equivalent to 115.306 GWh, a 6.6% decrease from 2009. Approximately 66.6% of this energy (76.661.6 GWh) was hydro power generation, and the remainder (38.644.4 GWh) was generated with thermal power. Thermal power increased by 1,032.8 GWh in relation to 2009. The consumption control in critical areas, as part of the Republic's plan for managing the electricity deficit, saved approximately 1,086.5 GWh of energy, representing 1% of total energy supplied to the country in one year. In 2010, approximately 200 kilometers of electric lines were incorporated into the main transmission network and approxiately 1.533 MVA was incorporated into the transformation system.

On December 14, 2010, the Organic Law for the Electric System and Service was enacted by the National Assembly. This Law establishes specific regulations for the electric sector as well as the roles of the different entities involved. The law includes regulation on international energy exchange agreements. The proposed law states that electric service will be provided under three premises: (i) all Venezuelans have a right to electricity access; (ii) the provision of service is an activity reserved to the Republic; and (iii) a socialist management model. The Law declares all assets related to electric system as public utilities. In addition, the proposed law establishes that the Government controls all activities in the electric sector. The Government could, however, establish mixed companies where the Republic will have no less than a 60% stake in order to build electric projects and for the production and distribution of goods and services needed to execute the activities of SEN.

The Ministry of Popular Power for Electrical Energy (*Ministerio del Poder Popular para la Energía Eléctrica*), referred to as MPPEE, developed and introduced a Rational and Efficient Use of Energy Law (*Ley de Uso Racional y Eficiente de la Energía*) to the National Assembly. The proposed law requires citizens and entities to make rational and efficient use of their electricity in order to preserve the national electric system. The proposed law states that the Government will establish an entity to manage the rational and efficient use of energy as well as review and evaluate the Rational and Efficient Use of Energy Plan as established under this law.

By the time the energy crisis was over in June 2010, the Government had pledged to increase capacity to 32,000 MW by 2011, from 24,801 MW in 2010, and to 34,055 MW by 2015, with 92% of such increase coming from new hydro and thermal projects and the remaining 8% from updating the existing electricity grid. The MPPEE plans to execute approximately 150 projects between 2010-2015 in order to improve the electricity transmission system of Venezuela.

The Telecommunications Sector

CONATEL is the governmental agency responsible for the regulation of 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 providing service in areas without access to telecommunications services. The Universal Service Fund will reach approximately U.S.$251.4 million at the end of 2011. Since 2005, it has launched various Universal Service projects with the participation of several Venezuelan telecom operators that competed for infrastructure projects worth approximately U.S.$185.9 million. As of June 2011, approximately U.S.$153.8 million of the Universal Service Fund was allocated to infrastructure projects in support of 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. On December 20, 2010 the amendments to the Organic Telecommunications Law and the Social Responsibility on Radio and Television Law were approved, adding new regulations on the internet service and telecommunications systems. The laws provide certain conditions in which fines or punishment will be applied by CONATEL.

On December 22, 2010, a partial reform of the Social Responsibility in Radio and Television Law was enacted. The Law aims to strengthen national content production and incorporates within its scope the regulation of messages distributed through electronic media. The legislation prohibits the dissemination on television, radio or electronic media of messages that incite or promote hatred and intolerance based on race, religion, politics, gender as well as racist or xenophobic messages. The legislation also prohibits the dissemination via the media of any messages that incite or promote and/or justify crime, constitute war propaganda, provoke unrest in the population or disturb the public order, disregard a public officer's authority, or promote the violation of the law. Providers of electronic media were required to quickly establish mechanisms to restrict the dissemination of messages in violation of the Law, otherwise they are subject to penalty as delineated by the Law.

The reform of the Organic Telecommunications Law, or LOTEL, declares "the establishment and operation of telecommunications networks" as a "public interest service". The LOTEL establishes the maximum duration of licenses for the use and operation of the radio spectrum to 15 years, which was already prescribed in the Regulations of the Telecomunication Law on Administrative Authorizations and Licensing for the Use and Operation of Radio Spectrum.

The reform kept existing restrictions related to the transfer of telecommunication licenses and incorporated some existing rules related to the sale or transfer of ownership of companies holding broadcast licenses.

The telecommunications sector grew by approximately 7.9% during 2010, as compared to 2009. Considering the number of subscribers to different services, mobile telephony has experienced a substantial growth of 1,366% since 1998 while the local fixed telephony service grew approximately 181% over the same period. In the case of internet services and subscription television (Cable TV), they grew 1,519% and 321%, respectively, since 1998.

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 Bolívar. 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 which superseded the previous Central Bank Law dated as of December 4, 1992. A purpose of the new Central Bank Law of 2001 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.

In July 2005, the National Assembly approved an amendment to the 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 required Banco Central to make a one-time special contribution to FONDEN of U.S.$6.0 billion from Venezuela's foreign currency reserves, which was completed on November 7, 2005.

On May 7, 2010, the Central Bank Law was again amended. Among other changes, the amendment required Banco Central to create a Strategic Financial and Exchange System to monitor the flow of monetary and financial information in order to guarantee the proper functioning of the economy. Under the amended law, Banco Central's regulatory powers over the Republic's payment systems (domestic, bilateral and regional) were enhanced. The May 2010 amendment also modified Banco Central's operations with other financial institutions which, among other things, expanded the categories of assets Banco Central could receive from financial institutions as collateral or a guarantee in connection with lending operations in exceptional circumstances.

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

- 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;
- regulating Venezuelan currency and promoting adequate liquidity of the financial system;
- centralizing and administering the Republic's international monetary reserves;
- estimating the adequate level of the Republic's international monetary reserves;
- participating in and regulating operations in the foreign exchange market;
- overseeing the performance of the Republic's payments system and establishing its operating regulations;

- advising other public authorities within their jurisdiction;
- participating in, regulating and executing operations in the gold market;
- collecting, producing and publishing the Republic's main economic statistics;
- overseeing the Republic's rights and obligations in the IMF in accordance with relevant agreements and laws;
- promoting solidarity, civic participation and social responsibility for the purpose of contributing to the socio-economic development of the population;
- issuing, on an exclusive basis, Venezuelan currency
- performing other operations and services of the type commonly provided by central banks, in accordance with the law

FONDEN

The July 2005 amendment to the Central Bank Law 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 required 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 was added by Banco Central and approximately U.S.$15.1 billion was contributed by PDVSA. In 2008, Banco Central contributed an additional U.S.$1.5 billion and PDVSA added an additional U.S.$6.0 billion to FONDEN and in 2009, Banco Central contributed U.S.$12.3 billion and PDVSA added U.S.$570 million to FONDEN. In 2010, Banco Central contributed U.S.$7.0 billion and PDVSA added an additional U.S.$1.33 billion to FONDEN. At December 31, 2010, total FONDEN contributions amounted to U.S.$67.3 billion. Banco Central carries its contributions to FONDEN as an asset on its balance sheet

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, 2010, FONDEN had allocated approximately U.S.$63.4 billion, or approximately 94.3% of the funds available, to the various projects financed by FONDEN, including, among others: approximately U.S.$3.6 billion allocated to 28 mining projects; approximately U.S.$19.4 billion allocated to 39 energy and petroleum projects; approximately U.S.$3.7 billion allocated to 21 housing projects; approximately U.S.$2.8 billion allocated to 55 agriculture projects; approximately U.S.$1.37 billion allocated to 22 science and technology projects; and approximately U.S.$1.1 billion allocated to 24 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.

In April 2011, President Chávez issued by law-decree the Law Creating the Special Tax on Extraordinary Prices and Exorbitant Prices in the International Oil Market, which repealed the provisions of the Central Bank Law governing PDVSA's contributions to FONDEN. Before the repeal, the Central Bank Law allowed PDVSA to maintain a "revolving account" pursuant to which PDVSA was entitled to maintain its oil and gas export proceeds in offshore accounts in amounts sufficient to cover its foreign currency-denominated investments and expenses and required PDVSA to transfer any proceeds not required to cover capital or operating expenses, taxes and dividends to FONDEN. This new Oil Windfall Profits Tax Law also provides that the revenue from this tax be deposited directly into FONDEN and used to finance the *Misiones* created by the government as well as infrastructure, road, health, education, communication, agriculture and food projects, among others.

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. Between 2004 and 2010 Banco Central continued to conduct open-market operations; since 2007, however, the level of those operations has decreased in favor of a more active use of official reserve requirements by Banco Central.

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

	M2		Monetary Base	
Year	In billions of nominal Bolívares	In millions of Dec. 2007 Constant Bolívares	In billions of nominal Bolívares	In millions of Dec. 2007 Constant Bolívares
2006	119,892.1	146,816.3	44,795.4	54,855.1
2007	153,224.6	153,224.6	64,177.0	64,177.0
2008	194,274.7	147,289.4	83,786.7	63,522.9
2009	235,401.5	140,622.1	98,902.6	59,081.6
2010	292,012.4	136,966.4	126,217.7	59,201.5

Source: *Banco Central.*

The national work stoppage that began in December 2002 exacerbated the devaluation of the Bolívar 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 Bolívar 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 Bolívar prompted the Republic 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 redenominated. Accordingly, from that date the U.S. dollar exchange rate was set at Bs.2.14 = U.S.$1.00 for purchase operations and Bs 2.15 = U.S.$1.00 for sale operations.

On January 8, 2010, the Government established a dual-exchange rate regime. According to *Convenio Cambiario No. 14*, the Ministry of Finance, together with Banco Central, established an exchange rate of Bs.2.60 = U.S.$1.00 for essential goods, including food, health, imports of machinery and equipment, science and technology, as well as all non-petroleum public sector transactions and other special cases. The exchange rate for all other transactions was set at Bs.4.30 = U.S.$1.00 for sale operations, with the exception of the provisions of Article 5 of the *Convenio Cambiario No. 14*, which will cover, among others, transactions within the automotive sector, the telecommunications sector, the steel sector and the construction sector.

The exchange rate applicable to purchases of foreign exchange obtained by the public sector, other than those specified in Article 5 of the *Convenio Cambiario No. 14* and those obtained by public non-oil exports, was set at Bs.2.5935 = U.S.$1.00. The exchange rate applicable to purchases of currencies other than the previously indicated and those referred to in Article 5 of *Convenio Cambiario No. 14*, including exports from non-oil public and private sectors, was set at Bs.4.2893 = U.S.$1.00.

On December 30, 2010, the Government eliminated the dual-exchange rate regime and established a single-exchange rate regime. Effective January 1, 2011, the U.S. dollar exchange rate was set at Bs.4.30 = U.S.$1.00 for all transactions. 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(2)	Banco Central Discount Rate	Basic Inflation Rate(3)
		(in % per annum)		
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				
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	48.77
2008				
First Quarter	23.15	13.03	28.50	37.06
Second Quarter	23.49	17.13	32.50	33.48
Third Quarter	23.36	17.47	33.50	25.93
Fourth Quarter	22.97	17.42	33.50	31.38
2009				
First Quarter	22.90	17.67	33.50	23.33
Second Quarter	20.59	16.50	29.50	29.22
Third Quarter	19.54	14.83	29.50	31.38
Fourth Quarter	19.84	15.68	29.50	23.49
2010				
First Quarter	18.87	15.13	29.5	28.41
Second Quarter	17.87	14.86	29.5	44.57
Third Quarter	18.02	14.65	29.5	18.80
Fourth Quarter	18.08	14.65	29.5	19.30

(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 2007) calculated by annualizing forward cumulative quarterly inflation rates.

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 thousands of Bolívares)				
2006					
First Quarter	Bs.39,262,164	Bs.6,217	Bs.1,200,647	Bs.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	64,867,297	42,713	1,851,079	66,761,089	67.26
2007					
First Quarter	72,705,813	52,357	1,947,480	74,705,650	84.60
Second Quarter	84,288,279	23,003	2,281,699	86,592,981	80.12
Third Quarter	95,768,067	27,711	2,606,949	98,402,727	73.94
Fourth Quarter	112,529,563	29,721	3,126,162	115,685,446	73.28
2008					
First Quarter	114,558,218	28,099	3,082,522	117,668,839	57.51
Second Quarter	125,622,621	28,421	3,554,763	129,205,805	49.21
Third Quarter	130,110,921	24,874	3,379,611	133,515,406	35.68
Fourth Quarter	141,271,936	26,405	3,618,308	144,916,649	25.27
2009					
First Quarter	141,282,705	25,494	5,534,484	146,842,683	24.79
Second Quarter	145,433,674	25,697	7,334,253	152,793,624	18.26
Third Quarter	154,571,068	23,870	5,867,669	160,462,607	20.18
Fourth Quarter	162,301,301	25,112	4,036,027	166,362,440	14.80
2010					
First Quarter	156,930,440	24,692	3,164,172	160,119,305	9.04
Second Quarter	165,629,603	22,392	1,366,418	167,018,413	9.31
Third Quarter	176,052,698	22,392	1,558,128	177,633,218	10.70
Fourth Quarter	188,986,884	0	1,905,249	190,892,133	14.74

(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*.

Banco del Tesoro

In August 2005, the National Assembly passed a law creating a treasury bank, referred to as *Banco del Tesoro*. *Banco del Tesoro's* mission is to serve the financial needs of its clients and to help initiate any strategic economic plans of the Republic. 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 depository 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 million, or approximately U.S.$14.2 million, to *Banco del Tesoro,* and later approved an additional transfer of Bs.30.0 million.

In 2010, *Banco del Tesoro* expanded the number of its offices and locations, with 64 branch offices, five customer care centers and three social financial centers as of December 2010. Approximately Bs. 8.8 billion, or U.S.$2.1 billion, in public deposits were made in *Banco del Tesoro* in 2010, as compared to Bs.7.4 billion, or U.S.$3.4 billion in 2009. At year-end 2010, *Banco del Tesoro* had extended approximately Bs. 3.4 billion, or U.S.$792.7 million, in lines of credit as compared to Bs.1.4 billion, or U.S.$642.7 million, in 2009.

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 by seven countries: Argentina, Brazil, Bolivia, Ecuador, Paraguay, Uruguay and Venezuela. In March 2009, the member countries agreed to contribute U.S.$7.0 billion in initial capital, with Argentina, Brazil and Venezuela each agreeing to contribute U.S.$2.0 billion, Ecuador and Uruguay agreeing to contribute U.S.$400 million and Paraguay and Bolivia agreeing to contribute U.S.$200 million.

On September 26, 2009, *Banco del Sur* was officially created when the presidents of the seven participating countries signed the constitutive act of *Banco del Sur*. Because the purpose of *Banco del Sur* is to finance development projects for all Latin American and Caribbean nations, non-member states such as Colombia, Chile, Peru, Guyana and Surinam agreed to contribute a total of U.S.$3.0 billion, providing *Banco del Sur* with U.S.$10.0 billion in total initial capital. *Banco del Sur* will be based in Caracas, Venezuela and will initially have two branches, one in Buenos Aires, Argentina and another in La Paz, Bolivia. As of July 2010, the creation of *Banco del Sur* has been ratified only by Ecuador; ratification procedures, the completion of which are necessary before the bank may begin operations, are on-going in the remainder of the member countries.

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.30,000 per depositor. FOGADE also assists in the recovery and stabilization of financial institutions through lending assistance.. The amended Law also prohibits owners, directors and administrators of media and telecommunication companies from having a stake in financial institutions and prohibits others, including public servants and individuals who have declared bankruptcy, from having more than a 10% stake in financial institutions.

As of December 31, 2010, the Venezuelan financial system consisted of 42 financial institutions, which included:

- 21 universal banks;
- 7 commercial banks;
- 2 investment banks;
- 5 development banks;
- 1 leasing company;
- 1 savings and loan associations;
- 5 special law-regulated banks.

In December 2010, the Banking Sector Institutions Law was enacted and partially amended on March 2, 2011. This Law adopts a series of measures to correct various problems occurring in the banking sector of the Republic. Under the Banking Sector Institutions Law, Venezuela's private and public banks will be regulated and required to serve not only the interests of private stockholders, but the interests of depositors, customers and the public at large. In addition, banks are obligated to collaborate with sectors of the popular communal economy to develop productive results through sound financial intermediation.

The Law defines certain activities performed by the banks as public service. According to the Law, banks are now considered public utilities. As a public utility, the Government can take administrative measures established in the law to secure bank assets in order to keep services functioning. The Law also protects bank customers' assets in the event of banking irregularities, makes it illegal for banks to arbitrarily change banking hours and requires that the Superintendent of Banking Institutions take into account the best interest of bank customers in addition to the stockholders.

In addition to the disclosure requirements, the law also sets new capital reserve requirements that banks must maintain. Banks are now required to surrender five percent of their pre-tax profit for communal council projects. As a precautionary measure, banks must also keep the equivalent of ten percent of their capital in a restricted fund to pay labor liabilities in the event the bank has to be liquidated. Additionally, Banks are now restricted in the percentage of their funds that they may loan, in order to prevent credit risk. The Law limits the amount of credit that can be made available by banks to individuals or private entities to a maximum of 10% of the bank's equity. Such percentage could be increased to up to 20% if the extra 10% is guaranteed by a well-rated domestic or foreign bank. The Law also limits the formation of financial groups and prohibits banks from having more than a 5% stake in brokerage firms and insurance companies.

Pursuant to article 53 of the Banking Sector Institutions Law and notices VOI-013-2011 and VOI-018-2011 issued by Banco Central, banks operating in Venezuela that hold securities issued by the Republic, or other entities owned by the Republic, such as PDVSA, must transfer the custody of their bonds to Banco Central by August 15, 2011.

Market Regulation

On August 12, 2010, the National Assembly approved the new Capital Markets Law, published in the Official Gazette No. 39,489 on August 17, 2010. This Law provides for a change of name of the CNV to the *Superintendencia Nacional de Valores*, referred to as the SNV or the National Superintendency of Securities. In addition, the Law prohibits private brokers from participating in the purchase and sale or ownership of the Republic's public debt bonds and restricts state agencies from participating in the stock market. Under this Law, the Republic will be able to create public securities exchange houses to trade the Republic's public debt bonds that will be regulated by the SNV. All references to the SNV below refer to the CNV for periods prior to August 12, 2010.

The SNV 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 SNV requirements regarding assets, operating history, management and other matters.

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

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

The Capital Markets Law and the rules issued by the SNV 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 SNV to regulate public offerings and trading of securities. In January 1999, the SNV promulgated regulations governing the activities of broker-dealers and brokerage houses. The SNV 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.

Trading on the exchange has decreased since the Government intervened trading companies and it has been stagnant since securities regulators shut down and took over management of 47 brokerage companies last year. The Government has defended its takeover of 47 private brokerage businesses last year on the basis that those firms had arbitrarily undervalued Venezuela's currency in a bond market that was widely used for currency trading and that the practices of the brokerage firms that were shut down contributed to capital flight**.**

Securities Markets

The Caracas Stock Exchange is a private sector securities market in Venezuela, with approximately 60 issuers and a total of approximately U.S.$1.7 billion in securities registered as of December 2010. 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.

In 2010, the Caracas Stock Exchange had a total trading volume of approximately U.S.$107.3 million, including U.S.$53.5 million in stocks.

From December 31, 2009 to December 31, 2010, the total market capitalization of the companies listed on the Caracas Stock Exchange decreased in absolute terms from U.S.$9.4 billion to U.S.$4.0 billion.

The *Comisión Nacional de Valores*, or 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, 2010, the cumulative trading volume of commodities totaled U.S.$12.7 billion. The trading volume on this exchange totaled U.S.$300.7 million in 2010, as compared to U.S.$774.7 million in 2009.

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.

Trading on the exchange has decreased since the Government intervened trading companies and it has been stagnant since securities regulators shut down and took over management of 47 brokerage companies last year. The Government has defended its takeover of 47 private brokerage businesses last year on the basis that those firms had arbitrarily undervalued Venezuela's currency in a bond market that was widely used for currency trading and that the practices of the brokerage firms that were shut down contributed to capital flight**.**

Bolsa Publica de Valores Bicentenaria

In November 2010, Venezuela's National Assembly passed the *Ley de la Bolsa Pública de Valores Bicentenaria*, or the Law of the Bicentennial Public Securities Exchange, which created the Bicentennial Public Securities Exchange (the "Bicentennial Stock Exchange") for both public and private sector entities that would like to be involved in securities trading market operations. Financial operations began on January 31, 2011 and include financial transactions with bonds issued by state-run and private entities. The Bicentennial Stock Exchange will compete with the privately run Caracas Stock Exchange. It aims to increase competition and investments by allowing customers secure access to transactions. The Bicentennial Stock Exchange does not function like a typical stock exchange. Under the regulations, entities that can participate by issuing bonds include collective and social production companies and state entities, joint ventures, small and medium-sized enterprises, in addition to other private businesses. Private brokers will not be permitted to participate in the Bicentennial Stock Exchange. The exchange in Caracas began operating with the trading of corporate bonds issued by the Venezuela-based subsidiary of Japanese carmaker Toyota and the local company Envases Venezolanos. The *Superintendencia Nacional de Valores*, referred to as the SNV, gave Toyota permission to issue bonds worth up to Bs.200 million, or approximately U.S.$46.5 million, and gave Envases Venezolanos permission to issue bonds worth up to Bs.35 million bolivars, or approximately U.S.$8.1 million.

Financial System Supervisory Body

In March 2010, the National Assembly enacted the Organic Law on the National Financial System (*Ley Orgánica del Sistema Financiero Nacional*), published in the Official Gazette on June 16, 2010, which creates the Financial System Supervisory Body, referred to as OSFIN, with oversight and regulatory powers over the banking, capital markets and insurance sectors. OSFIN, which is yet to be constituted, will have a Board of Directors made up of the Minister of Finance, the President of Banco Central and three directors and will operate within the Ministry of Finance. The Organic Law on the National Financial System was reprinted on December 21, 2010, due to a material error. (Published in Official Gazette No. 39.578).

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. 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.

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 2001 amendments to the Organic Tax Code became effective on October 17, 2001. Some of the reforms in the legislation included: (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 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 of 2001 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 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 of 2001, 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. Income tax revenues, as a percentage of Central Government revenues, were 26.2% in 2006, 29.5% in 2007, 32.9% in 2008, 31.7% in 2009 and 27.1% in 2010.

The petroleum industry provided 55.1% of total income tax revenues in 2006, 53.1% of total income tax revenues in 2007, 45.0% of total income tax revenues in 2008 and 33.2% of total income tax revenues in 2009.

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. The Government has attempted to increase the base of non-petroleum tax revenues resulting from the development of a more diversified economy with a greater capacity for and higher volume of non-traditional exports.

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.

In 2006, the Central Government generated revenues of approximately Bs.20.8 billion, 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.27.5 billion, and during 2008, the Central Government generated revenues from the VAT of approximately Bs.31.4 billion. In March 2009, the VAT was increased from 9% to 12%. During 2009, the Central Government generated revenues from the VAT of approximately Bs.41.8 billion. In 2010, the Central Government generated revenues from the VAT of approximately Bs.56.5 billion and the VAT was increased by 35.7% as compared to 2009.

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.2.7 billion, or 0.9% of GDP, during 2005. In February 2006, the Government eliminated the bank debit tax.

Pursuant to the 2007 Enabling Law, President Chávez established a new Financial Transactions Tax, or *Impuesto sobre las Transacciones Financieras*, which levied a 1.5% tax on bank debits and other transactions, but on June 12, 2008, President Chávez issued Decree No. 6,165, which effectively eliminated the Financial Transactions Tax.

Customs

A law was passed by the National Assembly in January 2002 to modernize Venezuela's customs operations, which is currently in effect throughout Venezuela. Automated customs operations, referred to as the SIDUNEA system, were put into effect in several principal and secondary ports of enty. The modernized ports using the SIDUNEA system accounted for approximately 99% of customs revenues and 98% of imports. The total customs revenue collected in 2006 and 2007, including the VAT, was Bs.14.5 billion and Bs.18.0 billion, respectively. The total customs revenue collected in 2008, including the VAT, was Bs.17.3 billion, and the total customs revenue collected in 2009, including the VAT, was Bs.15.3 billion. The total customs revenue collected in 2010, including the VAT, was Bs.20.3 billion.

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.

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 millions of December 2007 Constant Bolívares)				
	2006	**2007**	**2008**	**2009**	**2010**
Income Tax	16,208.0	18,811.2	19,156.3	17,453.9	14,420.1
VAT(1)	33,537.0	31,063.2	26,482.7	27,469.4	28,985.9
Customs Income	7,781.4	9,423.3	6,639.9	4,293.2	4,522.5
Other Internal Income	2,350.4	3,012.2	4,159.2	4,199.8	4,152.4
Liquor	849.9	1,151.7	1,081.4	1,121.1	1,082.8
Cigarettes	1,241.7	1,506.9	2,782.9	2,788.3	2,810.3
Stamp Revenue	114.5	79.0	48.1	39.0	26.6
Estate Tax	95.1	131.1	99.9	116.3	113.4
Matches	-	-	-	-	-
Gambling (Bingos and Casinos)	49.3	143.4	146.9	135.1	119.3
Other(2)	1,089.1	1,113.5	1,242,0	1,079,7	660.4
Financial Transactions Tax (ITF)(3)	0.0	3,648.3	5,630.4	0.0	0.0
Bank Debit Tax(4)	0.5	0.0	0.0	0.0	0.0
Total Gross Revenues	Bs 60,965.9	Bs. 63,423.5	Bs. 57.680.0	Bs.54.496.0	Bs 52,741.3.

(1) The VAT rate dropped from 14% to 11% in March 2007 and then to 9% in July 2007. As a result, the average rate was 10.5% in 2007 compared to 9% in 2008. In March 2009, the VAT rate increased from 9% to 12%, for an average rate of 11% in 2009. The VAT rate remained at 12% in 2010.
(2) Includes fines, interest and repayments.
(3) The collection of the ITF took effect on November 1, 2007 and remained in force until June 12, 2008.
(4) In February 2006, the Government eliminated the bank debit tax.
(5) The Bank Debit Tax and Financial Transactions Tax are not included in Total Gross Revenues.

Source: SENIAT.

Revenues and Expenditures

Central Government

The Central Government's revenues consist of both 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 47.3% in 2006, 44.1% in 2007, 45.4% in 2008, 37.8% in 2009 and 42.5% in 2010.

Petroleum royalties provided 79.4% of non-tax revenues in 2006, 73.9% of non-tax revenues in 2007, 80.0% of non-tax revenues in 2008, 62.9% of non-tax revenues in 2009 and 56.9% of non-tax revenues in 2010.

In 2006, the Central Government's revenues increased to Bs.20.8 billion 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.20.8 billion 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. Because of the foregoing factors, the Central Government accounts recorded a surplus for 2006 of Bs.12.5 million in 1997 Constant Bolívares, or 0.02% of GDP, compared to a surplus of Bs.993.4 billion in 1997 Constant Bolívares, or 1.6% of GDP, for 2005.

In 2007, the Central Government's revenues totaled Bs.21.1 billion in 1997 Constant Bolívares. This increase was due primarily to an increase in tax revenues from the petroleum sector. The Central Government's expenditures for 2007 decreased to Bs.18.9 billion in 1997 Constant Bolívares. This decrease was due primarily to a decrease in operating expenditures. As a result of the foregoing factors, the Central Government accounts recorded a surplus for 2007 of Bs.2.2 billion in 1997 Constant Bolívares, or 3.0% of GDP.

In 2008, the Central Government's revenues totaled Bs.18.8 billion in 1997 Constant Bolívares, representing a decrease of approximately Bs.2.2 billion in 1997 Constant Bolívares as compared to 2007. This decrease was due primarily to lower oil revenues. The Central Government's expenditures for 2008 increased to Bs.19.8 billion in 1997 Constant Bolívares from Bs.18.9 billion in 1997 Constant Bolívares in 2007. This increase was due primarily to higher labor costs. As a result of the foregoing factors, the Central Government accounts recorded a deficit for 2008 of Bs.911.4 million in 1997 Constant Bolívares, or 1.2% of GDP.

In 2009, the Central Government's revenues totaled Bs.13.4 billion in 1997 Constant Bolívares, representing a decrease of approximately Bs.5.5 billion in 1997 Constant Bolívares as compared to 2008. This decrease was due primarily to lower oil revenues. The Central Government's expenditures for 2009 decreased to Bs.16.5 billion in 1997 Constant Bolívares from Bs.19.8 billion in 1997 Constant Bolívares in 2008. This decrease was due primarily to a decrease in transfers to the public sector. As a result of the foregoing factors, the Central Government accounts recorded a deficit for 2009 of Bs.3.1 billion in 1997 Constant Bolívares, or 5.1% of GDP.

In 2010, the Central Government's revenues totaled Bs.13.5 billion in 1997 Constant Bolívares, representing an increase of approximately Bs.0.17 billion in 1997 Constant Bolívares as compared to 2009. This increase was due to the highest dividends and other petroleum revenues since 2001. The Central Government's expenditures for 2010 decreased to Bs.16.0 billion in 1997 Constant Bolívares from Bs.16.5 billion in 1997 Constant Bolívares in 2009. This decrease was due primarily to a decrease in transfers to the public sector. As a result of the foregoing factors, the Central Government accounts recorded a deficit for 2010 of Bs.2.5 billion in 1997 Constant Bolívares, or 0.1% of GDP.

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,				
	2006[(1)]	2007[(1)]	2008[(1)]	2009[(1)]	2010[(2)]
	(in millions of 1997 Constant Bolívares)				
Central Government					
Total Revenues	**Bs. 20,765.3**	**Bs. 21,072.9**	**Bs. 18,840.9**	**Bs. 13,366.5**	**Bs. 13,534.3**
Current Revenues	20,765.3	21,072.9	18,840.9	13,366.5	13,534.3
Tax Revenues	10,952.5	11,770.9	10,289.0	8,316.2	7,785.8
Petroleum Sector	2,693.8	2,975.8	2,023.0	1,141.8	595.0
Other	8,258.7	8,795.0	8,266.1	7,174.4	7,190.9
Non-tax Revenues	9,812.8	9,302.0	8,551.9	5,050.2	5,748.5
Petroleum Royalties	7,786.6	6,872.4	6,839.7	3,174.5	3,268.3
Other	1,524.9	1,604.8	1,224.4	1,496.4	822.5
Dividends	501.2	824.8	487.8	379.3	1,657.7
Capital Revenues	0.0	0.0	0.0	0.0	0.0
Total Expenditures	**20,752.8**	**18,855.7**	**19,752.2**	**16,507.7**	**15,993.8**
Current Expenditures	15,754.5	14,306.4	15,002.8	12,680.8	12,779.3
Operating Expenditures	5,731.4	4,865.4	5,169.3	4,637.3	4,932.3
Salaries, etc.	2,632.6	2,862.2	3,183.2	3,050.7	3,451.5
Interest Payments	1,443.8	1,103.7	994.8	829.8	961.1
Purchase of Goods and Services	1,655.0	899.5	991.3	756.8	519.6
Current Transfers	9,576.7	9,440.9	9,833.6	8,043.5	7,847.0
To Rest of Public Sector	8,549.8	8,278.2	8,598.7	6,920.4	7,047.4
To Private Sector	1,025.4	1,162.9	1,234.8	1,123.1	799.6
Other Transfers	1.5	0.0	0.0	0.0	0.0
Quasi-fiscal Operations of Banco Central	0.0	0.0	0.0	0.0	0.0
Extra-budgetary	446.5	203.2	179.8	196.0	147.6
Capital Expenditures	4,663.1	4,267.9	4,406.2	3,368.6	2,938.8
Capital Formation	228.5	106.7	110.3	36.4	55.1
Capital Transfers	4,434.5	4,161.1	4,295.9	3,332.2	2,883.6
To Public Sector	4,427.1	4,152.8	4,275.3	3,318.3	2,878.1
To Private Sector	7.4	8.29	20.6	13.9	5.5
Financial Investment	335.2	78.3	163.5	262.3	128.2
Current Account Surplus	5,010.8	6,766.6	3,838.0	685.7	755.0
Overall Surplus (Deficit)	**12.5**	**2,217.3**	**(911.4)**	**(3,141.2)**	**(2,459.6)**
As percentage of GDP	0.0%	0.1%	0.0%	(0.1%)	(0.1%)

(1) Preliminary figures.
(2) ONAPRE source, calculations for internal use-Preliminary figure

Sources: *Statistical Office of the Public Finance-MPPPF*

Consolidated Public Sector

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

In 2006, consolidated public sector revenues increased to Bs.26.2 billion 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 billion 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 million in 1997 Constant Bolívares, or 1.2% of GDP, compared to a surplus of Bs.2.7 billion in 1997 Constant Bolívares, or 4.4% of GDP, for 2005.

In 2007, consolidated public sector revenues decreased to Bs.24.1 billion in 1997 Constant Bolívares. This decrease was due primarily to a decrease in non-tax revenues. Consolidated public sector expenditures for 2007 decreased to Bs.25.9 billion in 1997 Constant Bolívares. As a result of the foregoing factors, the consolidated public sector accounts recorded a deficit for 2007 of Bs.1.7 billion in 1997 Constant Bolívares, or 2.4% of GDP.

In 2008, consolidated public sector revenues decreased slightly to Bs.24.0 billion in 1997 Constant Bolívares from Bs.24.1 billion in 1997 Constant Bolívares in 2007. This decrease was due primarily to a reduction in tax revenue collection. Consolidated public sector expenditures for 2008 decreased to Bs.25.4 billion in 1997 Constant Bolívares from Bs.25.9 billion in 1997 Constant Bolívares in 2007. The decrease in expenditures was due primarily to a higher level of current expenditures and lower capital expenditures. As a result of the foregoing factors, the consolidated public sector accounts recorded a deficit for 2008 of Bs.1.4 billion in 1997 Constant Bolívares, or 1.8% of GDP, compared to a deficit of Bs.1.7 billion in 1997 Constant Bolívares, or 2.4% of GDP, for 2007.

In 2009, consolidated public sector revenues decreased to Bs.15.4 billion in 1997 Constant Bolívares from Bs.24 billion in 1997 Constant Bolívares in 2008. This decrease was due primarily to a reduction in non-tax revenues as a result of a significant reduction in PDVSA's operating surplus. Consolidated public sector expenditures for 2009 decreased to Bs.20.0 billion in 1997 Constant Bolívares from Bs.25.4 billion in 1997 Constant Bolívares in 2008. The decrease in expenditures was due primarily to a reduction in central government transfers to unconsolidated entities. As a result of the foregoing factors, the consolidated public sector accounts recorded a deficit for 2009 of Bs.4.7 billion in 1997 Constant Bolívares, or 7.5% of GDP, compared to a deficit of Bs.1.4 billion in 1997 Constant Bolívares, or 1.8% of GDP, for 2008.

In 2010, consolidated public sector revenues decreased to Bs. 14.7 billion in 1997 Constant Bolívares from Bs.15.4 billion in 1997 Constant Bolívares in 2009. This decrease was primarily due to a decrease in tax revenues and non-tax revenues, in terms of interest, profits, dividends and commissions. Consolidated public sector expenditures for 2010 decreased to Bs.20.3 billion in 1997 Constant Bolívares from Bs.20.4 billion in 1997 Constant Bolívares in 2009. The decrease in expenditures was due primarily to purchases of goods and services, transfers to private sector and capital expenditures. As a result of the foregoing factors, the consolidated public sector accounts recorded a deficit for 2010 of Bs.5.7 billion in 1997 Constant Bolívares, or 8.2% of GDP, compared to a deficit of Bs.5 billion in 1997 Constant Bolívares, or 8.1% of GDP, for 2009.

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,				
	2006	**2007**	**2008**	**2009**	**2010[1]**
	(in millions of 1997 Constant Bolívares)				
Consolidated Public Sector					
Total Revenues	**26,258.0**	**24,434.2**	**24,148.3**	**15,337.5**	**14,684.3**
Tax Revenues	8,508.4	9,315.4	8,694.1	7,654.4	6,881.4
Non-tax Revenues	17,749.6	15,118.8	15,454.2	7,683.1	7,802.9
Central Government	-	-	-	-	-
PDVSA Operating Surplus	11,409.4	11,168.0	10,530.8	2,747.2	5,807.8
Interest, Profits, Dividends and Commissions	2,990.2	1,402.0	2,155.4	2,989.2	439.3
Non-financial Public Enterprises Operating Surplus	391.9	382.8	314.8	139.5	95.9
Capital Revenues	0.1	-	-	-	0.1
Other	2,958.0	2,166.0	2,453.2	1,807.2	1,459.8
Total Expenditures	**27,151.0**	**26,293.5**	**26,186.5**	**20,370.6**	**20,342.1**
Current Expenditures	16,859.0	16,320.6	17,380.0	13,525.8	14,674.9
Salaries, etc.	2,879.7	3,109.2	3,463.9	3,305.9	3,451.1
Purchases of Goods and Services[2]	2,048.2	1,513.0	1,471.5	1,238.4	760.0
Interest Payments	1,455.4	1,198.3	1,111.6	913.5	1,028.9
Transfers to Private Sector	1,759.3	2,422.7	2,815.2	2,637.7	1,822.5
Central Government Transfers to Unconsolidated Entities	8,385.0	7,970.4	8,187.4	5,346.2	7,551.0
Other[3]	331.6	107.2	330.4	84.2	61.5
Central Government (Extra-Budgetary)	335.3	77.3	31.0	45.7	57.7
Capital Expenditures	9,956.7	9,895.5	8,775.5	6,799.0	5,609.4
Capital Formation	3,183.5	4,139.8	2,705.3	3,456.5	3,092.9
Other (Including Transfers to Unconsolidated Entities)[4]	6,773.2	5,755.7	6,070.2	3,342.5	2,516.5
Overall Surplus (Deficit)	(893.0)	(1,859.3)	(2,038.2)	(5,033.0)	(5,657.8)
(As percentage of GDP)					
Total Revenues	37.7%	33.7%	31.9%	24.8%	21.2%
Total Expenditures	38.9%	36.3%	34.6%	33.0%	29.4%
Overall Surplus (Deficit)	(1.3)%	(2.6)%	(2.7)%	(8.1)%	(8.2)%

(1) Preliminary figures.
(2) Includes goods and services acquisitions.
(3) Includes other expenditures, exchange losses and quasi-fiscal losses of Banco Central.
(4) Includes capital transfers and other financial expenditures.

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

2010 Budget

In December 2009, the National Assembly approved the budget for 2010. The 2010 budget, as approved, projected total revenues of approximately U.S.$57.7 billion (14.5% of GDP) and total expenditures of approximately U.S.$74.1 billion (18.7% of GDP). The 2010 budget also contemplated a legal limit on borrowing by the Republic of U.S.$16.4 billion (4.1% of GDP). The budget for 2010 was based on certain assumptions, including real GDP growth of 0.5%, an average price for the Venezuelan oil basket of U.S.$40.00 per barrel, an average exchange rate of Bs.2.15 = U.S.$1.00 and average inflation at a rate of 22%.

2011 Budget

In December 2010, the National Assembly approved the budget for 2011. The 2011 budget, as approved, projects total revenues of approximately Bs.204.2 billion (U.S.$47.5 billion), or 4.3% of GDP, and total expenditures of approximately Bs.204.2 billion (U.S.$47.5 billion), or 4.3% of GDP. The 2011 budget also contemplates a legal limit on borrowing by the Republic of Bs.54.0 billion (U.S.$12.6 billion), or 4.9% of GDP. However, on June 13, 2011, the Special Debt Law was enacted, which allows the Republic to issue up to Bs.45.0 billion (U.S.$10.5 billion) in new bonds in 2011. The budget for 2011 is based on certain assumptions, including real GDP growth of 2.0%, an average price for the Venezuelan oil basket of U.S.$40.00 per barrel, an exchange rate of Bs.2.60 = U.S.$1.00 for essential goods and Bs.4.30 = U.S.$1.00 for non-essential goods and an inflation rate of between 23% and 25%.

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.

On June 13, 2011, the Special Debt Law was enacted, which allows the Republic to issue up to Bs.45.0 billion (U.S.$10.5 billion) in new bonds in 2011. The proceeds will be used to invest in the agricultural sector, build new housing, develop the new job creation program, respond to natural disasters and other emergencies and refinance the public debt.

Summary of External Debt

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

	December 31,				
	2006	**2007**	**2008**	**2009**(1)	**2010**(1)
	(in millions of U.S. dollars)				
Commercial Bank External Public Sector Debt	$1,832.3	$1,656.5	$ 1,369.6	$1,087.4	$795.0
Other External Public Sector Debt	25,420.1	25,659.9	28,494.1	34,057.9	36,239.4
Obligations and Bonds	21,437.6	22,312.7	24,867.5	29,871.8	31,236.2
Suppliers & Contractors	30.7	19.2	4.9	2.3	2.3
Multilateral Agencies	3,414.6	2,664.3	2,905.2	3,270.3	4,126.2
Bilateral Agencies	537.2	663.7	716.5	913.5	879.4
Total External Public Sector Debt	$27,252.4	$27,316.4	$29,863.7	$35,145.3	$37,034.4

(1) Preliminary figures. At the Bolívar/U.S. dollar exchange rate as of December 31, 2010, 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, 2010:

	Scheduled Amortization[1] *(in millions of U.S. dollars)*					
	2011	**2012**	**2013**	**2014**	**2015**	**2016 and thereafter**
Commercial Bank External Public Sector Debt	$238.2	$173.3	$126.9	$107.5	$66.3	$75.0
Other External Public Sector Debt	2,022.5	566.8	2,078.4	1,939.6	1,651.8	27,987.9
Obligations and Bonds	1,509.0	-	1,539.5	1,498.0	1,310.0	25,379.7
Suppliers & Contractors	2.7	2.7	-	-	-	-
Multilateral Agencies	410.0	421.5	396.3	311.7	225.8	2,360.9
Bilateral Agencies	100.9	142.7	142.6	129.8	116.0	247.3
Total External Direct Public Sector Debt	$2,260.6	$740.1	$2,159.2	$2,047.0	$1,718.1	$28,062.9

(1) Assumes subsequent disbursements from credit facilities entered into as of December 31, 2010.

Source: *Ministry of Finance.*

Internal Public Debt

The Government's internal public debt as of December 31, 2010 totaled approximately Bs.90.3 billion, or U.S.$34.7 billion (at the prevailing Bolívar/U.S. dollar exchange rate on that date) compared to Bs.53.2 billion, or U.S.$24.7 billion (at the prevailing Bolívar/U.S. dollar exchange rate on that date) on December 31, 2009.

The table below sets forth a summary of Venezuela's internal public debt as of December 31, 2010:

Type of Debt	**Outstanding as of December 31, 2010** *(in millions of U.S. dollars)*[1]
Treasury Bonds (*Letras del Tesoro*)	$1,755.1
National Public Debt Bonds	32,174
Loans	0.9
Promissory Notes[2]	804.5
Total Internal Debt of the Republic of Venezuela	34,734.4
Internal Debt Issued by Public Entities and Guaranteed by the Republic	0.2
Total	$34.734.6

(1) At the Bolívar/U.S. dollar exchange rate as of December 31, 2010.
(2) Issued in domestic market; denominated in foreign currency.

Source: *Ministry of Finance.*

Between March and June, 2011, the Republic sold to *Banco del Tesoro* and *Banco Industrial de Venezuela* Bs.3.5 billion (approximately US$814 million) in local debt. The issuance of this debt was for the purpose of financing public expenditures. In addition, in June and July 2011, the Republic sold to *Banco del Tesoro*, *Banco Industrial de Venezuela*, *Banco de Venezuela* and FOGADE Bs. 9.5 billion (approximately US$2.20 billion) in local debt for the purpose of financing public expenditures and servicing debt.

Multilateral Borrowings and Subscriptions

Venezuela is one of the founding members of the IMF. As of May 31, 2011, its subscription to the IMF, which corresponds to its quota, was SDR 2.65 billion or U.S.$38 million. Venezuela's subscription to the capital of the World Bank was U.S.$2.46 billion at June 30, 2010. Of that amount, U.S.$150.8 million has been disbursed as of June 30, 2010. 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 following other World Bank Group affiliates: International Finance Corporation (IFC), with subscriptions of U.S.$27.6 million; and MIGA, with subscriptions of U.S.$15.4 million, both as of June 30, 2010.

Venezuela's capital subscription to the IADB was U.S.$5.8 billion as of December 31, 2010, one of the largest subscriptions of the bank's Latin American members. Of this amount, U.S.$249.3 million had been paid in cash as of December 31, 2010 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.$315.3 million.

Venezuela is a member of CAF with subscriptions of capital totaling U.S.$58 million. Of this amount, U.S.$45 million had been paid in cash as of December 31, 2010. Venezuela is also a member of Banco de Desarrollo del Caribe, with subscriptions of capital totaling U.S.$18.81 million, of which U.S.$4.12 million had been paid in cash as of December 31, 2010.

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.$5.57 billion was outstanding at December 31, 2010; and several loan agreements with CAF, of which U.S.$127 million was outstanding as of December 2010.

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.

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.

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 matured in December 2008.

Capital Market Issues of External Public Debt

Over the past 50 years, despite the debt crisis that prompted the restructuring of its commercial bank debt during the 1980s, 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 84.34% of Venezuela's total external debt as of December 31, 2010.

The following table sets out a summary of the principal features of the long-term outstanding bonds and notes publicly issued in external capital markets, as of December 31, 2010.

Security	Currency of Issue	Original Issue Size	Principal Outstanding	Interest Rate(1)	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(2)	Aug. 18	United States
ROV ¥ FRN'11	¥	17,926.5	4,292.1	¥ LIBOR +2.51%	Mar. 01	Mar. 11	Euromarket
ROV €-11.125%	€	344	344	11.125%	July 01(3)	July 11	Euromarket
ROV 13.625%	U.S.$	300	300	13.625%	Sept. 01	Aug. 18	United States
ROV 10.75%	U.S.$	1,559	1,559	10.75%	Sept. 03(4)	Sept. 13	Euromarket
ROV 7.00%	U.S.$	1,000	1,000	7.00%	Dec. 03	Dec. 18	Euromarket
ROV 9.375%	U.S.$	1,500	1,500	9.375%	Jan. 04(5)	Jan. 34	United States
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	United States
ROV €-7.00%	€	1,000	1,000	7.00%	Mar. 05	Mar. 15	United States
ROV 7.65%	U.S.$	1,600	1,600	7.65%	Apr. 05	Apr. 25	Euromarket
ROV 5.75%	U.S.$	1,500	1,500	5.75%	Dec. 05	Feb. 16	Euromarket
ROV 6.00%	U.S.$	1,500	1,500	6.00%	Dec. 05	Dec. 20	Euromarket
ROV 7.00%	U.S.$	1,250	1,250	7.00%	Nov. 07(6)	Mar. 38	Euromarket
ROV 9.00%	U.S.$	2,000	2,000	9.00%	May 08	May 23	Euromarket
ROV 9.25%	U.S.$	2,000	2,000	9.25%	May 08	May 28	Euromarket
ROV 7.75%	U.S.$	2,496	2,496	7.75%	Oct 09	Oct. 19	Euromarket
ROV 8.25%	U.S.$	2,496	2,496	8.25%	Oct 09	Oct. 24	Euromarket
ROV 12.75%	U.S.$	3,000	3,000	12.75%	Aug. 10	Aug. 22	Euromarket

(1) Interest is paid on a semi-annual basis except on the issues denominated in Euro on which interest is paid annually and the issue denominated in ¥ on which interest is paid quarterly.

(2) 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.

(3) €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.

(4) 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.

(5) 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.

(6) 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*

REGISTRATION AND BOOK-ENTRY SYSTEM

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 November 30, 2011, 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, 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 any 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 for a period of 15 days preceding the due date for any payment of principal of or interest on the Bonds.

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 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 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 required for a payment due under the Bonds and provides Banco Central with the authorizations necessary for it to convert the Bolívares 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 the 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 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 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. 14, dated December 30, 2010 (*Convenio Cambiario No. 14*). Exchange Agreement No. 14 establishes the exchange rate applicable to purchases in the primary market of Bonds of the Republic and decentralized entities issued or to be issued in foreign currency. Purchases are required to be made in Bolívares at the applicable official exchange rate, which is currently Bs.4.30=U.S.$1.00.

The Republic, through the Ministry of Finance and Banco Central, enacted Foreign Exchange Agreement No. 18, dated June 1, 2010 *(Convenio Cambiario No. 18)*, under which Banco Central is vested with the authority to regulate the transaction in Bolívares of securities denominated in foreign currency issued or to be issued by the Republic and other entities owned directly or indirectly by the Republic.

The Resolution 11-02-01 enacted by Banco Central's Board of Directors, dated February 10, 2011, in connection with Banco Central's SICOTME (System for the Placement of Bonds Denominated in Foreign Currency), establishes that the initial placement of the Republic's securities in exchange for Bolívares must be made through the SICOTME system.

Pursuant to the Convocatoria published by the Ministry of Finance on or about October 11, 2011, up to 40% of the aggregate principal amount of the Bonds will be initially allocated by the Ministry of Finance to productive entities in Venezuela in the food and health sectors and those that are engaged in the importation of capital goods.

Under the Venezuelan Banking Sector Institutions Law and Banco Central´s circular VOI-013-2011 and VOI-018-2011 dated March 29 and June 29, 2011 respectively, banks must hold the Bonds that they hold for their own account and for their client´s account through Banco Central.

Payment for the Bonds on Initial Issuance

Investors in Venezuela may purchase and pay for Bonds in Bolívares at the official exchange rate of Bs.4.30 = U.S.$1.00. Purchases must be made by or through a financial institution that is regulated by the Venezuelan Banking Superintendent (*Superintendencia de Instituciones del Sector Bancario*) or financial institutions that have been established by the Republic, that has an account at Banco Central by instructing Banco Central to debit the institution's account in Bolívares in an amount equal to the purchase price of the Bonds at the official exchange rate.

DEALER MANAGERS

The Republic has entered into a Dealer Manager Agreement dated as of October 10, 2011 with Credit Suisse Securities (Europe) Limited, Lead Dealer Manager, and Evrofinance Mosnarbank, Dealer Manager, 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, and (b) has agreed to indemnify the Dealer Managers against certain liabilities, including liabilities under 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 to them by Regulation S.

For the period of 40 days after the settlement date, 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 either 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 CPFDE-EXT-No. 496 and CPFDE-EXT- No. 501, dated July 11, 2011, the President of the Republic's Agenda Item Approvals No. 133 and 134 dated July 9, 2011, the opinions of Banco Central Nos. VON/GOM 220 and VON/GOM 222, dated June 30, 2011 and by the approvals of the Vice President of the Republic in consultation with the Council of Ministers (*Consejo de Ministros)* SCM No. 6.672 and SCM No. 6.674, dated June 12, 2011. Banco Central's participation in the transaction has been authorized by the Board of Directors of Banco Central on October 18, 2011.

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, 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, the Dealer Manager Agreement and the Banco Central Undertaking 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 Republic since December 31, 2010 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, the form of bond and Banco Central Undertaking will be available during normal business hours on any day, except Saturdays, Sundays and public holidays, at the offices of the Fiscal Agent and, if and so long as the Bonds are listed on the Official List of the Exchange, the Luxembourg paying agent and transfer agent specified on the inside back cover of this Listing Memorandum.

Where You Can Find Additional Information

The Securities and Exchange Commission ("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, 2010, will be available free of charge at the office of the Luxembourg Listing Agent. Copies of the Fiscal Agency Agreement together with the form of global bond are also available free of charge at the office of the Luxembourg Listing Agent.

Clearing

The Bonds have been accepted into DTC's book-entry settlement system. The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg.

CUSIP	ISIN	Common Code
P17625AE7	USP17625AE71	069374506

TABLES AND SUPPLEMENTARY INFORMATION

I. Venezuela's Funded Internal Debt (as of December 31, 2010)

Internal Direct Debt of the Republic	Interest Rate	Issuance Date	Final Maturity	Issued Amount *(Millions of U.S.$)*	Outstanding Amount *(Millions of U.S.$)*
Suppliers' Loans	Various	2002	2003-2005[2]	2.3	0.8
	Various	1996	1999-2003[2]	0.5	0.1
				2.7	0.9
National Public Debt Bonds					
Debt to Equity Conversion Bonds					
Decreto 2490, Emisión 1, 1988	(1)	September 1988	December 2003[3]	0.3	0.4
Decreto 1051, Emisión 2, 1990	(1)	June 1990	August 2000[3]	4.4	11.5
Decreto 1398, Emisión 3, 1990	(1)	December 1990	December 2001[3]	0.3	0.8
Decreto 2057, Emisión 4, 1991	(1)	December 1991	June 2001[3]	5.4	18.0
Decreto 3120, Emisión 6, 1993	(1)	August 1993	August 2003[3]	3.9	9.6
				14.3	40.2
National Public Debt Bonds ***(Deuda Pública Nacional-DPN)***					
Deuda Pública Nacional	(1)	2006	5-14 years	3,209.1	3,209.1
Deuda Pública Nacional	(1)	2007	4-8 years	1,573.2	1,573.2
Deuda Pública Nacional	(1)	2008	3-7 years	1,293.6	1,293.6
Deuda Pública Nacional	(1)	2009	2-7 years	7,536.6	7,536.6
Deuda Pública Nacional	(1)	2010	2-10 years	13,764.3	13,764.3
Resident Bonds (U.S.$)	LIBOR+1%	1994	16 years[4]	793.2	74.0
Deuda Pública Nacional (U.S.$)	(1)	2006	10 years	1,075.3	1,075.3
Deuda Pública Nacional (U.S.$)	(1)	2007	12 years	2,149.0	2,149.0
Deuda Pública Nacional (U.S.$)	(1)	2009	8 years	1,458.7	1,458.7
				32,853.0	32,133.8
Promissory Notes	Fixed	2010	2 years	528.5	528.5
	LIBOR 6M	2010	1 year	276.0	276.0
				804.5	804.5
Total Internal Direct Debt of the Republic				35,655.3	34,734.4
Internal Debt of Public Sector Entities Guaranteed by the Republic				1.3	0.2
Total Internal Debt				35.656.7	34,734.5

(1) Rate set by Banco Central in accordance with the formula established by the decrees pursuant to which the bonds were issued.
(2) Debt issued to suppliers. The Republic has taken the position that the suppliers have not fulfilled their contractual obligations. The legal process with respect to these matters are still pending.
(3) The Republic is currently in the process of documenting this debt and is awaiting a legal opinion from Banco Central.
(4) 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, 2010)

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 7183, Emisión 72[2]…….......	(1)	Jan 2010	Less than 364 days	1,980.8	1,755.1
				1,980.8	1,755.1

(1) Rate set by Banco Central in accordance with the formulae established by the decrees pursuant to which the bonds were issued.
(2) Funds deposited at Banco Central to pay outstanding balances not claimed by the holder.

Source: *Ministry of Finance.*

III. Venezuela's Funded External Direct Debt (as of December 31, 2010)(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.$)*(3)
Multilateral Organizations:						
Inter-American Development Bank	Fixed	1991	1996-2011	U.S.$	42.5	2.4
	Fixed	1992	2000-2012	U.S.$	326.2	12.6
	Fixed	1993	1999-2018	U.S.$	1,099.1	222.5
	Fixed	1994	2001-2014	U.S.$	211.0	90.6
	Fixed	1995	2003-2015	U.S.$	78.0	30.6
	Fixed	1996	2004-2021	U.S.$	52.0	31.8
	Fixed	1997	2017-2020	U.S.$	41.8	21.0
	Fixed	1998	2003-2013	U.S.$	218.2	72.2
	Fixed	2000	2004-2025	U.S.$	117.2	78.8
	Fixed	2001	2007-2021	U.S.$	73.7	42.3
	Fixed	2002	2006-2031	U.S.$	49.0	27.9
	Variable	2002	2006-2031	U.S.$	48.9	14.42
	Fixed	2005	2009-2030	U.S.$	23.5	11.2
	Fixed	2006	2007-2030	U.S.$	750.0	497.3
	Variable	2006	2007-2030	U.S.$		252.7
	Variable	2008	2009-2033	U.S.$	189.0	18.81
	Variable	2009	2011-2029	U.S.$	1,000.0	443.07
						1,870.38
Corporación Andina de Fomento	Variable	2000-2005	2001-2020	U.S.$	1,589.0	926.0
	Variable	2006	2007-2016	U.S.$	300.0	300.0
	Variable	2007	2008-2023	U.S.$	600.0	415.2
	Variable	2008	2008-2018	U.S.$	165.0	86.6
	Variable	2009	2009-2027	U.S.$	339.0	149.0
	Variable	2010	2010-2028	U.S.$	865.0	350.8
						2,227.7
FIDA	Variable	2002-2009	2008-2027	SDR	25.3	8.2
						8.2
NIB	Variable	1993	2007-2013	U.S.$	60.0	18.0
	Variable	2003	2009-2018	U.S.$	2.8	2.2
						20.2
Bilateral Agencies:						
Various Creditors	Fixed	2001	2012-2032	EURO	10.0	13.2
Various Creditors	Fixed	2005	2007-2015	YEN	13,496.1	99.2
Various Creditors	Fixed	1993	1993-2018	U.S.$	81.5	42.5
Various Creditors	Variable	1993	1993-2015	U.S.$	196.4	62.7
Various Creditors	Fixed	1999	2010-2030	U.S.$	66.4	64.7
Various Creditors	Varable	2000	2001-2012	U.S.$	3.7	0.6
Various Creditors	Fixed	2001	2005-2014	U.S.$	107.5	39.7
Various Creditors	Variable	2002	2004-2011	U.S.$	31.7	4.2
Various Creditors	Fixed	2003	2006-2020	U.S.$	192.4	135.6
Various Creditors	Fixed	2004	2026-2045	U.S.$	92.1	63.8
Various Creditors	Variable	2009	2010-2019	U.S.$	747.2	353.1
						879.5
Suppliers and Contractors:						
Various Creditors		1996	1997-2002(4)	U.S.$	24.7	(7.5)
Various Creditors		1998	1999-2003(4)	U.S.$	30.0	(5.1)
Various Creditors		2002	2003-2012	U.S.$	5.0	0.9
Various Creditors		2002	2003-2012	U.S.$	27.2	12.1
						(2.3)

	Interest Rate	Issue Date	Final Maturity	Currency	Principal Amount Issued Amount *(Millions of Original Currency)*[2]	Outstanding Amount *(Millions of U.S.$)*[3]
Commercial Banks:						
Various Creditors	Variable	2004	2005-2014	CHF	14.7	10.1
Various Creditors	Fixed	1993	2005-2017	EURO	25.8	18.5
Various Creditors	Fixed	1998	2004-2012	EURO	245.3	46.9
Various Creditors	Variable	2002	2004-2012	EURO	323.8	172.0
Various Creditors	Fixed	2002	2003-2016	EURO	53.4	7.6
Various Creditors	Variable	2003	2004-2016	EURO	155.4	126.1
Various Creditors	Variable	2004	2006-2016	EURO	16.9	20.6
Various Creditors	Fixed	1993	2006-2010	U.S.$	59.7	30.0
Various Creditors	Variable	1998	1999-2012	U.S.$	48.3	7.3
Various Creditors	Fixed	1998	2000-2013	U.S.$	51.9	15.6
Various Creditors	Variable	1999	2003-2011	U.S.$	9.2	1.1
Various Creditors	Fixed	1999	2003-2011	U.S.$	24.5	2.9
Various Creditors	Variable	2000	2001-2015	U.S.$	128.9	27.0
Various Creditors	Fixed	2000	2001-2011	U.S.$	40.5	0.3
Various Creditors	Variable	2001	2002-2015	U.S.$	140.6	52.9
Various Creditors	Fixed	2001	2002-2013	U.S.$	65.0	9.8
Various Creditors	Variable	2002	2003-2016	U.S.$	189.9	80.4
Various Creditors	Fixed	2002	2006-2011	U.S.$	9.2	1.1
Various Creditors	Variable	2003	2004-2015	U.S.$	198.1	81.1
Various Creditors	Fixed	2003	2006-2011	U.S.$	5.0	0.5
Various Creditors	Variable	2004	2005-2017	U.S.$	264.4	83.3
					--	**795.0**
Bonds:						
Global Bonds - 9.25%		1997	2027	U.S.$	4,000.0	3,998.0
Global Bonds - 13.625%		1998	2018	U.S.$	752.8	752.8
Global Bonds - 11.125%		2001	2011	EURO	344.3	455.5
Global Bonds - 13.625% Callable		2001	2018	U.S.$	300.0	300.0
Global Bonds - 10.75%		2003	2013	U.S.$	1,559.0	1,539.5
Global Bonds - 7.00%		2003	2018	U.S.$	1,000.0	1,000.0
Global Bonds - 8.50%		2004	2014	U.S.$	1,500.0	1,498.0
Global Bonds - 9.375%.		2004	2034	U.S.$	1,500.0	1,489.0
Global Bonds - 5.75%		2005	2016	U.S.$	1,500.1	1,500.1
Global Bonds - 6.00%		2005	2020	U.S.$	1,500.1	1,500.1
Global Bonds - 7.00%		2005	2015	EURO	1,000.0	1,310.0
Global Bonds - 7.65%		2005	2025	U.S.$	1,599.8	1,597.8
Global Bonds - 7.00%		2007	2038	U.S.$	1,250.0	1,250.0
Global Bonds - 9.00%		2008	2023	U.S.$	2,000.0	2,000.0
Global Bonds - 9.25%		2008	2028	U.S.$	2,000.0	2,000.0
Global Bonds - 7.75%		2009	2019	U.S.$	2,496.0	2,496.0
Global Bonds - 8.25%		2009	2024	U.S.$	2,496.0	2,496.0
Global Bonds - 12.75%		2010	2022	U.S.$	3,000.0	3,000.0
USD FRN 2011	LIBOR+1%	2004	2011	U.S.$	1,000.0	1,000.0
JPY FRN 2011	LIBOR+2.51%	2001	2011	JPY	17,926.5	53.5
					--	**31,236.1**
Total						**37,034.7**

(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 curriencies other than U.S. Dollars at the respective exchange rates as of December 31, 2010.

Source: Ministry of Finance

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THE ISSUER

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