PETRÓLEOS DE VENEZUELA, S.A.
AND SUBSIDIARIES (PDVSA)
(Owned by the Bolivarian Republic of Venezuela)

Consolidated Financial Statements

December 31, 2016

With Independent Auditors' Report Thereon

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Independent Public Accountants' Report

To the Stockholder and Board of Directors of
Petróleos de Venezuela, S.A.:

Opinion

We have audited the accompanying consolidated financial statements of Petróleos de Venezuela, S.A. and its subsidiaries (PDVSA or the Group) (owned by the Bolivarian Republic of Venezuela), which comprise the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year ended December 31, 2016, and the consolidated statement of financial position as at that date, and notes comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial performance and consolidated cash flows of Petróleos de Venezuela, S.A. and its subsidiaries for the year ended December 31, 2016 and its consolidated financial position as at that date in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Auditing Standards (ISAs). Our responsibilities under those standards are further described in the *Independent Public Accountant's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) that are relevant to our audit of the consolidated financial statements and we have fulfilled our ethical responsibilities in accordance with this code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to note 32 of the accompanying consolidated financial statements, which explains that PDVSA, as a Company owned by the Bolivarian Republic of Venezuela, and according to its business purpose and particular responsibilities appointed, conducts significant transactions with related parties. The amounts presented in the accompanying consolidated financial statements and the disclosures contained in their notes, are not necessarily similar to those that would have resulted had these transactions been conducted with third parties. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the 2016 Annual Management Report, but does not include the consolidated financial statements and our independent auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude, that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

(Continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters:

<table>
<tr><td colspan="2">Impairment of non-current assets
See notes 13, 14 and 25 to the consolidated financial statements.</td></tr>
<tr><th>Key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>This is a key audit matter due to the decrease in crude oil and products prices in international markets and the decrease in production volumes; the effects that these two variables have had on the operations and projections of the Group’s cash flows, including the activities that PDVSA has implemented to manage its liquidity risk; and the high level of judgment and significant estimates made by PDVSA’s management in respect of the assumptions concerning the non-current assets impairment analysis.

Significant assumptions include discount rates, estimated prices of crude oil and its products, as well as the estimates of production volumes. These also include future capital expenditures and crude oil and gas reserves available for development and production.

In addition, the combination of the bolivar exchange rate variation in respect to the US dollar, inflation changes, debt cost and uncertainties on future economic conditions have incidence on the results of the Group’s business models and, therefore, it could result in the impairment of non-current assets.</td><td>Our audit procedures included:
▪ We tested the models used by management to determine the existence or not of impairment in connection with non-current assets.
▪ We assessed that the information and variables used by management, including the Group’s budget and strategic business plan on which projections were based, are complete.
▪ We used our specialists to assist us in the assessment of assumptions and the methodology used by PDVSA’s management.
▪ We assessed the macroeconomic assumptions and others used by PDVSA’s management, which include estimates of: prices of crude oil and its products, production volumes and inflation and discount rates in the short and long-term.
▪ We compared the short-term prices assumptions used by management with future market curves. We also compared these assumptions in the short and long-term with those published by renowned industry consultants.
▪ We corroborated that production and reserves of crude oil and gas incorporated in the impairment analysis were aligned with the operating records of PDVSA.
▪ We compared the values of non-current assets included in the analysis with the respective values recorded in PDVSA’s consolidated financial statements.</td></tr>
</table>

Estimation of crude oil and gas reserves

See Annex I – Supplementary Information on Crude Oil and Gas Exploration and Production Activities and note 25 to the consolidated financial statements.

Key audit matter	How the matterwas addresses in our audit
The estimate of crude oil and gas reserves has a significant impact on the consolidated financial statements, particularly on impairment tests and estimates of the asset retirement obligation of properties, plants and equipment; as well as their depreciation and amortization. The main risk relates to crude oil and gas reserves volumes and the assessment of PDVSA's management of future cash flows, which are used to project the recovery of properties, plants and equipment. The estimate of crude oil and gas reserves, the production for the period and production volumes estimates, as well as crude oil and products prices in the international market are significant variables used by management in its cash flow projections and its liquidity risk management.	Our audit procedures included: ▪ We assessed the competences, capabilities and objectivity of expert engineers, who prepare the crude oil and gas reserves estimates. ▪ We compared the volumetric movements with a significant impact on the consolidated financial statements, with underlying information and documentation. ▪ We evaluated that the assumptions used by PDVSA's management to estimate crude oil and gas reserves were in compliance with the relevant regulations established by the Ministry of People's Power for Petroleum, which are also in alignment with international regulations. ▪ We compared the estimates of crude oil and gas reserves made by PDVSA's management with those included in the asset retirement obligation and impairment analysis of properties, plants and equipment and in their depreciation and amortization.

Deferred tax

See note 12 to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
This matter is key due to the amounts involved and the professional judgment used by PDVSA's management for their determination. Also, due to the inherent uncertainty existing in the projections for future taxable income, which determine the extent to which a deferred tax asset is recognized or not, and the reversal of temporary differences. In addition, during 2016 it was identified that the Group did not offset the deferred tax asset and liability for prior years to the reporting period, which required the restatement of the corresponding amounts.	Our audit procedures included: ▪ We assessed the calculation and analysis, including the comparison between the financial and tax basis used by PDVSA's management to determine deferred taxes. ▪ We used our specialists to assist us in the assessment of the criteria used by PDVSA's management to determine whether a difference is temporary or not; also, to evaluate the tax projections and estimates based on which the Group expects to recover the deferred tax asset recognized.

Deferred tax (continued) *See note 12 to the consolidated financial statements.*	
Key audit matter	How the matter was addressed in our audit
	▪ We assessed the determination of projected future taxable income by comparing the related assumptions to the expectations deriving from our knowledge of the industry and the understanding obtained during our audit, including, when appropriate, their consistency with the business plans and projections used for the impairment test purposes. ▪ We assessed the adequacy of the presentation and disclosures of the consolidated financial statements, including the disclosure of key assumptions and critical judgment used. ▪ We assessed both the adequacy of the restatement of the corresponding amounts to offset tax assets and liabilities, and the disclosures describing such restatement.

Estimate of the obligation for employees' and other post-employment benefits *See note 22 to the consolidated financial statements.*	
Key audit matter	How the matter was addressed in our audit
This is a key audit matter due to the professional judgment used by PDVSA's management to determine actuarial assumptions and other estimates, such as: discount rate, salary increase rate, minimum pension growth rate, health care inflation rate, estimated yield rate and fair value measurement of the plan's assets. Accordingly, any minimum change in the assumptions and estimates used by the Group will have a significant impact on consolidated statements of profit or loss and other comprehensive income, and its consolidated financial position.	Our audit procedures included: ▪ We assessed the independence, competence, capabilities and objectivity of the actuaries hired by the Group to estimate the obligation for employees' and other post-employment benefits. ▪ We used our actuarial and financial specialists to assist us in the assessment of actuarial assumptions and other estimates, as well as the methodology used by PDVSA's management. ▪ We used our financial specialists to assess the analysis and assumptions used by management to determine the fair value of the plan's assets. ▪ We tested that plan assets that should have been accounted for were recognized; also confirmed their existences and use to cover the obligation for employees' and other post-employment benefits. ▪ We assessed the adequate recognition of the services cost for the benefits obligation established in the consolidated statement of income for the period and other comprehensive income.

Investigation cases

See note 31 to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
This is a key audit matter as we have identified risk of irregularities (fraud or irregular behavior), mainly in the procurement processes of goods and services, and payments to suppliers. Also, for the investigations being conducted by PDVSA on certain irregularities the entity has been subject to. Our evaluation was fundamentally based on the Group's need to continue reinforcing its procedures to prevent, detect and respond to fraud; also concerning certain investigations initiated by PDVSA during this economic period, investigations from previous economic periods not yet concluded by PDVSA, accusations against representatives of certain contractors and suppliers and denunciations and arrest warrants issued against PDVSA's director and other officers. Both in the cases where PDVSA hired external specialists and where internal investigations were conducted, management's work approach consisted of two fundamental phases. The first phase was mainly focused on confirming whether fraud actually occurred; identifying internal control weaknesses allowing the occurrence of such facts, identifying the modalities through which fraud was committed; identifying individuals potentially implicated and determining whether the irregular deed was systematic or not, in order to confine the population affected and subsequently quantify the possible effect on the consolidated financial statements through a reasonable methodology. In the second phase, the Company's management broadens the investigation procedures to identify responsibilities, establish sanctions and commence legal procedures in order to obtain indemnities for the damages caused. Management considers these procedures will expand further in time and might require changes in scope as they progress. These investigations have been subject to a series of uncertainties and the impact of their final outcomes on the future consolidated results of operations and consolidated financial position of PDVSA are uncertain.	Our audit procedures included: ▪ We planned and performed our audit of the consolidated financial statements with the necessary professional skepticism and in compliance with that established for these matters in the IAS. ▪ We formally communicated to the members of the corporate government, including the Board of Directors and the Audit Committee, the issues with evidence of irregular behaviors that have come to our attention, and we have urged such instances to conduct and complete the corresponding investigations with sufficient and appropriate documentary evidence of the conclusions of such investigations. ▪ As a result of the risk assessment of the irregularities identified, mainly concerning the procurement processes of goods and services and payments to suppliers, we broadened the scope of our audit procedures. We also used our fraud specialists to assist us in the assessment of the fraud risk and procedures allowing us to alert or identify other possible signs of irregularities. ▪ We assessed the competences, capabilities and objectivity of the professionals involved in the investigations. In the cases of experts hired by the Group, we also assessed their independence. ▪ Regarding the investigations initiated by PDVSA, we assessed management's work plans and reported our observations, so that those investigations could consider both PDVSA's objectives and those required for the audit of the consolidated financial statements. ▪ We used our specialists to assist us in assessing the progress of the investigations initiated by PDVSA, as well as those in progress and we have considered the possible effects in respect of the consolidated financial statements and our independent auditors' report.

Government grants *See note 29 to the consolidated financial statements.*	
Key audit matter	How the matter was addressed in our audit
During 2016, PDVSA received a government grant from the Venezuelan State for US$5,726 million corresponding to the difference between production costs and regulated selling prices of motor and diesel fuels in the local market. This grant was requested by PDVSA through the Ministry of People's Power for Petroleum and approved through an authorization signed by the Vice-president of the Bolivarian Republic of Venezuela. As this is an unusual transaction with related parties involving a significant amount, this is considered a key audit matter.	Our audit procedures included: ▪ We assessed the contents of the official documents with evidence of the grant by the Government. ▪ We assessed management's analysis to determine unit volumes and costs comprising the grant amount granted by the Government. ▪ We evaluated the accounting treatment adopted by PDVSA's management and the appropriateness of the disclosures in the consolidated financial statements. ▪ We read the authorization signed by the Republic's Vice-president to approve the government grant. ▪ We assessed the recovery mechanisms for the government grant amount, which will be mainly conducted through the offsetting among accounts maintained with the Stockholder. ▪ We used our legal specialists to assist us in assessing that the corresponding legal matters inherent to this transaction were considered.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Independent Public Accountants' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an independent public accountants' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PDVSA's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on PDVSA's ability to continue as a going concern. If, we conclude that a material uncertainty exists, we are required to draw attention in our independent public accountants' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent public accountants' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the consolidated financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control identified during our audit.

We also provide those charged with corporate governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to those charged with corporate governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our independent auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Rodríguez Velázquez & Asociados

Mauro J. Velázquez G.
Public Accountant
C.P.C. N° 22237

August 11, 2017
Caracas, Venezuela

	Note	2016	2015	2014
		For the year ended December 31, (in millions of dollars)		
Continuing operations:				
Revenues:				
Sales of crude oil, products and others	5 - 8 - 34	41,977	55,339	101,552
Financial income	7 - 34	6,025	16,830	20,343
		48,002	**72,169**	**121,895**
Costs and expenses:				
Purchases of crude oil and products, net	34	17,817	22,965	37,266
Operating, selling, administrative and general expenses	32	9,121	16,828	27,400
Exploration expenses		124	50	76
Depreciation and amortization	5 - 13	9,390	8,995	8,038
Production, extraction and other taxes	12 - 32	4,624	6,294	13,466
Financial costs	7	3,620	2,393	4,065
Other expenses, net	10	1,374	3,986	9,946
		46,070	61,511	100,257
Profit before contributions for social development and income tax		**1,932**	**10,658**	**21,638**
Contributions for social development	11	977	9,189	5,321
Profit before income tax		**955**	**1,469**	**16,317**
Income tax:				
Current tax expense		723	3,172	9,715
Deferred tax expense (benefit)	12-f	94	(6,889)	(4,609)
		817	(3,717)	5,106
Profit from continuing operations		**138**	**5,186**	**11,211**
Discontinued operations:				
Profit (loss) from discontinued operations, net of tax	6	690	2,159	(2,137)
Profit		**828**	**7,345**	**9,074**
Other comprehensive income:				
Items that will not be reclassified to profit or loss -				
Remeasurements of benefit liability, net of tax	22	404	(4,998)	1,390
Items that are or may be reclassified subsequently to profit or loss -				
Foreing operations - foreign currency translation differences		360	241	2,001
Other comprehensive income, net of tax		**764**	**(4,757)**	**3,391**
Total comprehensive income		**1,592**	**2,588**	**12,465**
Profit attributable to:				
Company's stockholder		(2,623)	6,504	7,386
Non-controlling interests	27	3,451	841	1,688
Profit		**828**	**7,345**	**9,074**
Total comprehensive income attributable to:				
Company's stockholder		(1,859)	1,747	10,777
Non-controlling interests	27	3,451	841	1,688
Total comprehensive income		**1,592**	**2,588**	**12,465**

Notes 1 to 39 are an integral part of these consolidated financial statements.

	Note	December 31, 2016	2015	2014
		(in millions of dollars)		
			(restated) [1]	
Assets				
Properties, plants and equipment, net	13	127,564	127,033	141,248
Deferred tax asset	12-f	2,496	10,063	10,009
Accounts receivable and other assets	14	4,074	6,398	9,673
Recoverable value-added tax	12-l - 32	318	490	996
Restricted cash	15	619	604	284
Non-current assets		**135,071**	**144,588**	**162,210**
Inventories	16	9,910	9,676	11,764
Recoverable value-added tax	12-l	-	-	1,907
Notes and accounts receivable	17	22,678	18,206	24,357
Prepaid expenses and other assets	18	5,703	7,083	7,977
Restricted cash	15	183	326	1,292
Cash and cash equivalents		8,066	5,821	7,911
Assets held for disposal	19	8,052	12,823	-
Current assets		**54,592**	**53,935**	**55,208**
Total assets		**189,663**	**198,523**	**217,418**
Equity				
Share capital	20	39,094	39,094	39,094
Retained earnings	20	24,388	30,317	28,657
Total equity attributable to the Company’s stockholder		63,482	69,411	67,751
Non-controlling interests	27	23,618	21,468	22,006
Total equity		**87,100**	**90,879**	**89,757**
Liabilities				
Financial debt	21	33,895	36,916	39,871
Employee and other post-employment benefits	22	3,614	7,856	12,979
Deferred tax liability	12-f	2,203	1,430	1,347
Provisions	23	2,502	2,073	2,858
Accruals and other liabilities	24	11,391	6,677	14,880
Non-current liabilities		**53,605**	**54,952**	**71,935**
Financial debt	21	7,181	6,800	5,865
Employee and other post-employment benefits	22	198	367	1,813
Trade payable		19,824	18,132	20,855
Income tax payable	12	800	3,444	9,554
Provisions	23	162	225	606
Accruals and other liabilities	24	18,913	19,334	17,033
Liabilities related to assets held for disposal	19	1,880	4,390	-
Current liabilities		**48,958**	**52,692**	**55,726**
Total liabilities		**102,563**	**107,644**	**127,661**
Total equity and liabilities		**189,663**	**198,523**	**217,418**

(1) See note 12-f

Notes 1 to 39 are an integral part of these consolidated financial statements.

(in millions of dollars)

	Note	Equity attributable to Company's Stockholder					
			Retained earnings				
	Note	Share capital	Legal reserves and other	Accumulated income	Total	Non-controlling interests	Total equity
Balances at December 31, 2013		**39.094**	**21.484**	**1.685**	**62.263**	**22.223**	**84.486**
Comprehensive income							
Net profit		-	-	7.386	7.386	1.688	9.074
Other comprehensive income		-	-	3.391	3.391	-	3.391
Total comprehensive income		**-**	**-**	**10.777**	**10.777**	**1.688**	**12.465**
Transactions with Stockholder and non-controlling interests, directly recognized in equity -							
Transfer from reserves (reestated) (1)	20	-	(4.212)	4.212	-	-	-
Dividends declared	20	-	-	(5.289)	(5.289)	-	(5.289)
Additional contribution from non-controlling interests	27	-	-	-	-	408	408
Dividend in advance to non-controlling interests	27	-	-	-	-	(436)	(436)
Share of non-controlling interests in dividends distributed	27	-	-	-	-	(1.517)	(1.517)
Other movements		-	-	-	-	(360)	(360)
Total transactions directly recognized in equity		**-**	**(4.212)**	**(1.077)**	**(5.289)**	**(1.905)**	**(7.194)**
Balances at December 31, 2014		**39.094**	**17.272**	**11.385**	**67.751**	**22.006**	**89.757**
Comprehensive income							
Net profit		-	-	6.504	6.504	841	7.345
Other comprehensive income		-	(179) (2)	(4.578)	(4.757)	-	(4.757)
Total comprehensive (loss) income		**-**	**(179)**	**1.926**	**1.747**	**841**	**2.588**
Transactions with Stockholder and non-controlling interests, directly recognized in equity -							
Transfer to reserves (reestated) (1)	20	-	54	(54)	-	-	-
Dividends declared	20	-	-	(87)	(87)	-	(87)
Additional contribution from non-controlling interests	27	-	-	-	-	843	843
Dividend in advance to non-controlling interests	27	-	-	-	-	(411)	(411)
Share of non-controlling interests in dividends distributed	27	-	-	-	-	(1.811)	(1.811)
Total transactions directly recognized in equity		**-**	**54**	**(141)**	**(87)**	**(1.379)**	**(1.466)**
Balances at December 31, 2015		**39.094**	**17.147**	**13.170**	**69.411**	**21.468**	**90.879**
Comprehensive income							
(Loss) profit, net		-	-	(2.623)	(2.623)	3.451	828
Other comprehensive income		-	(363) (2)	1.127	764	-	764
Total comprehensive (loss) income		**-**	**(363)**	**(1.496)**	**(1.859)**	**3.451**	**1.592**
Transactions with Stockholder and non-controlling interests, directly recognized in equity -							
Transfer from reserves (reestated) (1)	20	-	(7.567)	7.567	-	-	-
Dividends declared	20	-	-	(4.070)	(4.070)	-	(4.070)
Additional contribution from non-controlling interests	27	-	-	-	-	500	500
Dividend in advance to non-controlling interests	27	-	-	-	-	(368)	(368)
Share of non-controlling interests in dividends distributed	27	-	-	-	-	(1.433)	(1.433)
Total transactions directly recognized in equity		**-**	**(7.567)**	**3.497**	**(4.070)**	**(1.301)**	**(5.371)**
Balances at December 31, 2016		**39.094**	**9.217**	**15.171**	**63.482**	**23.618**	**87.100**

(1) See notes 12-f and 20

(2) It corresponds to other comprehensive income related to assets held for disposal (See note 20).

Notes 1 to 39 are an integral part of these consolidated Financial statements.

	Note	2016	2015	2014
		For the year ended December 31,		
		(in millions of dollars)		
Cash flows from operating activities:				
Net profit		828	7,345	9,074
Adjustments to reconcile profit with net cash from operating activities -				
Depreciation and amortization	5 - 13	9,390	8,995	8,441
Constructions in progress cancelled	10 - 13	1,093	1,956	1,432
Impairment loss, net of reversals	10 - 13	(1,084)	2,649	6,844
Impairment loss on recoverable value-added tax	12-l	-	1,247	-
Net foreign exchange gain	7	(5,534)	(15,039)	(19,127)
Deferred tax expense (benefit)	12-f	94	(6,889)	(4,610)
Portion of profit of equity-accounted investees, net of tax		(23)	86	67
Changes in the fair value of non-current accounts receivable and recoverable value-added tax	12-l - 14	54	169	(146)
Net realizable value of inventories	16	164	572	439
(Decrease) increase in the allowance for doubtful accounts	17 - 25	(14)	(4)	2
Changes in operating assets -				
Notes and accounts receivable	17	(18,520)	(9,257)	(17,975)
Inventories	16	(398)	1,516	760
Prepaid expenses and other assets	18	(5,870)	2,743	(7,502)
Recoverable value-added tax	12-l	(339)	(1,555)	(964)
Changes in operating liabilities -				
Trade payable		19,257	2,542	6,598
Employee and other post-employment benefits	22	3,960	(313)	9,186
Provisions	23	449	(19)	569
Income tax payable, accruals and other liabilities	12 - 24	20,418	20,254	46,727
Payments of employee and other post-employment benefits		5	(246)	(454)
Payments of interests, net of the amount recognized as assets	22	(1,056)	(400)	(429)
Payments of income tax, production tax and other taxes	12	(1,238)	(1,169)	(24,640)
Net cash from operating activities		**21,636**	**15,183**	**14,292**
Cash flows from investing activities:				
Acquisitions of properties, plants and equipment	13	(11,295)	(18,106)	(24,634)
Disposal of equity-accounted investees, net of cash acquired		-	322	160
(Increase) decrease in restricted cash	15	(927)	646	(146)
Additional contributions to equity-accounted investees		-	-	7
Dividends received from equity-accounted investees		-	-	48
Other variations in assets		80	(217)	117
Net cash used in investing activities		**(12,142)**	**(17,355)**	**(24,448)**
Cash flows from financing activities:				
Proceeds from issue of financial debt	21	6,238	8,123	18,197
Payments of financial debt	21	(8,837)	(8,088)	(7,068)
Dividends paid to stockholder	20	(9)	-	(289)
Additional contribution from non-controlling interests	20	500	843	408
Dividends paid in advance to non-controlling interests	20	(368)	(411)	(436)
Net cash from financing activities		**(2,476)**	**467**	**10,812**
Effect of exchange rate on cash and cash equivalents		(4,773)	(385)	(1,878)
Net increase (decrease) in cash and cash equivalents		**2,245**	**(2,090)**	**(1,222)**
Cash and cash equivalents at January 1		5,821	7,911	9,133
Cash and cash equivalents at December 31		**8,066**	**5,821**	**7,911**

Notes 1 to 39 are an integral part of these consolidated financial statements.

(1) Reporting Entity

Petróleos de Venezuela, S.A. is a company incorporated and domiciled in the Bolivarian Republic of Venezuela (the Republic) and its headquarters are located at Edificio Petróleos de Venezuela, Torre Este, avenida Libertador, La Campiña, Apartado N° 169, Caracas 1050-A.

Petróleos de Venezuela, S.A. (the Parent Company or the Company) and subsidiaries (collectively referred to as PDVSA or the Group) is owned by the Republic, which controls PDVSA as stockholder, through the Ministry of People's Power for Petroleum (Ministry). PDVSA is mainly engaged in planning, coordinating, supervising and controlling the activities of exploration, exploitation, transportation, manufacturing, refining, storage, trading of crude oil and products and any other oil and hydrocarbons activities within the scope of its subsidiaries, both in Venezuela and abroad. PDVSA is also engaged in promoting or participating in activities aimed at fostering the country's comprehensive, organic and sustainable development, as well as agricultural, industrial and mining activities, the manufacturing or processing of goods and their trading, and rendering services to achieve proper alignment of hydrocarbon resources with the Venezuelan economy (see notes 6 and 19). Most of its foreign subsidiaries are mainly involved in refining and trading activities in the United States of America, Europe, the Caribbean and Latin America. The consolidated financial statements of PDVSA include the Company and subsidiaries, and PDVSA's interest in equity-accounted investees.

PDVSA's main activities in Venezuela are regulated by the Organic Hydrocarbons Law, in effect since 2002 and partially amended in May 2006; as well as the Organic Gaseous Hydrocarbons Law of September 1999 and its Regulations dated June 2000, its Bylaws – Memorandum of Incorporation, and provisions enacted by the National Government through the Ministry and any applicable common law provisions. PDVSA's activities abroad are regulated by the legal framework of the countries where those activities are conducted.

(2) Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

On August 9, 2017, the Board of Directors approved to submit for consideration at the PDVSA's Stockholder's Meeting the consolidated financial statements as of and for the year ended December 31, 2016, which will be presented at the Stockholder's Meeting and it is expected to be approved without changes.

Note 38 includes a detail of PDVSA's significant accounting policies.

Consolidated Financial Statements - Subsidiaries Audited by Other Independent Public Accountants Other than the Corporate Independent Public Accountants

PDVSA's consolidated financial statements as of December 31, 2016 and for the year then ended, include subsidiaries that have been audited by independent public accountants other than the corporate independent public accountants. A summary of the the proportion of revenues and total assets of such subsidiaries, regarding the corresponding consolidated financial statemens balances follows:

	Proportion (%) regarding consolidated balances	
Independent Public Accountants:	**Revenues**	**Total Assets**
Mendoza, Delgado, Labrador & Asociados, a member firm of Ernst & Young Global (EY) -	0.00%	3.93%
León Delgado & Asociados, a member firm of RSM International (RSM) -	0.00%	2.72%
PGFA Perales, Pistone & Associados, a member firm of HLB International (HLB) -	0.00%	0.82%

(3) Functional and Presentation Currency

The consolidated financial statements are presented in U.S. dollars. The Group's functional currency is the U.S. dollar.

The entire financial information presented in dollars has been rounded to the nearest million, except where otherwise indicated.

(4) Use of Judgments and Estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported. Actual results may differ from these estimates.

Estimates and relevant assumptions are reviewed on an ongoing basis. The accounting estimates reviews are recognized prospectively.

Judgments

The information about judgments made in applying accounting policies with the most significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 26 – Consolidation: determining whether PDVSA has de facto control over an investee.
- Notes 21 and 28 – Leases: classify and determining whether an arrangement contains a lease.

Assumptions and Estimation Uncertainties

The information about assumptions and estimation uncertainties with a significant risk of resulting into a material adjustment for the year ended December 31, 2016 is included in the following notes:

- Note 12 – Deferred tax asset and tax loss carry-forwards: future taxable profits to be used for the recovery of deferred tax asset and the offsetting of tax losses from previous years.
- Note 13 – Impairment test of properties, plants and equipment: key assumptions to determine the recoverable amounts and accounting for oil and gas operations.
- Note 22 – Measurement of obligations related to retirement benefits, defined by contract, and other post-employment benefits: key actuarial assumptions.
- Note 23 – Provisions for litigation and other claims, for environmental issues and asset retirement obligations: key assumptions concerning the probability and magnitude of an outflow of economic resources.
- Note 38-l and Annex I Supplementary information (unaudited) – Reserves: oil and gas reserves estimates.

Measurement of Fair Values

Some accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

PDVSA has an established control framework with respect to the measurement of fair values which includes the oversight of all significant fair value measurements. Management regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, such as broker quotes or pricing services, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements established by IFRS, including the level in the fair value hierarchy where such valuations should be classified.

In measuring the fair value of an asset or a liability, the Group uses as much observable market data as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability are classified in levels other than the fair value hierarchy, then the fair value measurement is entirely classified in the same fair value hierarchy level as the lowest variable that is significant for the total measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The following notes include additional information about the assumptions made in mesuring the fair values:

- Note 13 – Properties, plants and equipment.
- Note 25 – Financial Instruments.

(5) Operating Segments

PDVSA determines and discloses its operating segments based on information internally reported to the Board of Directors, and evaluates the performance of its segments based on net sales, operating profit (sales less cost and expenses, except for financial income and costs, share of profit or loss of equity-accounted investees), and acquisitions of properties, plants and equipment.

Inter-segment sales, which primarily consist of sales of crude oil and natural gas, are generally measured according to the destination of refined products.

Refined products for the domestic market are sold at a regulated price; therefore, PDVSA's management deems it appropriate that inter-segment sales of crude oil and natural gas to supply the local market be measured at cost price less the production tax discount granted by the Ministry for those sales at the regulated price, this operation gives rise to the recognition of a grant (see notes 9 and 29). In addition, inter-segment sales of crude oil and natural gas for the international market are measured at the approximate market prices.

PDVSA's main operating segments are:

- Exploration and production activities, which include the search process for crude oil and associated gas reserves, extraction and upgrading of extra-heavy crude, and transportation of crude oil and natural gas to refineries and fractionation plants.
- Refining, trade and supply activities in Venezuela include the administration of refineries, marketing and transportation of crude oil and refined products under the PDV® brand. Refining, trade and supply activities in the United States of America comprise the administration of refineries and gasoline and refined products marketing, mainly in the East and Midwest regions of that country, under the CITGO® brand. Refining, trade and supply activities in other countries relate to the management of refined products within the energy agreements entered into with countries in Latin America and the Caribbean (see note 32-a).
- Gas related activities include the management of gas processing plants, upgrading and trading of natural and liquefied gas (NLG) as well as its transportation, distribution, placement and sale.
- The other segment includes operations by subsidiaries conducting activities other than those listed above, related mainly to freight and leasing services, as well as the Parent Company's operating activities.

In addition, the Group maintains discontinued operations, which are presented separately from its main operating segments (see notes 6 and 19).

Main Customer

During 2016, revenues from sales of crude oil and products from the main customer of the exploration, production and refining, trade and supply segments. These revenues amounted to $5,833 million [$6,967 million in 2015 and $17,506 million in 2014].

The financial information related to each reportable segment is in the following tables (in millions of dollars):

		Year ended December 31, 2016							
	Note	**Exploration and production**	**Refining, trade and supply**	**Gas**	**Other**	**Eliminations**	**Continuing operations**	**Discontinued operations [4]**	**Total**
Acquisition of properties, plants and equipment:									
In Venezuela		8,083	1,908	554	122	-	10,667	-	10,667
In the United States of America		-	548	-	-	-	548	-	548
In other countries		-	80	-	-	-	80	-	80
Total acquisition of properties, plants and equipment	**13**	**8,083**	**2,536**	**554**	**122**	**-**	**11,295**	**-**	**11,295**
Depreciation and amortization	**13**	**4,793**	**2,086**	**806**	**1,705**	**-**	**9,390**	**122**	**9,512**
Reversal of impairment loss of properties, plants and equipment	**13**	**(1,179)**	**(867)**	**-**	**-**	**-**	**(2,046)**	**-**	**(2,046)**
Impairment of properties, plants and equipment	**13**	**12**	**768**	**182**	**-**	**-**	**962**	**-**	**962**
Revenues:									
Sales to external customers -									
In Venezuela		17,801	4,049	34	297	-	22,181	108	22,289
In the United States of America		-	19,476	-	-	-	19,476	-	19,476
In other countries		-	280	-	40	-	320	1,214	1,534
Total sales to external customers		17,801	23,805	34	337	-	41,977	1,322	43,299
Inter-segment sales [3] -									
In Venezuela		23,141	1,194	430	16	(24,781) [1]	-	-	-
In the United States of America		-	20	-	-	(20) [1]	-	-	-
In other countries		-	2,361	-	-	(2,361) [1]	-	-	-
Total inter-segment sales		23,141	3,575	430	16	(27,162)	-	-	-
Total sales	**8**	**40,942**	**27,380**	**464**	**353**	**(27,162)**	**41,977**	**1,322**	**43,299**
Total operating segment profit (loss):									
In Venezuela		2,154	1,357	(2,785)	(1,859)	(1) [2]	(1,134)	(1,006)	(2,140)
In the United States of America		-	489	-	-	-	489	-	489
In other countries		-	149	-	-	-	149	(360)	(211)
Total operating segment profit (loss)		**2,154**	**1,995**	**(2,785)**	**(1,859)**	**(1)**	**(496)**	**(1,366)**	**(1,862)**
Financial income	**7**						6,025	1,810	7,835
Financial costs	**7**						(3,620)	215	(3,405)
Share of profit or loss of equity-accounted investees, net of tax	**10**						23	27	50
Contributions for social development	**11**						(977)	-	(977)
Income tax	**12**						(817)	4	(813)
Net profit							**138**	**690**	**828**

(1) Represents eliminations of inter-segment sales.

(2) Represents eliminations of inter-segment purchases and costs.

(3) Mainly crude oil and products.

(4) See notes 6 and 38-c.

	Note	Exploration and production	Refining, trade and supply	Gas	Other	Eliminations	Continuing operations	Discontinued operations [4]	Total
		Year ended December 31, 2015							
Acquisition of properties, plants and equipment:									
In Venezuela		13,132	1,764	959	549	-	16,404	787	17,191
In the United States of America		-	501	-	-	-	501	-	501
In other countries		-	106	-	-	-	106	308	414
Total acquisition of properties, plants and equipment	**13**	**13,132**	**2,371**	**959**	**549**	**-**	**17,011**	**1,095**	**18,106**
Depreciation and amortization	**13**	**6,328**	**1,574**	**779**	**314**	**-**	**8,995**	**223**	**9,218**
Reversal of impairment loss of properties, plants and equipment	**13**	**(21)**	**(1,076)**	**-**	**-**	**-**	(1,097)	**-**	**(1,097)**
Impairment of properties, plants and equipment	**13**	**1,640**	**1,841**	**-**	**265**	**-**	**3,746**	**-**	**3,746**
Revenues:									
Sales to external customers -									
In Venezuela		23,253	10,860	66	20	-	34,199	243	34,442
In the United States of America		-	19,780	-	-	-	19,780	-	19,780
In other countries		-	1,091	-	269	-	1,360	1,492	2,852
Total sales to external customers		23,253	31,731	66	289	-	55,339	1,735	57,074
Inter-segment sales [3] -									
In Venezuela		22,324	1,845	140	72	(24,381) [1]	-	-	-
In the United States of America		-	331	-	-	(331) [1]	-	-	-
In other countries		-	7,880	-	-	(7,880) [1]	-	-	-
Total inter-segment sales		22,324	10,056	140	72	(32,592)	-	-	-
Total sales	**8**	**45,577**	**41,787**	**206**	**361**	**(32,592)**	**55,339**	**1,735**	**57,074**
Total operating segment profit (loss):									
In Venezuela		4,737	(11,593)	(2,330)	(942)	490 [2]	(9,638)	28	(9,610)
In the United States of America		-	2,392	-	-	-	2,392	-	2,392
In other countries		-	3,454	-	99	-	3,553	419	3,972
Total operating segment profit (loss)		**4,737**	**(5,747)**	**(2,330)**	**(843)**	**490**	**(3,693)**	**447**	**(3,246)**
Financial income	**7**						16,830	2,110	18,940
Financial costs	**7**						(2,393)	(44)	(2,437)
Share of profit or loss of equity-accounted investees, net of tax	**10**						(86)	25	(61)
Contributions for social development	**11**						(9,189)	-	(9,189)
Income tax	**12**						3,717	(379)	3,338
Net profit							**5,186**	**2,159**	**7,345**

(1) Represents eliminations of inter-segment sales.
(2) Represents eliminations of inter-segment purchases and costs.
(3) Mainly crude oil and products.
(4) See notes 6 and 38-c.

	Note	Exploration and production	Refining, trade and supply	Gas	Other	Eliminations		Continuing operations	Discontinued operations [4]	Total
		Year ended December 31, 2014								
Acquisition of properties, plants and equipment:										
In Venezuela		13,854	2,088	4,295	671	-		20,908	3,510	24,418
In the United States of America		-	336	-	-	-		336	-	336
In other countries		-	90	-	-	-		90	207	297
Total acquisition of properties, plants and equipment	**13**	**13,854**	**2,514**	**4,295**	**671**	**-**		**21,334**	**3,717**	**25,051**
Depreciation and amortization	**13**	**5,732**	**1,491**	**641**	**174**	**-**		**8,038**	**403**	**8,441**
Impairment of properties, plants and equipment	**13**	**3,723**	**2,453**	**-**	**-**	**-**		**6,176**	**343**	**6,519**
Revenues:										
Sales to external customers -										
In Venezuela		40,669	17,319	1,704	(125)	-		59,567	1,002	60,569
In the United States of America		-	37,620	-	-	-		37,620	-	37,620
In other countries		-	4,291	-	74	-		4,365	2,717	7,082
Total sales to external customers		40,669	59,230	1,704	(51)	-		101,552	3,719	105,271
Inter-segment sales [3] -										
In Venezuela		52,133	4,422	1,555	339	(58,449)	[1]	-	-	-
In the United States of America		-	1,447	-	-	(1,447)	[1]	-	-	-
In other countries		-	9,318	-	-	(9,318)	[1]	-	-	-
Total inter-segment sales		52,133	15,187	1,555	339	(69,214)		-	-	-
Total sales	**8**	**92,802**	**74,417**	**3,259**	**288**	**(69,214)**		**101,552**	**3,719**	**105,271**
Total operating segment profit (loss):										
In Venezuela		11,230	(5,209)	(1,038)	656	(23)	[2]	5,616	(3,778)	1,838
In the United States of America		-	1,580	-	-	-		1,580	-	1,580
In other countries		-	(2,054)	-	312	-		(1,742)	(409)	(2,151)
Total operating segment profit (loss)		**11,230**	**(5,683)**	**(1,038)**	**968**	**(23)**		**5,454**	**(4,187)**	**1,267**
Financial income	**7**							20,343	2,825	23,168
Financial costs	**7**							(4,065)	(17)	(4,082)
Share of profit or loss of equity-accounted investees, net of tax	**10**							(94)	27	(67)
Contributions for social development	**11**							(5,321)	-	(5,321)
Income tax	**12**							(5,106)	(785)	(5,891)
Net profit								**11,211**	**(2,137)**	**9,074**

(1) Represents eliminations of inter-segment sales.
(2) Represents eliminations of inter-segment purchases and costs.
(3) Mainly crude oil and products.
(4) See notes 6 and 38-c.

		December 31, 2016				
	Note	**Exploration and production**	**Refining, trade and supply**	**Gas**	**Other**	**Total**
Segments asset -						
Properties, plants and equipment, net:						
In Venezuela		85,546	11,324	19,865	5,535	122,270
In the United States of America		-	4,901	-	-	4,901
In other countries		-	384	-	9	393
Total properties, plants and equipment, net	13	85,546	16,609	19,865	5,544	127,564
Unallocated non-current asset						7,507
Unallocated current asset (1)						**54,592**
Total asset						**189,663**
Segments liability -						
In Venezuela		19,011	5,322	2,373	48,770	75,476
In the United States of America		-	6,113	-	-	6,113
In other countries		-	1,671	-	-	1,671
Total segment liability		19,011	13,106	2,373	48,770	83,260
Unallocated liability						17,423
Liability related to assets held for disposal	19					1,880
Total liability						**102,563**

(1) Includes assets held for disposal (See note 19).

		December 31, 2015				
	Note	**Exploration and production**	**Refining, trade and supply**	**Gas**	**Other**	**Total**
Segments asset -						
Properties, plants and equipment, net:						
In Venezuela		87,300	8,038	20,484	6,102	121,924
In the United States of America		-	4,715	-	-	4,715
In other countries		-	394	-	-	394
Total properties, plants and equipment, net	13	87,300	13,147	20,484	6,102	127,033
Unallocated non-current asset - (restated) [(1)]						17,555
Unallocated current asset - [(2)]						**53,935**
Total asset						**198,523**
Segments liability -						
In Venezuela		25,800	7,084	3,909	43,930	80,723
In the United States of America		-	4,836	-	-	4,836
In other countries		-	974	-	-	974
Total segments liability		25,800	12,894	3,909	43,930	86,533
Unallocated liability						16,721
Liability related to assets held for disposal	19					4,390
Total liability						**107,644**

[(1)] See note 12-f.

[(2)] Includes assets held for disposal (See note 19).

		December 31, 2014				
	Note	**Exploration and production**	**Refining, trade and supply**	**Gas**	**Other**	**Total**
Segments asset -						
Properties, plants and equipment, net:						
In Venezuela		84,979	10,252	20,382	19,193	134,806
In the United States of America		-	4,699	-	-	4,699
In other countries		-	1,743	-	-	1,743
Total properties, plants and equipment, net	13	84,979	16,694	20,382	19,193	141,248
Unallocated non-current asset - (restated) [1]						20,962
Unallocated current asset						**55,208**
Total asset						**217,418**
Segments liability -						
In Venezuela		26,075	11,139	4,218	21,245	62,677
In the United States of America		-	2,746	-	-	2,746
In other countries		-	2,406	-	564	2,970
Total segments liability		26,075	16,291	4,218	21,809	68,393
Unallocated liability						59,268
Total Liability						**127,661**

[1] See note 12-f.

(6) Discontinued Operations

See accounting policy in note 38-c

In December 2015, as part of the processes and structure review plan onto which the Group intends to concentrate efforts, particularly regarding its oil subsidiaries, the Stockholder's Meeting approved the disincorporation of the entirety of non-oil subsidiaries and their transfer to the Stockholder, at carrying value. This will be completed within a period no longer than a year.

The subsidiaries that will be disincorporated are: PDVSA América, S.A.; PDVSA Industrial, S.A.; PDVSA Naval, S.A.; PDVSA Salud, S.A.; PDVSA Agrícola, S.A.; PDVSA Gas Comunal, S.A., PDVSA Desarrollos Urbanos, S.A. and Empresa Nacional de Transporte, S.A. as well as the subsidiaries of these companies (see notes 5 and 19).

Previously, these non-oil subsidiaries were neither classified as assets held for disposal nor as discontinued operations. In 2014, the consolidated statement of profit or loss and other comprehensive income was restructured, in order to present discontinued operations separated from continuing operations.

Following the decision of this transfer to the Stockholder, PDVSA has maintained its operations with these non-oil businesses, under conditions of discontinued operations. Although intercompany transactions have been completely eliminated in the consolidated financial results, management has decided to include the elimination of transactions between continuing and discontinued operations prior to the transfer, so that it reflects the continuity of these transactions, as management considers this useful for the consolidated financial statements users.

In 2016, PDVSA created a multidisciplinary committee, with the purpose of developing and executing plans through some operative, legal, and financial actions for the divestiture of non-oil subsidiaries. It is estimated that the Company's plan for this process will be completed in the second half of 2017 (see note 36-k). In December 2016, the Ministry created a body that is empowered to receive these subsidiaries and the culmination of this transfer process.

During 2016, through publications in the Official Gazette and resolutions of the Company's Stockholders decision was made as to divesting certain subsidiaries of PDVSA Industrial, S.A.; however, PDVSA maintained control of the operational and financial policies of these subsidiaries. As a result, at December 31, 2016 these are still classified as discontinued operations (see notes 19 and 36-g).

A summary of the gain (loss) on discontinued operations the cash flows (used in) provided by discontinued operations follows (in millions of dollars):

		Year ended December 31,		
	Note	**2016**	**2015**	**2014**
Discontinued operations results				
Revenues		3,432	4,897	8,659
Intercompany revenues elimination		(300)	(1,052)	(2,115)
External revenues [1]	5	**3,132**	**3,845**	**6,544**
Costs and expenses		3,050	2,945	10,845
Elimination of costs and expenses related to intercompany customer revenues		(604)	(1,638)	(2,949)
External costs and expenses		2,446	1,307	7,896
Discontinued operations results		**686**	**2,538**	**(1,352)**
Income tax (benefit) expense	12	(4)	379	785
Profit (loss) from discontinued operations, net of tax		**690**	**2,159**	**(2,137)**
Cash Flows (used in) provided by discontinued operations				
Net cash provided by operating activities		905	1,971	3,703
Net cash used in investing activities		(1,083)	(1,370)	(3,312)
Net cash provided by (used in) the financing activities		7	(146)	(51)
Cash flows (used in) provided by discontinued operations		**(171)**	**455**	**340**

(1) Includes sale and financial income

During the year ended December 31, 2016, the net profit from on discontinued operations includes a gain of $706 million, which is attributable to the Stockholder and a loss of $16 million attributable to non-controlling interest (see note 27).

(7) Financial Income and Costs

See accounting policy in note 38-i

(a) Financial Income

A summary of financial income, presented as revenues in the consolidated statement of profit or loss and other comprehensive income, follows (in millions of dollars):

		Year ended December 31,		
	Note	**2016**	**2015**	**2014**
Financial income -				
Net foreign exchange gain	25-a, 35-a - 36-a	5,534	15,039	17,656
Reverse cost on asset retirement obligations	23	314	213	1,852
Gain from credit pre-payment		-	-	477
Interests earned		66	64	271
Interests on items recognized at amortized cost	14	111	1,514	87
Total financial income		**6,025**	**16,830**	**20,343**

Net Foreign Exchange Gain

During the years 2016, 2015 and 2014, diverse foreign exchange agreements and amendments were published in Venezuelan Official Gazettes, modifying the official exchange rates for the purchase and sale of dollars and establishing the exchange rates applicable to PDVSA within the framework of effective exchange agreements in the Republic (see notes 35-a and 36-a).

At the dates of the modification of the official exchange rates, pursuant to the above mentioned exchange agreements and amendments, PDVSA maintained a net monetary liability position in bolivars, which generated a net foreign exchange gain (see notes 25-a and 38-b).

This net monetary liability position in bolivars, at the dates of the modification of the exchange rates is provided mainly by accounts payable to related entities, including accounts payable to the Central Bank of Venezuela (BCV, for its Spanish acronym). In adittion, it includes the income tax payable, accruals payable to domestic contractors, included as accruals and other liabilities; accounts payable to domestic suppliers, the financial debt in bolivars and liabilities for employee benefits and other post-employment benefits for local employees. Monetary assets in bolivars consist mainly of deferred tax, recoverable value added tax and accounts receivable from the Stockholder, companies owned by the Company's stockholder and other government institutions (see note 25-a).

(b) Financial Costs

A summary of financial costs follows (in millions of dollars):

		Year ended December 31,		
	Note	**2016**	**2015**	**2014**
Financial costs	21	2,051	1,612	2,622
Amortized cost, net	21	584	462	538
Discount of the promissory notes with the BCV	32	400	-	-
Cost for asset retirement obligation	23	306	-	429
Change in fair value of financial assets, net	12-l - 18	165	169	179
Bank commissions and other financial costs		114	150	297
Total financial costs		**3,620**	**2,393**	**4,065**

(8) Revenues

See accounting policy in note 38-d

A summary of revenues from continuing operations follows (in millions of dollars):

	Note	Year ended December 31, 2016	2015	2014
Sales of crude oil, products and others -				
Exports and overseas sales, net		41,314	54,716	98,745
Products in Venezuela		549	435	2,690
Services and others		114	188	117
Total revenues from sales of crude oil, products and others	**5 - 34**	**41,977**	**55,339**	**101,552**

(9) Costs and Expenses for Sales of Products in Venezuela

PDVSA recognizes costs and expenses originated from the sale of fuels to the domestic market, which is made at regulated prices established by the national government, which are significantly lower than production and sale costs (see note 35-c). A summary of these amounts follows (in millions of dollars):

	Note	Year ended December 31, 2016	2015	2014
Costs of production and sales		7,095	7,494	9,960
Impairment of assets, net		(98)	186	6,108
Costs and expenses		6,997	7,680	16,068
Goverment grant	29-32	(5,726)	-	-
Costs and expenses , net		**1,271**	**7,680**	**16,068**

During 2016, PDVSA assigned 491 thousand barrels per day (TBPD) to the domestic market, [580 TBPD in 2015 and 647 TBPD in 2014].

Fuel sales to the domestic market and related production costs are included in the corresponding items in the consolidated statement of profit or loss and other comprehensive income for each year presented.

In 2016, the impairment of assets includes losses of $768 million and reversals of $867 million. This impairtment is attributed to the productive assets of the refining and distribution circuit related to the refining of fuels and products for the domestic market (see notes 10 and 13).

(10) Other Expenses, Net

See accounting policies in notes 38-a, 38-l, 38-r and 38-s

A summary of other expenses, net follows (in millions of dollars):

	Note	Year ended December 31, 2016	2015	2014
Cancelled constructions in progress	13	1,093	1,956	1,432
Impairment losses	13	(1,084)	2,649	6,176
Provision for litigations and other claims	23	204	130	769
Cost for unrecoverable value-added tax (VAT)	12-l	73	428	682
Legal contributions	32 - 35-a	46	395	1,882
Tax contingencies		507	210	-
Share of profit or loss of equity - accounted investees, net of tax		(23)	86	94
Provision for environmental issues	23	260	264	514
Impairment of recoverable value - added tax	12-l	-	1,247	-
Gain from the sale of promissory notes		-	(2,633)	-
Other non-operating expenses (income), net		298	(746)	(1,603)
Total other expenses, net		**1,374**	**3,986**	**9,946**

(11) Contributions for Social Development

See accounting policy in note 38-g

A summary of contributions for social development follows (in millions of dollars):

	Note	Year ended December 31, 2016	2015	2014
Special contribution, net of exemption	35-p	659	974	8,507
Contributions for social development		318	8,215	2,015
Government grant received through FONDEN	35-p	-	-	(5,201)
Total	32	**977**	**9,189**	**5,321**

Contributions for Social Development

Based on PDVSA's social liability, as established by the Constitution of the Republic, the Hydrocarbons Organic Law and in its Bylaws-Memorandum of Incorporation, concerning its participation in the country's social and comprehensive development, during the years ended December 31, 2016, 2015 and 2014, PDVSA made contributions for social development mainly supporting social programs and communities as well as social programs, social investment plans and contributions to the Housing Program (Gran Misión Vivienda Venezuela - GMVV for its Spanish acronym) (see note 32). Those contributions for social development were mainly the result of funds granted for the execution of social development projects maintained with BCV (see note 15).

(12) Taxes

See accounting policy in note 38-j

A summary of taxes affecting PDVSA's consolidated operations follows (in millions of dollars):

	Note	Year ended December 31, 2016	2015	2014
Income tax:				
Continuing operations -				
Current tax expense:				
Venezuela	32	719	2,539	9,250
Foreign		4	633	465
Total current tax expense		**723**	**3,172**	**9,715**
Deferred tax expense (benefit) :				
Venezuela	32	(27)	(6,719)	(4,563)
Foreign		121	(170)	(46)
Total deferred tax expense (benefit)		**94**	**(6,889)**	**(4,609)**
Total income tax, continuing operations		**817**	**(3,717)**	**5,106**
Production extraction and other taxes:				
Production tax		4,151	5,624	11,902
Extraction tax		361	482	937
Special advantages tax		89	148	295
Surface tax		11	37	268
Export registration tax		1	2	40
Other taxes		11	1	24
Total production, extraction and other taxes	**32**	**4,624**	**6,294**	**13,466**

At December 31, 2016, the income tax from discontinued operations represents a benefit of $4 million [an expense of $379 million in 2015 and $785 million in 2014]. These are included in the profit (loss) from discontinued operations (see note 6).

In accordance with the official notice issued BCV published in Official Gazette N° 41,128 dated April 4, 2017, the exchange rate to determine the tax base of the internal taxes applicable to the primary activities of liquid and gaseous hydrocarbons shall be that provided for in Article 1 of the Exchange Agreement N° 35 dated March 9, 2016, (see notes 35-a and 36-i).

(a) Income Tax

The reconciliation between the consolidated nominal and the effective income tax rate for each year is as follows:

	Year ended December 31,					
	2016		2015		2014	
	%	Millions of Dollars	%	Millions of Dollars	%	Millions of Dollars
Profit from continuing operations		**138**		**5,186**		**11,211**
Income tax from continuing operations		817		(3,717)		5,106
Profit before income tax		**955**		**1,469**		**16,317**
Nominal income tax rate of the oil sector	50	478	50	735	50	8,159
Tax inflation adjustment and effect of translation into dollars	(4,094)	(39,090)	(2,087)	(30,653)	(57)	(9,112)
Tax losses	2,227	21,265	1,195	17,551	3	537
Accruals and provisions	130	1,243	(59)	(867)	7	1,126
Provisions for contingencies and fines	23	215	6	84	-	-
Effect of subsidiaries subject to lower income tax rate	7	67	59	868	(3)	(539)
Dividend tax	13	121	29	429	2	430
Basis differences in properties, plants and equipment, net	-	-	-	-	2	344
Unrealized foreign exchange loss	1,697	16,206	529	7,772	33	5,311
Other financial income	29	277	24	349	(13)	(2,193)
Other differences, net	4	35	1	15	4	624
Effective tax rate in Venezuela	86	817	(253)	(3,717)	28	4,687
Effect of foreign subsidiaries	-	-	-	-	3	419
Effective tax rate	**86**	**817**	**(253)**	**(3,717)**	**31**	**5,106**

(b) Tax Loss Carry-Forward

The Venezuelan Income Tax Law allows tax losses to be carried forward for up to three years to offset future taxable outcome to be compensated up to 25% of future taxable income obtained for each period of imposition.

At December 31, 2016, there are tax benefits corresponding to territorial and extraterritorial tax loss carry-forwards amounting to approximately $48,965 million and $6 million, respectively. Territorial tax losses for $3 million, $2,052 million and $46,910 million will expire in 2017, 2018 and 2019, respectively. Extraterritorial tax losses for $6 million will expire in 2018. The Venezuelan tax legislation includes a determination of individual taxable income or loss by every single taxpayer.

Net operating tax losses from previous years, available to offsetting with taxable income for the year ended December 31, 2016 amounted to $9 million [$597 million in 2015 and $100 million in 2014].

(c) Tax Inflation Adjustment

Since year 2016, the amounts presented in PDVSA's consolidated financial statements, do not include the effect generated by the inflation adjustment, due to the reform of the Income Tax Law made on December 30, 2015; which eliminates the fiscal inflation adjustment system for special taxpayers (see note 35-h).

In accordance with the above, the amounts presented in the years 2014 and 2015 do reflect the effect of the inflation adjustment.

(d) Transfer Pricing

In accordance with the Venezuelan Income Tax Law, taxpayers subject to income tax that conduct import, export and loan transactions with related parties domiciled abroad must determine their income, costs and deductions by applying the established transfer pricing methodology. PDVSA has obtained transfer pricing technical analyses developed according to the methodology established by the Income Tax Law. The resulting effects, if any, for each subsidiary are included in the determination of income tax for each year.

(e) Income Tax Rate

The effective Venezuelan Income Tax Law establishes a general tax rate of 50% for companies involved in the exploitation of hydrocarbons and related activities. A rate of 34% applies to companies that perform integrated or non-integrated activities, of exploration and exploitation of non-associated gas, processing, transportation, distribution, storage, marketing and export of gas and its components, or engaged exclusively in the hydrocarbon refining or the upgrading of heavy and extra-heavy crude oil. The applicable income tax rate for the main foreign subsidiaries is 35%. Additionally, PDVSA's subsidiaries domiciled abroad are subject to the countries's tax regulations where they operate.

(f) Deferred Tax

A summary of the deferred tax asset (liability) and its respective movements in each year's profit or loss follows (in millions of dollars):

	Balance at December 31, 2015	Benefit (expense) recognized in profit or loss	Recognition in other comprehensive income	Foreign exchange currency effect	Balance at December 31, 2016		
					Net	Deferred tax asset	Deferred tax liability
Employee and other post-employment benefits	2,538	984	(28)	(2,396)	1,098	870	228
Properties, plants and equipment	(895)	(2,526)	-	(360)	(3,781)	(537)	(3,244)
Production tax payable	835	51	-	(740)	146	85	61
Capitalized borrowing costs	44	28	-	(38)	34	(10)	44
Equity-accounted investees	(71)	56	-	-	(15)	-	(15)
Inventories	(103)	(202)	-	332	27	(1)	28
Dividend payments	(382)	64	-	-	(318)	-	(318)
Provisions	3,309	256	-	(2,068)	1,497	778	719
Legal contributions	446	(18)	-	(207)	221	233	(12)
Unrealized foreign exchange loss (gain)	2,814	83	-	(2,168)	729	120	609
Tax losses	-	1,127	-	-	1,127	1,127	-
Others	98	3	-	(573)	(472)	(169)	(303)
	8,633	**(94)**	**(28)**	**(8,218)**	**293**	**2,496**	**(2,203)**

	Balance at December 31, 2014	Benefit (expense) recognized in profit and loss	Recognition in other comprehensive income	Foreign exchange currency effect	Balance at December 31, 2015		
					Net	Deferred tax asset	Deferred tax liability
Employee and other post-employment benefits	4,289	834	-	(2,585)	2,538	2,115	423
Properties, plants and equipment	2,273	(497)	-	(2,671)	(895)	1,292	(2,187)
Production tax payable	820	256	-	(241)	835	757	78
Capitalized borrowing costs	(225)	110	-	159	44	44	-
Equity-accounted investees	(146)	75	-	-	(71)	-	(71)
Inventories	(91)	16	-	(28)	(103)	25	(128)
Dividend payments	(221)	(161)	-	-	(382)	(382)	-
Provisions	2,638	1,536	-	(865)	3,309	2,524	785
Legal contributions	844	422	-	(820)	446	446	-
Unrealized foreign exchange loss (gain)	(969)	4,288	-	(505)	2,814	2,814	-
Others	(550)	10	-	638	98	428	(330)
	8,662	**6,889**	**-**	**(6,918)**	**8,633**	**10,063**	**(1,430)**

	Balance at December 31, 2013	Benefit (expense) recognized in profit and loss	Recognition in other comprehensive income	Foreign exchange currency effect	Balance at December 31, 2014		
					Net	Deferred tax asset	Deferred tax liability
Employee and other post-employment benefits	7,725	931	-	(4,367)	4,289	3,940	349
Properties, plants and equipment	769	(2,860)	-	4,364	2,273	3,777	(1,504)
Production tax payable	(572)	104	-	1,288	820	789	31
Capitalized borrowing costs	(142)	-	-	(83)	(225)	(225)	-
Equity-accounted investees	(1,722)	-	-	1,576	(146)	-	(146)
Inventories	717	7	-	(815)	(91)	26	(117)
Dividend payments	(128)	(134)	-	41	(221)	(221)	-
Provisions	2,232	987	-	(581)	2,638	2,243	395
Legal contributions	1,207	273	-	(636)	844	844	-
Unrealized foreign exchange loss (gain)	1,015	5,091	-	(7,075)	(969)	(969)	-
Others	990	210	-	(1,750)	(550)	(195)	(355)
	12,091	**4,609**	**-**	**(8,038)**	**8,662**	**10,009**	**(1,347)**

At December 31, 2016, the cumulative unrecognized deferred tax asset balance, which mainly includes reserve account of employee benefits and other post-retirement benefits, unrealized exchange loss and carry-forwards tax losses total $29,914 million [$41,182 million in 2015 and $47,915 million in 2014].

Correction of error

During the year 2016, the Group identified that the deferred tax asset and liability from years previous to the reporting period were not offset. The error has been corrected by restructuring each account for each previous period. The effect of the restructuring for reclassification to offset such balances in the corresponding amounts of the consolidated statement of financial position follows (in millions of dollars):

	Previously informed balances	Reclassification effect	Restated balances
At December 31, 2013 -			
Deferred tax asset	17,494	(3,495)	13,999
Deferred tax liability	(5,403)	3,495	(1,908)
At December 31, 2014 -			
Deferred tax asset	19,351	(9,342)	10,009
Deferred tax liability	(10,689)	9,342	(1,347)
At December 31, 2015 -			
Deferred tax asset	13,483	(3,420)	10,063
Deferred tax liability	(4,850)	3,420	(1,430)

(g) Production Tax

In accordance with the Hydrocarbons Organic Law of 2006, a production tax rate of 30% is applied to the volumes of hydrocarbons produced in traditional areas (applicable to PDVSA Petróleo, S.A., PDVSA Gas, S.A. and the Empresas Mixtas). Pursuant to instructions from the National Government in 2016, a convertion was applied, the exchange difference between Bs/$ 4.30 and Bs/$ 6.30 per U.S. dollar. Since March 10, 2016 a convertion rate was applied, the exchange difference between Bs/$ 8 per U.S. dollars and Bs/$ 10 [Bs/$.4.30 in 2015 and 2014] per U.S. dollar, to calculate and settle this tax.

Pursuant to the Ministry's instructions and Article 45 of the Organic Law on Hydrocarbons, 50% of the long-term financed portion of volumes supplied on behalf of the Republic related to the Energy Cooperation Agreement are regarded as compliance by PDVSA's as part of its obligations regarding production tax.

In February 2013, the Decree-Law a partially amending the law for Special Contribution for Extraordinary Prices and Exorbitant Prices in the International Hydrocarbons Market, was published establishing top of up to $80 per barrel for the calculation and settlement of production, extraction and export taxes set forth in the Organic Hydrocarbons Law.

By resolution of the Ministry, PDVSA deducts from the volumes sold at regulated prices, under the production tax expense, the differential resulting from the production tax settlement price and the price per barrel established in the Budget Law that in 2016 it was $40 per barrel (applied for two months), during 2015 such differential did not apply and during 2014, it was $60 per barrel. For the year ended December 31, 2016, PDVSA recognized a decrease of $1 million of the production tax expense for this concept, [it did not apply in 2015, $731 million in 2014].

(h) Extraction Tax

The amendment to the Hydrocarbons Organic Law establishes a rate of 33.33% of the value of all liquid hydrocarbons extracted from any reservoir, calculated on the same basis established to determine production tax. When calculating this tax, the taxpayer may deduct the amount paid for production tax, as well as the special advantages applicable to the Empresas Mixtas (see note 35-q).

(i) Special Advantages Tax

The Empresas Mixtas must pay special advantages, which are determined based on: (a) an additional production tax of 3.33% on the volumes of hydrocarbons produced in marked areas and which will be distributed as follows: directly to the counties where these activities take place, 1.11% and the remaining 2.22% to te National Fund for the Working Class, (FANCO for its spanish acronym); and (b) an amount equivalent to the difference, if any, between (i) 50% of the value of hydrocarbons produced in specified areas and delivered to PDVSA during each calendar year, and (ii) the sum of the payments made to the Republic, for such activity conducted during same calendar year under taxes, production tax and special advantages tax on hydrocarbons, including investments in local development projects equivalent to 1% of profit before taxes. The special advantages under (b) must be settled before April 20 of each year, according to the provisions set forth in Appendix F of the Contract for Conversion to the Empresas Mixtas.

(j) Surface Tax

The Hydrocarbons Organic Law establishes the payment of a tax equivalent to 100 tax units (TU) per square kilometer or fraction of unexploited surface area. This tax will be annually increased in by 2% during the first five years and 5% in subsequent years.

(k) Export Registration Tax

The Hydrocarbons Organic Law establishes a rate of 0.1% on the value of all hydrocarbons exported from any port in the national territory, calculated at sales price.

(l) Value-added Tax (VAT)

Official Gazette N° 39,147, dated March 26, 2009, published the Partial Reform Law of the Budget Law for the fiscal year 2009, establishing an increase of VAT from 9% to 12%, beginning on April 1, 2009.

The VAT Law establishes an exemption on the trading of certain hydrocarbons-derived fuels and the power to recover from the tax authorities certain tax credits resulting from exports. The amounts pending recovery bear no interest.

A consolidated summary of recoverable value-added tax follows (in millions of dollars):

		December 31,		
	Note	**2016**	**2015**	**2014**
Balance pending recovery or off-setting at beginning of the year		490	2,903	7,907
Generated during the year		412	1,197	1,646
Cost for unrecoverable value-added tax	10	(73)	(428)	(682)
Change in fair value	7-b	(75)	(169)	146
Reversals (transfer) to accounts receivable from Stockholder		-	786	(2,595)
Impairment of recoverable value-added tax	10	-	(1,247)	-
Reclassification of assets held for disposal		-	63	-
Effects in profit or loss due to foreign rate fluctuation in the reporting currency		(436)	(2,615)	(3,519)
Recoverable value-added tax		**318**	**490**	**2,903**
Less, current portion		-	-	1,907
Non-current portion		**318**	**490**	**996**

During 2016, no effects were generated as a result of the impairment in recoverable value added tax. During 2015, the Group completed steps and tax credits recovery agreements for the years 2016 and 2020. However, despite completion of such procedures, no answer has been obtained from the Tax Administration (SENIAT, for its Spanish acronym), regarding the issue of the Tax Refund Certificate (CERT, for its Spanish acronym) in conncetion with the tax credits approved. Therefore, the Group decided to recognize an impairment estimate on the basis of the tax credits with greater aging.

(m) Other Taxes

Own Consumption Tax

The Hydrocarbons Organic Law establishes a tax of 10% of the value on each cubic meter of oil products produced and used as fuel in its own operations. This tax is calculated based on the selling price to the end consumer. If products are not sold in the domestic market, the Ministry will fix the price.

General Consumption Tax

The Hydrocarbons Organic Law establishes a tax whose taxable base is determined per liter of product (gasoline and other fuels) of the total hydrocarbons volume sold in the domestic market. This tax, is paid by the final consumer and ranges between 30% and 50% of the price payable, which aliquot between both limits will be fixed annually through the Budget Law.

Sales of gasoline and other fuels in Venezuela and in the United States of America are subject to consumption tax. During the year ended December 31, 2016, these taxes amounted to approximately $2,620 million [$504 million in 2015 and $591 million in 2014], in Venezuela; and $2,093 million in 2016 [$1,991 million in 2015 and $1,844 million in 2014], in the United States of America.

(13) Properties, Plants and Equipment, Net

See accounting policies in note 38-l, 38-m,38-r y 38-s

Properties, plants and equipment comprise the following (in millions of dollars):

	Note	Wells and production facilities	Plants and refining facilities	Storage facilities and transportation of crude oil, gas and products	Lands, buildings and constructions	Machinery and equipment	Land, maritime and air transportation units	Industrial and camp support services and others	Construction in progress	Total
Cost:										
Balances at December 31, 2013		**85,398**	**29,471**	**14,462**	**6,462**	**14,623**	**4,266**	**10,272**	**63,236**	**228,190**
Acquisitions and additions	5	32	395	178	237	101	2	368	23,738	25,051
Transfers and capitalizations		6,490	457	3,276	408	763	113	445	(11,952)	-
Sales and disposals		(282)	(13)	(8)	(23)	(117)	(212)	(25)	-	(680)
Asset retirement obligations		(1,272)	1	-	-	-	-	-	-	(1,271)
Others		70	22	138	376	443	(213)	287	(1,360)	(237)
Effects of inflation and change in exchange rate on conversion into dollars		-	-	-	242	91	120	258	3,000	3,711
Balances at December 31, 2014		**90,436**	**30,333**	**18,046**	**7,702**	**15,904**	**4,076**	**11,605**	**76,662**	**254,764**
Acquisitions and additions	5	47	223	-	51	71	72	74	17,568	18,106
Transfers and capitalizations		4,727	1,444	2,730	844	3,677	442	376	(14,240)	-
Sales and disposals		(473)	(32)	(8)	(1)	(8)	(54)	-	(29)	(605)
Reclassification of assets held for disposal		-	(977)	(786)	(196)	(1,282)	(418)	(1,191)	(4,457)	(9,307)
Asset retirement obligations		(50)	(1)	-	-	-	-	-	-	(51)
Others		130	(300)	184	15	(162)	220	(20)	(2,585)	(2,518)
Effects of inflation and change in exchange rate on conversion into dollars		-	-	42	(1,561)	(1,728)	(335)	(381)	(10,090)	(14,053)
Balances at December 31, 2015		**94,817**	**30,690**	**20,208**	**6,854**	**16,472**	**4,003**	**10,463**	**62,829**	**246,336**
Acquisitions and additions	5	-	361	64	1	177	-	12	10,680	11,295
Transfers and capitalizations		9,393	1,419	864	343	793	158	467	(13,437)	-
Sales and disposals		(213)	(36)	-	(27)	(330)	(19)	(146)	(35)	(806)
Asset retirement obligations	23	448	(1)	4	-	-	-	-	-	451
Others		(2,873)	1,787	942	112	233	(91)	227	(2,673)	(2,336)
Balances at December 31, 2016		**101,572**	**34,220**	**22,082**	**7,283**	**17,345**	**4,051**	**11,023**	**57,364**	**254,940**
Accumulated depreciation amortization and impairment losses:										
Balances at December 31, 2013		**48,421**	**19,432**	**8,506**	**3,962**	**8,318**	**2,970**	**6,750**	**-**	**98,359**
Depreciation and amortization	5	4,203	1,816	693	230	484	274	338	-	8,038
Sales and disposals		(240)	-	(6)	(9)	(106)	(176)	-	-	(537)
Impairment losses	5 - 10	58	10	-	-	-	-	-	6,108	6,176
Reclassification of assets held for disposal	19	-	375	75	26	112	47	112		747
Asset retirement obligations		(345)	-	-	-	-	-	-	-	(345)
Others		312	(640)	99	221	157	167	252	-	568
Effects of inflation and change in exchange rate on conversion into dollars		-	-	-	61	91	120	238	-	510
Balances at December 31, 2014		**52,409**	**20,993**	**9,367**	**4,491**	**9,056**	**3,402**	**7,690**	**6,108**	**113,516**
Depreciation and amortization	5	4,374	2,148	902	234	677	307	353	-	8,995
Sales and disposals		(437)	-	(1)	-	(8)	(53)	-	-	(499)
Impairment losses	5 - 10	1,532	1,233	108	92	8	2	163	608	3,746
Reversal of impairment losses	5 - 10	(21)	(1,076)	-	-	-	-	-	-	(1,097)
Reclassification of assets held for disposal	19	-	(977)	(356)	(172)	(465)	(418)	(592)	-	(2,980)
Asset retirement obligations		(37)	-	-	-	-	-	-	-	(37)
Others		203	(522)	13	366	82	143	141	-	426
Effects of inflation and change in exchange rate on conversion into dollars		-	-	-	(765)	(1,013)	(419)	(570)	-	(2,767)
Balances at December 31, 2015		**58,023**	**21,799**	**10,033**	**4,246**	**8,337**	**2,964**	**7,185**	**6,716**	**119,303**
Depreciation and amortization	5	4,878	2,001	1,020	238	629	268	356	-	9,390
Sales and disposals		(55)	(218)	-	(5)	(238)	(19)	(140)	-	(675)
Impairment losses	5 - 10	182	780	-	-	-	-	-	-	962
Reversal of impairment losses	5 - 10	(1,179)	(867)	-	-	-	-	-	-	(2,046)
Others		410	18	37	14	21	2	(74)	14	442
Balances at December 31, 2016		**62,259**	**23,513**	**11,090**	**4,493**	**8,749**	**3,215**	**7,327**	**6,730**	**127,376**
Total net cost at December 31, 2016		**39,313**	**10,707**	**10,992**	**2,790**	**8,596**	**836**	**3,696**	**50,634**	**127,564**
Total net cost at December 31, 2015		**36,794**	**8,891**	**10,175**	**2,608**	**8,135**	**1,039**	**3,278**	**56,113**	**127,033**
Total net cost at December 31, 2014		**38,027**	**9,340**	**8,679**	**3,211**	**6,848**	**674**	**3,915**	**70,554**	**141,248**

Impairment and Subsequent Reversal

The recoverable amounts from the impaired assets are the following (in millions of dollars):

	Measurement of the recoverable amount	December 31, 2016	2015	2014
Plants and refining facilities (1)	Value in use	-	-	-
Wells and production facilities (2)	Fair value level 2 (3)	19,929	1,824	4,133

(1) Corresponds to El Palito Refinery and Puerto La Cruz Refinery.

(2) Corresponds to Empresas Mixtas of Corporación Venezolana del Petróleo, S.A. and PDVSA Gas, S.A.

(3) The fair values presented were determined as Level 2. The Group does not determine fair values of recoverable amounts for non financial assets in levels 1 and 3 (see note 4).

During the year ended December 31, 2016, the value in use and fair value were estimated using different short, medium and long term discount rate before taxes of 23.54%, 22.28% and 16.84% respectively (26.86% in 2015 and 20.28% in 2014).

In determining the recoverable amount measured at value in use, PDVSA considered the recovery of costs and expenses from the sale of products in the domestic market through a government grant (see notes 9 and 29). The recoverable amount measured at fair value was determined through the valuation technique of the expected discounted revenues at present value, assuming the maximum and best use of the assets, using the indicated risk-adjusted discount rates.

The impairment losses and their subsequent reversals in properties, plants and equipment are recognized in other expenses, net in the consolidated statement of profit or loss and other comprehensive income (see note 10).

Major Maintenance

During the year ended December 31, 2016, PDVSA recognized major maintenance disbursement for $3,658 million [$2,951 million in 2015 and $3,315 million in 2014], which is considered as a separate component of the assets and is included in properties, plants and equipment, mainly in contructions in progress.

Assets under Lease Agreement

At December 31, 2016, there are certain refining assets and related equipment acquired under lease agreements net of accumulated depreciation for approximately $721 million [$485 million in 2015 and $522 million in 2014]. The obligation for assets under lease agreement is included in the financial debt (see note 21).

Contructions in Progress

The balance of constructions in progress mainly consists of investment programs aimed to maintain the production capacity and adjusting the facilities to the production levels set forth by PDVSA's business plan, tangible assets for exploration works and various projects in progress that will be capitalized as properties, plants and equipment at the date of incorporation into operations. The main constructions in progress currently developed by PDVSA form part of the construction and expansion of refineries and development of Costa Afuera area and the Hugo Chávez Frías Orinoco Oil Belt.

During the year ended December 31, 2016, PDVSA cancelled constructions in progress for $1,093 million [$1,956 million in 2015 and $1,432 million in 2014] (see note 10).

During the year ended December 31, 2016, borrowing costs amounting to $1,566 million, [$2,548 million in 2015 and $1,337 million in 2014] were capitalized to constructions in progress.

(14) Accounts Receivable and Other Assets

See accounting policies in notes 38-a, 38-e, 38-k, 38-n and 38-p

Accounts receivable and other assets are as follows (in millions of dollars):

		December 31,		
	Note	**2016**	**2015**	**2014**
Non-current accounts receivable:				
Energy agrements	32-a	3,207	4,085	6,251
Related parties	32	-	457	298
Employees		36	277	452
Sub-total	**25-a**	**3,243**	**4,819**	**7,001**
Others:				
Materials and supplies	16	267	209	276
Equity-accounted Investees	32	204	500	1,265
Buidings used by government entities	32	56	56	56
Goodwill		2	15	49
Pension plan assets	22	-	-	467
Others		302	799	559
Total		**4,074**	**6,398**	**9,673**

Energy Agreements

Non-current accounts receivable for Energy Agreements correspond to the sales of crude oil and products, made on behalf of the Republic, under the Energy Cooperation Agreements (see note 32-a).

During the year ended December 31, 2016, PDVSA recognized an income of $111 million [$1,514 million in 2015 and $87 million in 2014] as a result of the amortization through the effective interest rate method of the amortized cost of the non-current accounts receivable from energy agreements (see note 7-a).

From the income recognized in 2015, $1,375 million are included and correspond to a Debt Acknowledgement and Receivables Transfers contracts entered into by subsidiary PDVSA Petróleo, S.A. in connection with the energy agreements and totaling $7,645 million. Such contracts instructed payments of $3,700 million. The remaining result of these transactions is included in notes and accounts receivable (see note 17).

Related Parties

During the year ended December 31, 2016, PDVSA did not generate expenses from fair value adjustments over non-current accounts receivable from related parties [without effect in 2015 and $325 million in 2014, presented as part of the financial costs] (see note 7-b).

Between January and November 2016, promissory notes issued in favor of PDVSA Petróleo, S.A. were transferred to the BCV for the sale of crude oil and products to countries that are part of the energy agreement of Petrocaribe and other cooperation agreements. These correspond to long-term accounts receivable from these countries totaling $500 million which were entirely collected [$4,295 million in 2015].

During the year ended December 31, 2016, these transactions generated exchange profit for $832 million [$8,033 million in 2015] which are included in the financial income (see note 7-a).

PDVSA's exposure to credit and market risks, and impairment losses relating to non-current accounts receivable are disclosed in note 25-a.

Equity-accounted Investees

During 2015, the equity-accounted investee Chalmette Refining LLC was sold. This transaction generated earnings in sales of $30 million, recognized as other expenses, net and included in other non-operating expenses (income), net (see note 10).

(15) Restricted Cash

Restricted cash comprises the following (in millions of dollars):

	Note	December 31, 2016	2015	2014
Funds for the execution of social development projects:				
Bilateral Fund Suriname - Venezuela		166	166	166
Fund for Social and Economic Development of the Country (FONDESPA, for its Spanish acronym)		27	27	2
Funds at BCV		12	47	444
Integral Cooperation Agreement with the Republic of Argentina		2	2	2
Total funds for execution of social development projects	**11**	**207**	**242**	**614**
Liquidity accounts		595	677	750
Funds for extra-heavy crude projects in the Orinoco Oil Belt Hugo Chavez Frias		-	11	-
Letters of credit		-	-	161
Others		-	-	51
		802	930	1,576
Less current portion		183	326	1,292
Non-current portion		**619**	**604**	**284**

On the basis of PDVSA's social responsibility (see note 1), trusts have been incorporated to support social programs and projects, constructions, goods and services for the development of infrastructure, agriculture activities, roads, health and education in the country:

Trusts for the Conduction of Social Development Projects

a) *Funds at BCV:* Constituted in bolivars to support social development projects, with resources mainly acquired from the difference in the calculation of production tax contributions using a conversion factor of Bs.2 per U.S. dollar (see notes 11 and 12). During 2016 no cash contributions were made to these funds, [$8,094 million in 2015 and $2,198 million in 2014].

b) *Bilateral Fund Suriname - Venezuela*: In May, 2012, PDVSA's Board of Directors approved bilateral funds as an alternative to finance Petrocaribe. PDVSA manages the administration and accounting of the Fund and will be supported by the Surinamese Bank for settlement of credit and collection of principal and interest of reimbursable projects.

Liquidity Account

These include restricted funds under agreements with financial institutions to guarantee several credit facilities, loan extensions and bonds issuance. These accounts consist of cash and time deposits, including interest earned on such amounts.

(16) Inventories

See accounting policy in note 38-k

A summary of inventories follows (in millions of dollars):

	Note	December 31, 2016	2015	2014
Crude oil and products		5,728	5,564	7,660
Materials and supplies		4,449	4,321	4,375
Others		-	-	5
		10,177	9,885	12,040
Less materials and supplies classified in other non-current assets	14	267	209	276
Total		**9,910**	**9,676**	**11,764**

A summary of the inventories of crude oil and products measured at their net realizable value and the adjustment recognized in this measurement is presented is follows (in millions of dollars):

	December 31,		
	2016	**2015**	**2014**
Amount at year-end	3,211	2,796	3,554
Net realizable value adjustment [1]	30	455	357

(1) Adjustment included in purchases of crude oil and products, net in the consolidated statements of profit or loss and other comprehensive income.

(17) Notes and Accounts Receivable

See accounting policies in notes 38-p and 38-r

Notes and accounts receivable include the following (in millions of dollars):

		December 31,		
	Note	**2016**	**2015**	**2014**
Related parties	32	14,288	10,327	11,571
Trade	25-a	7,170	7,212	9,623
Accounts receivable from employees		144	21	95
Other accounts receivable		1,597	1,181	3,607
		23,199	18,741	24,896
Less allowance for doubtful accounts	25-a	521	535	539
Total		**22,678**	**18,206**	**24,357**

Exposure to credit risk and impairment losses of notes and accounts receivable are included in note 25-a.

(18) Prepaid Expenses and Other Assets

See accounting policies in notes 38-j and 38-p.

Prepaid expenses and other assets include the following (in millions of dollars):

		December 31,		
	Note	**2016**	**2015**	**2014**
Advances to suppliers and contractors		3,159	3,394	4,498
Advance for special contributions and other taxes [1]	32	1,755	1,903	1,904
Prepaid insurance policies		303	521	878
Income tax paid in excess and prepaid income tax	32	178	732	347
Tradeable assets	25-b	42	44	50
Prepaid services		23	125	132
Derivative assets	25-b	6	21	62
Investments at cost		-	-	10
Other assets		237	343	96
Total		**5,703**	**7,083**	**7,977**

(1) During the year ended December 31, 2016 PDVSA generated cost for fair value adjustment on the advance for special contribution and other taxes for \$90 million which are included in the financial costs (see note 7-b).

(19) Assets Held for Disposal

See accounting policy in note 38-o

At December 31, 2015, management committed to a plan for the transfer of all non-oil subsidiaries (see notes 6, 36-g and 36-k). Consequently, at December 31, 2016, these subsidiaries are presented as a group of assets held for disposal. Efforts have already begun to transfer the group of assets held for disposal and this transfer is expected to take place during the second half of 2017. The effects on the Group's consolidated statement of financial position consist of the following assets, liabilities and other comprehensive income (in millions of dollars):

		December 31,	
	Note	**2016**	**2015**
Financial position:			
Properties, plants and equipment, net		3,562	5,951
Deferred tax asset		1	6
Equity-accounted investees		900	1,018
Accounts receivable and other assets		636	1,823
Recoverable value-added tax		42	63
Restricted cash		2	964
Inventories		227	351
Notes and accounts receivable		1,200	932
Prepaid expenses and other assets		755	817
Cash and cash equivalents		727	898
Assets held for disposal		**8,052**	**12,823**
Financial debt	21	93	97
Employee and other post-employment benefits		25	23
Deferred tax liability		2	27
Trade payable		1,208	917
Income tax payable		9	382
Accruals and other liabilities		543	2,944
Liabilities related to assets held for disposal		**1,880**	**4,390**

	Year ended December 31	
	2016	**2015**
	Dólares	
Other comprehensive income		
Remeasurements of benefit liability, net of tax	3	86
Foreign operations - foreign currency translation differences	360	93
Other comprehensive income related to assets held for disposal, net of tax	**363**	**179**

PDVSA expects to receive the value of the assets held for disposal, net of related liabilities, as consideration for such transaction.

Other comprehensive income related to the assets held for disposal is presented under legal reserves and other in the consolidated statement of changes in equity.

(20) Equity

Capital Stock

According to PDVSA's bylaws and Articles of Incorporation, the nominal value of capital stock is Bs.1,280 million, corresponding to 51,204 shares. Pursuant to Article 303 of the Venezuelan Constitution, these shares may not be transferred or encumbered.

Legal Reserves and Others

The legal reserve is a requirement for Venezuelan companies to maintain a percentage of each year's net profit until a percentage of the capital stock is reached. Pursuant to the Venezuelan law, the legal reserve cannot be distributed as dividends.

At December, 31, 2016, other reserves include mainly the reserve for the realization of deferred tax assets amounting to $2,496 million [$10,063 million in 2015 and $10,009 million in 2014].

Dividends

During 2016, dividends were declared for $4,061 million [$87 million in 2015 and $5,000 million in 2014], paid through offsetting of accounts receivable from the Stockholder (see note 32). In addition, during 2016 dividends were declared for $9 million, which are pending for payment or offsetting.

In September 2014, dividends were declared for $289 million and paid in cash to the Stockholder which charge to accumulated earnings. Cash dividends are declared and paid to the Stockholder in bolivars based on the statutory consolidated financial statements.

(21) Financial Debt

See accounting policy in note 38-p

PDVSA's consolidated debt follows (in millions of dollars):

	Literal	Currency	Interest rate	Maturity date	Nominal value (1)	December 31, 2016	2015	2014
Petróleos de Venezuela, S.A. (Parent Company):								
Unsecured bond	a	Dollars	5.00%	2015	-	-	-	1,413
Unsecured bond	a	Dollars	5.125%	2016	1,000	-	958	915
Unsecured bond	a	Bolivars	9.10%	2015	-	-	-	29
Unsecured bond	a	Bolivars	9.10%	2016	18	-	18	58
Unsecured bond	a	Bolivars	9.10%	2017	2	2	18	58
Unsecured bond	a	Dollars	8.50%	2017	1,121	1,118	3,898	5,736
Unsecured bond	a	Dollars	5.25%	2017	2,058	2,062	3,083	3,094
Unsecured bond	a	Dollars	5.375%	2027	3,000	3,104	3,083	3,095
Unsecured bond	a	Dollars	5.50%	2037	1,500	1,568	1,543	1,547
Unsecured bond	a	Dollars	9.00%	2021	2,394	1,823	1,751	1,688
Unsecured bond	a	Dollars	6.00%	2022	3,000	3,000	3,000	3,000
Unsecured bond	a	Dollars	12.75%	2022	3,000	3,000	3,000	3,000
Unsecured bond	a	Dollars	6.00%	2024	5,000	3,501	3,356	3,229
Unsecured bond	a	Dollars	6.00%	2026	4,500	3,636	3,584	3,545
Unsecured bond	a	Dollars	9.75%	2035	3,000	2,861	2,858	2,856
Guaranted bond	b	Dollars	8.50%	2020	3,368	2,849	-	-
Total bonds						28,524	30,150	33,263
Investment certificates		Bolivars	14.00%	2018 - 2019 -2020	15	15	145	-
Investment certificates		Dollars	6.00%	2017	270	270	150	-
Investment certificates		Dollars	6.00%	2019	92	92	-	-
Investment certificates		Bolivars	8.00%	2017	3	3	29	96
Investment certificates		Bolivars	8.00%	2017	7	7	67	221
Investment certificates		Bolivars	9.50%	2017	3	3	31	103
Investment certificates		Bolivars	18.00%	2017	44	44	-	-
Total investment certificates						434	422	420
Credit rating		Dollars	6.50%	2018 - 2019	231	231	171	-
Credit facility		Bolivars	12.50%	2017 - 2018	2	2	45	262
Credit facility		Bolivars	9.50%	2017 - 2018	1	1	27	132
Credit facility		Dollars	LIBOR + 5,00%	2016	-	-	96	63
Credit facility	c	Dollars	LIBOR + 4,55%	2018	177	177	318	463
Credit facility		Dollars	LIBOR + 2,20%	2024	241	241	240	227
Credit facility		Euro	2.12%	2016	-	-	9	30
Credit facility		Dollars	6,25% - 7,5%	2018	117	117	-	-
Credit facility		Dollars	7.50%	2018	37	37	-	-
Total credit facilities						575	735	1,177
Unsecured loan		Dollars	LIBOR + 5,00%	2019	26	26	30	-
Unsecured loan		Dollars	LIBOR + 7,20%	2017	62	62	312	-
Unsecured loan		Bolivars	9.66%	2015	-	-	-	53
Unsecured loan		Bolivars	12.00%	2015	-	-	-	29
Unsecured loan		Bolivars	9.66%	2015	-	-	-	29
Unsecured loan		Bolivars	12.50%	2016	-	-	40	183
Unsecured loan		Bolivars	12.50%	2016	-	-	10	58
Unsecured loan		Bolivars	9.50%	2016	-	-	2	13
Unsecured loan		Bolivars	12.50%	2017	1	1	17	82
Unsecured loan		Bolivars	12.50%	2017	1	1	22	95
Unsecured loan		Bolivars	9.50%	2017	-	-	4	19
Unsecured loan		Bolivars	9.66%	2015	-	-	-	14
Carried forward, Unsecured loans						90	437	575

	Literal	Currency	Interest rate	Maturity date	Nominal value (1)	December 31, 2016	2015	2014
Brought forward, Unsecured loans						90	437	575
Unsecured loan		Bolivars	9.50%	2018	-	-	5	21
Unsecured loan		Bolivars	12.00%	2019 - 2022	7	7	70	248
Unsecured loan		Bolivars	12.50%	2018	4	4	49	181
Unsecured loan		Bolivars	12.50%	2018	3	3	44	144
Unsecured loan		Bolivars	12.00%	2018	1	1	19	78
Unsecured loan		Bolivars	9.50%	2018	-	-	5	21
Unsecured loan		Bolivars	12.50%	2019	4	4	41	144
Unsecured loan		Bolivars	12.00%	2019 - 2022	5	5	55	195
Unsecured loan		Bolivars	12.50%	2022	4	4	49	186
Unsecured loan		Bolivars	14.00%	2017	29	29	-	-
Unsecured loan	d	Dollars	LIBOR + 6,25%	2017	600	600	1,200	1,500
Secured loan	e	Dollars	LIBOR + 0,50% - 6,50%	2022	1,226	1,226	1,460	1,692
Secured loan	e	Dollars	LIBOR + 1,50% - 8,75%	2018 - 2026	950	950	1,050	1,150
Total loans						2,923	4,484	6,135
Financial leases		Dollars	-	2015	1	1	1	1
						32,688	35,963	40,996
PDV Holding, Inc.:								
Secured bonds		Dollars	10.75%	2020	1,500	1,438	1,417	-
Secured bonds		Dollars	6.25%	2022	650	639	637	636
Tax-exempted industrial bond		Dollars	6.00%	2023	3	3	3	3
Tax-exempted industrial bond		Dollars	4.88%	2025	50	49	49	49
Tax-exempted industrial bond		Dollars	8.00%	2028	25	25	25	25
Tax-exempted industrial bond		Dollars	8.00%	2032	30	29	30	29
Total bonds						2,183	2,161	742
Credit facility type B		Dollars	LIBOR 1,00% base + 8,50%	2018	652	631	718	-
Credit facility type B		Dollars	LIBOR 1,00% base + 3,50%	2021	635	625	630	634
Revolving credit facility		Dollars	Tasa Base 3,5% + 1,75%	2019	50	41	168	34
Secured facility with accounts receivable		Dollars	PC + 1,50%	2016	225	225	165	250
Total credit facilities						1,522	1,681	918
Financial leases		Dollars	-	2030	507	507	241	247
						4,212	**4,083**	**1,907**
PDVSA América, S.A. and subsidiaries:								
Trocana World Inc. - Secured loan		Dollars	LIBOR + 1,00%	2023	37	-	-	37
Tovase Development Corp. - Secured loan		Dollars	LIBOR + 1,00%	2024	39	-	-	39
Total loans						-	-	76
Financial leases		Dollars	-	2015	1	-	-	1
						-	**-**	**77**
PDVSA Petróleo, S.A. and subsidiaries:								
PDVSA Cerro Negro, S.A. - Secured bonds		Dollars	7.90%	2020	1	1	2	2
Credit facility		Dollars	LIBOR + 7,90%	2024	1,262	1,262	1,950	1,477
						1,263	1,952	1,479
Corporación Venezolana del Petróleo, S.A. and subsidiaries:								
Petro San Felix, S.A. - Secured bonds		Dollars	8,22% - 8,37%	2017 - 2022	1	1	4	5
Petropiar, S.A. - Credit facility		Dollars	LIBOR + 4,50%	2017	-	-	5	-
Petrowarao, S.A. - Credit facility		Dollars	LIBOR + 4,50%	2021	9	9	17	-
Petrocedeño, S.A. - Credit facility		Dollars	1.32%	2017	20	20	56	40
Petrozamora, S.A. - Prepaid facility		Dollars	LIBOR + 6,90%	2019	143	143	73	8
Petrolera Sinovensa, S.A. - Credit facility		Dollars	LIBOR + 5,80%	2023	1,256	1,256	699	291
Petroboscán, S.A. - Credit facility		Dollars	LIBOR + 4,5%	2025	626	626	461	297
Petroquiriquire, S.A. - Credit facility		Dollars	LIBOR + 4,50%	2026	545	545	-	45
Petrodelta, S.A. - Unsecured loan		Bolivars	12%	2018	6	6	20	-
						2,606	1,335	686

	Literal	Currency	Interest rate	Maturity date	Nominal value [1]	December 31, 2016	2015	2014
PDV Marina, S.A. and subsidiaries:								
Panavenflot Corp. - Credit facility		Yens	CIRR 1,77% + 3,12%	2023 - 2024	99	99	110	124
PDV Marina, S.A. - Secured loan		Dollars	7.00%	2019	19	19	39	83
Financial leases		Dollars	-	2019	121	121	148	173
						239	297	380
PDVSA Industrial, S.A. and subsidiaries:								
VHICOA - Unsecured loan		Bolivars	13.50%	2015	1	-	-	1
VHICOA - Unsecured loan		Bolivars	12.50%	2018	89	-	-	89
VHICOA - Unsecured loan		Bolivars	13.50%	2014	3	-	-	-
Carbones del Guasare, S.A.- Unsecured loan		Bolivars	15.00%	2018	1	-	-	1
Carbones de la Guajira, S.A.- Unsecured loan		Bolivars	15.00%	2019	1	-	-	1
Total loans						-	-	92
PDVSA Naval, S.A and subsidiaries:								
Credit facility		Euro	Euribor + 3,8%	2020	-	-	-	16
Refinería Isla (Curacao), B.V. and subsidiaries:								
Financial leases		Dollars	-	2019	68	68	86	103
Total financial debt [2]						41,076	43,716	45,736
Less current portion						7,181	6,800	5,865
Non-current portion						33,895	36,916	39,871
Financial debt held for disposal* [3] *:								
PDVSA América, S.A. and subsidiaries:								
Trocana World Inc. - Secured loan		Dollars	LIBOR + 1,00%	2023	28	28	33	-
Tovase Development Corp. - Secured loan		Dollars	LIBOR + 1,00%	2024	31	31	35	-
Fluvialba - Unsecured loan		Argentine pesos	26.00%	2020	7	7	7	-
PDV Caribe, S.A.- Unsecured loan		Dollars	6.00%	2025	16	16	-	-
Total loans						82	75	-
Financial leases		Dollars	-	2015	1	1	1	-
						83	76	-
PDVSA Industrial, S.A. and subsidiaries:								
VHICOA - Unsecured loan		Bolivars	12.50%	2018	6	-	6	-
Carbones del Guasare, S.A.- Unsecured loan		Bolivars	15.00%	2018	1	-	1	-
Carbones de la Guajira, S.A.- Unsecured loan		Bolivars	15.00%	2019	1	-	1	-
Total loans						-	8	-
PDVSA Naval, S.A and subsidiaries:								
Credit facility		Euro	Euribor + 3,8%	2020	10	10	13	-
Total Financial debt held for disposal						93	97	-

(1) Corresponds to the nominal value at December 31, 2016, expressed in dollars.

(2) Does not include financial debt held for disposal.

(3) See note 19.

Future maturities of the non-current portion of the consolidated financial debt at December 31, 2016 are as follows (in millions dollars):

Years -	
2018	2,037
2019	2,285
2020	5,719
2021	4,177
2022	4,514
Remaining years	15,163
	33,895

Petróleos de Venezuela, S.A.

(a) Unsecured Bonds

These bonds issued by Petróleos de Venezuela, S.A. do not include actual guarantees over the Groups' assets, and its subsidiary PDVSA Petróleo, S.A. acts as unconditional and irrevocable guarantor.

(b) Secured Bond

PDVSA 2020 Bonds

On October 28, 2016, PDVSA completed the swap process of bonds maturing in 2017, issued in April 2007, and those issued in October 2010 and January 2011, by a new bond for $3,368 million with first-degree colateral of 50.1% of the shares composing the capital stock of its subsidiary CITGO Holding Inc. (CITGO Holding subsidiary de PDV Holding, Inc.) and with an unconditional and irrevocable guarantee by the subsidiary PDVSA Petróleo, S.A. (see note 26). In this process, $942 million and $1,857 million were redeemed, respectively. The compensation in this swap process was:

- For bonds issued on 2007, with an anual interest rate of 5.25%, $170 was increased per each $1,000 of the amount offered.
- For bonds issued in octuber 2010 and January 2011, with an anual interest rate of 8.5%, $220 was increased per each $1,000 of the amount offered.

This transaction generated a discount of $568 million in the issue of bonds, which is included as part of the net amortized cost under the financial costs (see note 7-b).

(c) Credit Facilities

On February 27, 2012, PDVSA entered into a loan agreement with China Development Bank Corporation (CDBC) for the purchase of oil goods and services for $500 million. This facility includes payment options in cash or through the delivery of crude oil and products at market prices. At December 31, 2016, the Company has used $495 million of this facility, with an outstanding balance of $177 million [$318 million in 2015]).

(d) Unsecured Loans

In December 2014, PDVSA entered into a loan agreement with the CDBC at a variable interest rate. This loan agreement includes payment options in cash or through the delivery of crude oil and products at market prices.

(e) Secured Loans

In August 2011 and February 2007, a group of banks led by Japan Bank for International Cooperation (JBIC) granted secured loans in dollars to PDVSA at a variable interest rate. The payment options include cash payments provided by the sale of crude oil and products at market prices.

PDV Holding, Inc.

Guarantees

The secured credit facility, the secured bonds and the tax-exempt industrial bonds from the subsidiary CITGO Petroleum Corporation (CITGO) are fairly guaranteed by their interest in its refineries in Lake Charles, Louisiana, Corpus Christi, Texas, and Lemont, Illinois, as well as trade accounts receivable that have not been used as guarantee for other credit facilities and its inventories.

Contractual Covenants

Several loan facilities contain contractual terms that restrict PDVSA's ability to incur into additional debts, pay dividends, encumber properties and dispose certain assets.

In addition, there are contractual clauses on instruments classified as accruals and other liabilities (see note 24).

Obligations under Financial Leases

As at December 31, 2016, there are obligations for the acquisition of certain assets, primarily for refining and which were acquired under financial leases, and accounted for as properties, plants and equipment.

At 31 December 2016 future lease payments are summarized as follows (in millions of dollars):

	December 31,		
	2016	**2015**	**2014**
Years -			
2015	-	-	90
2016	-	89	88
2017	119	90	88
2018	126	89	88
2019	148	110	109
2020	63	26	26
2021	61	26	26
Subsequent years	333	203	202
Estimated future lease payments	**850**	**633**	**717**
Less interests	153	157	192
Total financial leases	**697**	**476**	**525**

(22) Employee and Other Post-employment Benefits

See accounting policy in note 38-e

A summary of liabilities (assets) for employee termination benefits, pension and other post-employment benefits other than retirement follows (in millions of dollars):

		December 31,		
	Note	**2016**	**2015**	**2014**
Assets -				
Pension plans [(1)]	14	-	-	(467)
Liabilities -				
Employee termination benefits		162	465	2,072
Pension plans		86	576	-
Other post-employment benefits other than pension plans		3,564	7,182	12,720
		3,812	8,223	14,792
Less current portion		198	367	1,813
Non-current portion		**3,614**	**7,856**	**12,979**

(1) See letter c.

PDVSA has the following employee benefit plans:

(a) Savings Plans

PDVSA's employees maintain savings funds and PDVSA guarantees the capital credited into members' accounts. At December 31, 2016, the amount secured by PDVSA in the savings funds amounted to $7 million [$47 million in 2015 and $101 million in 2014].

Costs associated to this plan are recognized in profit or loss as services are provided by the employees.

(b) Employee Termination Benefits

PDVSA's labor force is classified into employees belonging to contractual payroll, who are covered by PDVSA's Employment Collective Contract in force since 2015 through 2017, while the remainder of employees are included in the non-contractual payroll and covered by the relevant laws.

According to the employment benefits system established by Organic Labor Law on May 7, 2012, PDVSA assessed the financial impact of the new Law on the employees' termination benefit system of all its employees in Venezuela, concluding that the retroactivity of the employees' termination benefit represents a defined benefit in accordance with IAS 19 *Employee Benefits*; therefore, an actuarial analysis was conducted to determine net liabilities and the corresponding expense. Such analysis consisted of determining the difference between the cumulative termination balance projected at the employee's retirement age and the balance obtained from making the retroactive calculation of employees' termination benefits based on the employees' last salary, projected at the retirement date.

A summary of the net liability roll forward for employee termination benefits follows (in millions of dollars):

	Year ended December 31,								
	2016	2015	2014	2016	2015	2014	2016	2015	2014
	Present value of the obligation			Fair value of plan assets			Present value of the obligation, net		
Balance at January 1	**465**	**2,072**	**1,890**	**-**	**-**	**-**	**465**	**2,072**	**1,890**
Included in profit or loss:									
Current service cost	7	106	882	-	-	-	7	106	882
Past service cost	-	-	58	-	-	-	-	-	58
Financial costs	331	53	191	-	-	-	331	53	191
Effect of exchange rates variation	(683)	(1,834)	(820)	-	-	-	(683)	(1,834)	(820)
	(345)	(1,675)	311	-	-	-	(345)	(1,675)	311
Included in other comprehensive income:									
Actuarial (gain) loss:									
Financial hypothesis	-	(209)	(39)	-	-	-	-	(209)	(39)
Experience adjustment (1)	50	316	-	-	-	-	50	316	-
	50	107	(39)	-	-	-	50	107	(39)
Others:									
Benefits paid by the Group	(5)	(16)	(90)	5	16	90	-	-	-
Contributions made by the Group	-	-	-	(5)	(16)	(90)	(5)	(16)	(90)
Reclassification to liabilities associated to assets held for disposal	(3)	(23)	-	-	-	-	(3)	(23)	-
	(8)	(39)	(90)	-	-	-	(8)	(39)	(90)
Balance at December 31	**162**	**465**	**2,072**	**-**	**-**	**-**	**162**	**465**	**2,072**

(1) Data disaggregated in the actuarial analysis of 2016 and 2015. Data was not disaggregated in 2014 due to impracticability.

The actuarial assumptions used are listed below:

	Year ended December 31,		
	2015	2014	2013
		%	
Venezuela:	(1)	(2)	(2)
Discount rate	4.00	4.00	34.53
Salary increase rate	-	-	30.00
Inflation rate	N/A	N/A	30.00

(1) Inflation assumptions (real).

(2) Inflation assumptions (nominal).

At December 31, 2015, PDVSA modified prospectively its actuarial assumptions from nominal terms to real terms in order to conduct the actuarial valuation, considering the recommendations of IAS 19 for economies like the Venezuelan economy where cumulative inflation for three consecutive years exceeds 100% (hyperinflation), as these are more reliable data, because the risk of distorsions in the present value of the obligation is reduced.

During the year ended December 31, 2016, PDVSA considered the best inflation estimate on the costs of the period.

(c) Pension Plans and Other Post-employment Benefits

Most Venezuelan and foreign subsidiaries have pension plans and other benefits in place, covering employees and eligible former employees (retirees). These plans, are based on time of service, age and salary.

According to the collective labor contract, PDVSA and most of its Venezuelan subsidiaries have established a retirement plan that covers both employees and retired employees. There are pension funds with their respective independent organizations that manage financial assets. The Board of Directors of each pension fund must guarantee the best interest of the employees covered by the plan; therefore, they are responsible for establishing certain policies for the fund, including investment, contribution and indexation.

The financing of the pension plan for Venezuelan employees is based on a contribution system, with monthly mandatory contributions based on 3% of the normal salary by the employee and 9% by PDVSA, managed under individual capitalization accounts for each employee.

For employees joining PDVSA after October 1st, 2000, a pension benefit is granted equivalent to the accumulated balance in the individual capitalization account at the time of retirement. If required, PDVSA will make additional contributions to assure the minimum payment of the pension benefit, according to the contractual plan.

For employees that joined PDVSA before September 30, 2000, the calculation of the pension benefit takes into account the greater of (a) the pension amount obtained based on the cumulative balance in the individual capitalization account, (b) the pension amount according to the defined benefit plan effective until that date and (c) the minimum pension contractually defined. The conditions of the plan described above were in force until December 31, 2015.

At the meeting held on December 6, 2016, PDVSA’s Executive Committee agreed to improve the way the amount of the retirement pension were calculated. This modification includes that the pension will be increased on the basis of salary increases granted to the active workers, homologating the plans of all employees, since January 1, 2016.

In relation to these retirement plans, PDVSA does not maintain any financing agreement affecting future contributions to the plan.

In addition to retirement pension plans, PDVSA grants health and dental care plans, funeral insurance and electronic cards for food. The costs of these benefits are regognized by PDVSA on the cash method basis.

During 2015, the Oil Collective Contract (CCP for its Spanish acronym) was approved for the 2015-2017 period. This agreement includes salary improvements and other employee benefits, which were considered in the calculation of employee benefits retroactively since October 2015 onwards. The effects of these changes were recognized in the consolidated statement of profit or loss and other comprehensive income.

Until April 2, 2013, PDV Holding, Inc. sponsored three qualified defined contribution retirement and savings plans covering substantially all eligible salaried and hourly employees (see note 26). Since that date onwards, one of the three retirement plans and defined contribution savings plan was merged into the two remaining qualified plans. During the year ended on December 31, 2016, PDV Holding, Inc. recognized expenses for $27 million[$26 million in 2015 and $25 million in 2014], related to contributions to those plans.

In addition to pension plans, PDV Holding, Inc. also provides certain postretirement life insurance and health insurance benefits for eligible salaried and hourly employees at retirement. These benefits are subject to deductibles, mutual payments and other limitations and are funded on a pay-as-you-go basis. PDV Holding, Inc. reserves the right to modify or terminate these benefits at any time. PDV Holding, Inc. changed the postretirement benefit plan, for retirees older than 65 years of age, effective January 1, 2013. As a result of the change, eligible retired employees older than 65 years of age and their eligible spouses will receive a grant, which will be deposited in a retired employee reimbursement account intended to purchase individual coverage from a health insurance provider. Individuals under 65 years of age depending on eligible retired employees older than 65 years of age will continue to receive the corresponding benefits through the benefit plans for salaried and hourly employees.

A detail of pension plans and other retirement post-employment plans are summarized below (in millions of dollars):

	December 31,					
	2016	2015	2014	2016	2015	2014
	Pension plans			Other post-employment benefits		
Present value of the obligation	2,241	3,909	3,464	3,565	7,183	12,721
Fair value of plan assets, net	(2,155)	(3,333)	(3,931)	(1)	(1)	(1)
Present value of obligation (assets), net	**86**	**576**	**(467)**	**3,564**	**7,182**	**12,720**

A summary of changes in net liabilities (assets) for pension plans follows (in millions of dollars):

	Year ended December 31,								
	2016	2015	2014	2016	2015	2014	2016	2015	2014
	Present value of the obligation			Fair value of plan assets			Present value of the obligation, net		
Balance at January 1	**3,909**	**3,464**	**6,782**	**(3,333)**	**(3,931)**	**(3,428)**	**574**	**(467)**	**3,354**
Included in profit or loss:									
Current service costs	90	48	83	-	-	-	90	48	83
Financial costs (income)	1,115	207	768	(37)	(37)	(42)	1,078	170	726
Expected return on plan assets	-	-	-	(802)	(214)	(321)	(802)	(214)	(321)
Effect of exchange rates variations	(2,354)	(2,485)	(3,536)	2,170	2,792	1,620	(184)	307	(1,916)
	(1,149)	(2,230)	(2,685)	1,331	2,541	1,257	182	311	(1,428)
Included in other comprehensive income:									
Actuarial losses (gain):									
Financial hypotheses	-	669	(479)	-	(384)	(1,443)	-	283	(1,922)
Experience adjustment (1)	(452)	2,147	-	(1,192)	(1,238)	-	(1,644)	909	-
Effect of assets ceiling (2)	-	-	-	1,142	-	-	1,142	-	-
	(452)	2,816	(479)	(50)	(1,622)	(1,443)	(502)	1,192	(1,922)
Others:									
Benefits paid by the Group	(67)	(141)	(154)	74	135	154	7	(6)	-
Contributions paid by the Group	-	-	-	(115)	(369)	(365)	(115)	(369)	(365)
Contributions paid by employees	-	-	-	(62)	(87)	(106)	(62)	(87)	(106)
	(67)	(141)	(154)	(103)	(321)	(317)	(170)	(462)	(471)
Balance at December 31	**2,241**	**3,909**	**3,464**	**(2,155)**	**(3,333)**	**(3,931)**	**84**	**574**	**(467)**

(1) Data disaggregated in the actuarial analysis of 2016 and 2015. Data was not disaggregated in 2014 due to impracticability.

(2) In 2016, the amount limits the value of the pension plans assets in Venezuela (see note 38-e). At closing of fiscal years 2015 and 2014, the asset ceiling was not applicable.

A summary of the pension plan assets portfolio follows (in millions of dollars):

	December 31,		
	2016	2015	2014
Fixed rate interest instruments	(3,126)	(3,219)	(3,755)
Mixed rate interest instruments	(98)	(81)	(80)
Cash and cash equivalents	(5)	(13)	(2)
Others	(68)	(20)	(94)
Sub-total (1)	(3,297)	(3,333)	(3,931)
Effect of assets ceiling	1,142	-	-
Fair value of plan assets, net	**(2,155)**	**(3,333)**	**(3,931)**

(1) The pension plan assets portafolio is presented net of fair value.

A detail of the instrument composition of the pension plan assets portfolio specified for the year ended December 31, 2016 follows (in millions of dollars):

Fixed rate interest instruments:	
Promissory notes	(3,126)
	(3,126)
Mixed rate interest instruments:	
Managed portfolios	(98)
	(98)
Cash and cash equivalents	(5)
Others	(68)
Sub-total	**(3,297)**
Effect of assets ceiling	1,142
Fair value of plan assets	**(2,155)**

The Administrative Board of PDVSA's pension funds led an investment strategy in 2016, which mainly contemplated the acquisition of fixed rate interest instruments, denominates in U.S. dollars allowing to obtain favorable returns based on a technical rate greater than 10%.

At December 31, 2016, the portfolio contains promissory notes issued by PDVSA and measured at their fair value, which do not represent financial risk for the pension funds administration because the interest generated by such instruments has been paid periodically and represents short-term investments.

The instruments included in the pension plan assets portfolio are listed on active markets, except for the promissory notes and elements included under others, with the latter corresponding mainly to real state.

A summary of the roll forward of net liabilities for other post-employment benefits follows (in millions of dollars):

	Year ended December 31,								
	2016	2015	2014	2016	2015	2014	2016	2015	2014
	Present value of the obligation			Fair value of plan assets			Present value of the obligation, net		
Balance at January 1st	**7,183**	**12,721**	**12,429**	**(1)**	**(1)**	**(1)**	**7,182**	**12,720**	**12,428**
Included in profit or loss:									
Current service costs	116	159	131	-	-	-	116	159	131
Past service cost	-	9	5,765	-	-	-	-	9	5,765
Financial costs	3,378	1,098	1,521	-	-	-	3,378	1,098	1,521
Effect of exchange rates variation	(7,077)	(10,414)	(7,486)	-	-	-	(7,077)	(10,414)	(7,486)
	(3,583)	(9,148)	(69)	-	-	-	(3,583)	(9,148)	(69)
Included in other comprehensive income:									
Actuarial (gain) losses:									
Financial hypotheses	-	(180)	571	-	-	-	-	(180)	571
Experience adjustment (1)	20	3,879	-	-	-	-	20	3,879	-
	20	3,699	571	-	-	-	20	3,699	571
Others:									
Benefits paid by the Group	(55)	(89)	(210)	53	89	(210)	(2)	-	(420)
Contributions paid by the Group	-	-	-	(53)	(89)	210	(53)	(89)	210
	(55)	(89)	(210)	-	-	-	(55)	(89)	(210)
Balance at December 31	**3,565**	**7,183**	**12,721**	**(1)**	**(1)**	**(1)**	**3,564**	**7,182**	**12,720**

(1) Data disaggregated in the actuarial analysis for 2016 and 2015. Data was not disaggregated in 2014 due to impracticability.

During the year ended December 31, 2016, actuarial gains for employee benefits, pension plans and other post-employment benefits amounted to $1,574 million [losses for $4,998 million in 2015 and gains for $1,390 million in 2014]. They are recorded under other comprehensive income, compensated by the assets ceiling effect for $1,142 million in 2016, and net of deferred income tax for $28 million (see note 12-f).

Actuarial Assumptions and Trends

The actuarial assumptions used are as follows:

	Year ended on December 31,					
	2016	2015	2014	2016	2015	2014
	Pension plans			Other post-employment benefits		
	Percentage					
	(1)	(1)	(2)	(1)	(1)	(2)
Venezuela:						
Discount rate	4.00	4.00	34.53	4.00	4.00	34.53
Wage increase rate	-	-	30.00	-	-	30.00
Minimum pension increase rate	-	-	30.00	-	-	-
Medical inflation rate	-	-	-	2.00	2.00	34.50
Inflation rate	N/A	N/A	30.00	-	-	30.00
Food inflation rate	N/A	N/A	-	3.00	3.00	38.69
Estimated return rate on plan assets	4.00	4.00	22.27	-	-	-
Abroad:						
Discount rate	4.18	4.37	4.33	4.19	4.19	4.22
Wage increase rate	3.95	3.97	3.96	3.89	3.89	3.89
Estimated return rate on plan assets	5.27	5.27	5.27	-	-	-

(1) Inflation assumptions (real). Applicable only in Venezuela.

(2) Inflation assumptions (nominal).

An update of the assumptions at December 31, 2016 is included in note 22-b.

Since year 2013 the assumptions concerning the future mortality rate, which are based on statistics and mortality charts elaborated by the Society of Actuaries based on market experiences are separated by gender, and indicate that the average life expectancy of a retired person aged 60 in Venezuela is 21 years for men and 25 years for women. Until 2012, PDVSA's own statistics and mortality charts were used for these premises, according to which this expectation is 23 years for both men and women. Abroad, each country uses mortality rate indexes established by effective laws and pursuant to the specific post-employment benefits plan.

The long-term expected return rate for the plan assets for pension plans in Venezuela is 4% and pension plans and other post-employment benefits abroad is 5.27%. The return is based exclusively on the expected return on investments made by PDVSA in external funds to finance future pensions according to the post-employment plan. This rate is determined based on the entire investment portfolio.

PDVSA expects to pay its retirees approximately $62 million as benefits pension plans and other benefits during 2017.

Trends in the discount rate have an effect on the amounts reported. A change in the assumed percentage of this rate at December 31, 2016, considering that other actuarial assumptions remain constant could have the following effects (in millions of dollars):

	One percentage point of	
	increase	**decrease**
Discount rate:		
Service costs during the period plus financial cost	5,857	11,468
Present value of the obligation	3,253	4,936
Future salaries and pension plans:		
Service costs during the period plus financial cost	1,852	1,541
Present value of the obligation	817	773
Future medical costs:		
Service costs during the period plus financial cost	1,603	877
Present value of the obligation	677	497
Future dental costs:		
Service costs during the period plus financial cost	0.29	0.16
Present value of the obligation	0.12	0.09
Future funerary costs:		
Service costs during the period plus financial cost	17	17
Present value of the obligation	9	9
Future food costs:		
Service costs during the period plus financial cost	7,448	3,973
Present value of the obligation	3,141	2,228

The methodology used to prepare this sensitivity analysis was that set forth by IAS 19 for the determination of the present value of the defined benefit obligation, on the basis of the projected credit unit using a variation criterion of 1% by excess and by default on the premises considered for the 2016 actuarial valuation.

(23) Provisions

See accounting policies in notes 38-m and 38-s

Provisions include the following (in millions of dollars):

		December 31,		
	Note	**2016**	**2015**	**2014**
Assets retirement obligations	13	1,921	1,470	1,846
Litigation and other claims	30-c	311	334	916
Environmental issues	30-d	432	494	702
		2,664	2,298	3,464
Less current portion		162	225	606
Non-current portion		**2,502**	**2,073**	**2,858**

A summary of changes in provisions during 2016 follows (in millions of dollars):

	Assets retirement obligation	Litigations and other claims	Environmental issues	Total
Dollars -				
Balances at December 31, 2015	**1,470**	**334**	**494**	**2,298**
Increases (1)	-	204	260	464
Properties, plants and equipment increase (2)	451	-	-	451
Financial Costs (3)	306	-	-	306
Financial Income (3)	(314)	-	-	(314)
Payments, reversals and other	8	(7)	(8)	(7)
Effect of exchange rate variations	-	(220)	(314)	(534)
Balances at December 31, 2016	**1,921**	**311**	**432**	**2,664**
Less current portion	-	34	128	162
Non-current portion	**1,921**	**277**	**304**	**2,502**

(1) See note 10.

(2) See note 13.

(3) See note 7.

(24) Accruals and Other Liabilities

See accounting policies in notes 38-h and 38-p

Accruals and other liabilities are summarized below (in millions of dollars):

	Note	December 31, 2016	2015	2014
Accounts payable to related parties	32	12,234	7,402	7,001
Notes with non-financial intitutions		3,723	1,972	437
Customer advances		5,847	5,516	5,533
Notes and accounts payable to contractors		4,028	3,322	8,006
Dividends payable to non-controlling interests		2,007	2,520	1,484
Deferred income from the Joint China - Venezuela Fund	29	1,205	1,232	-
Interests payable	21	397	385	184
Contributions payable and withheld	32	263	1,395	2,827
Value added tax	12-32	200	277	264
Production tax and other taxes payable	12-32	168	1,194	1,933
Accounts payable to employees		143	432	890
Withholdings for the "Negra Matea" Fund		35	258	850
Accounts payable to non-controlling interests	32	4	4	4
Accounts payable for incorporation of assets		-	77	252
Others		50	25	2,248
		30,304	26,011	31,913
Less current portion		18,913	19,334	17,033
Non-current portion		**11,391**	**6,677**	**14,880**

PDVSA's exposure to foreign currency and liquidity risks over accruals and other liabilities is explained in note 25-a.

At December 31, 2016, notes with non-financial institutions correspond to promissory notes with funds administrators of PDVSA's active employees and retirees for $3,723 million, [$1,972 million in 2015, and $437 million in 2014], within a five-year term with 9.50% of yield, payable semiannually and with the possibility of advanced payment upon agreement by the parties.

At December 31, 2015, PDVSA reclassified $920 million of accounts payable to contractors to the current portion of accruals and other liabilities, in order to be consistent with the judgments and estimates considered at December 31, 2016.

Accounts payable to related parties

Bolivarian Republic of Venezuela

In 2007 PDVSA received from its Stockholder the net assets pertaining to the former "Hugo Chavez Frías" Orinoco Oil Belt association agreements and exploration agreements, with shared risks and profits, which decided not to migrate to the Empresas Mixtas, recognizing in this transaction a net liability with the stockholder at December 31, 2016 for $391 million, [$391 million in 2015 and $391 million in 2014], included in accounts payable to related parties. Such obligation has no established expiration date and bears no interest.

Other Related Parties

At December 31, 2016 accounts payable to related parties include promissory notes in U.S. dollars, issued to the bearer for $8,000 million with maturity dates of two years and annual interest rates of 3.5%, payable semiannually, [$6,650 million in 2015 and $6,251 million in 2014]. During the year ended December 31, 2016, these promissory notes were exchanged in the BCV, generating a discount of $400 million, included in financial costs (see note 7) [During 2014, PDVSA issued promissory notes for $4,186 million with maturity dates between 2016 and 2022, and an annual interest rate of 0.51%, payable upon maturity].

Customer advances

During 2016 dollar-denominated agreements were signed for the sale of crude oil and products to Rosneft Trading S.A., which paid in advance to PDVSA the amount of $1,485 million, [no advance was received in 2015, and $4,000 million in 2014] and detailed as follows (in millions of dollars):

Agreement Number	Advance US$	Guarantee
1st advance (May 2014)	2,000	No guarantees
2nd advance (November 2014)	2,000	No guarantees
3rd advance (May 2016)	500	No guarantees
4th advance (November 2016)	500	Collaterals and call options over the shares of certain Empresas Mixtas.
5th advance (November 2016)	485	Collaterals over 49.9% of the CITGO Holding capital stock.

All of these advances have variable interest rates, grace periods and diverse delivery dates.

The grace period of advances received in 2014 expired in May and November 2016, and as a consequence, the compliance with crude oil and products dispatch obligation with TNK Trading International S.A. (Rosneft Trading S.A. related Company) commenced.

Notes and accounts payable to contractors

At December 31, 2016, notes and accounts payable to contractors include credit notes that PDVSA signed with some of its main suppliers for $1,366 million, at an interest rate of 6.5%, a grace period of three months and maturity in three years, with amortizations and interest payable quarterly.

(25) Financial Instruments

See accounting policy in note 38-p

(a) Financial Risks Management

PDVSA is exposed to the following risks relating to the use of financial instruments:

- Credit risk.
- Liquidity risk.
- Market risk.

This note provides information with regards to PDVSA's exposure to every of the above-mentioned risks, objectives, policies and procedures to measure and manage such risks, as well as its capital management.

PDVSA's Board of Directors is responsible for establishing and overseeing its risk management process. During strategic and budgetary planning processes, the business risks effect is estimated, in order to gaining a comprehensive view of its impact on PDVSA.

Risk management policies are established with the aim to identifying and analyzing the risks PDVSA faces, fixing adequate limits and controls, and monitoring the risks and the compliance with such limits. Policies and risk management systems are reviewed regularly so these reflect the changes in market conditions and PDVSA's activities.

i) Credit Risk

Credit risk is the risk of financial loss PDVSA may face if a customer or counterparty in a financial instrument fails to meet its contractual obligations. It may occur mainly during crude oil and products sales operations, recoverable value added tax, restricted cash, and cash and cash equivalents. In order to mitigate credit risk:

- Accounts receivable from transactions with the Stockholder are considered risk-free instruments (see notes 14 and 17).
- Notes and accounts receivable are distributed throughout a broad and reliable global customer portfolio and their financial position is assessed periodically. As a result of this assessment, an allowance for impairment is recognized in the consolidated financial statements (see note 17).
- Recoverable value-added tax corresponds to vested rights by PDVSA, based on the effective Venezuelan legislation, and their recovery is highly probable as these are considered risk-free instruments (see notes 12-1 and 32).
- Restricted cash corresponds to trusts, letters of credit, liquidity accounts allocated in various financial institutions and oil companies selected by PDVSA, in order to diversify the associated credit risk (see note 15).
- Cash and cash equivalents constitute instruments allocated in diverse financial institutions selected by PDVSA, in order to diversify the associated credit risk.

Exposure to Credit Risk

The carrying value of financial assets represents the maximum level of credit risk exposure. A summary follows (in millions of dollars):

		December 31,		
	Note	**2016**	**2015**	**2014**
Accounts receivable and other assets	14	3,243	4,819	7,001
Recoverable value-added tax	12-1	318	490	2,903
Restricted cash	15	802	930	1,576
Notes and accounts receivable	17	22,678	18,206	24,357
Cash and cash equivalents		8,066	5,821	7,911
Total		**35,107**	**30,266**	**43,748**

The maximum credit risk exposure for the accounts receivable per geographic region follows (in millions of dollars):

	Note	December 31, 2016	2015	2014
Central America and the Caribbean		1,465	2,113	3,909
South America		352	397	767
Europe		1,390	1,575	1,575
Total non-current portion	**14**	**3,207**	**4,085**	**6,251**
Venezuela		15,144	11,559	14,457
United States of America and Canada		2,661	2,081	3,100
Central America and the Caribbean		1,012	2,919	4,348
Asia		1,941	414	616
South America		709	201	299
Europe		1,211	1,032	1,537
Total current portion	**17**	**22,678**	**18,206**	**24,357**

The maximum exposure to credit risk for the accounts receivable per type of customer follows (in millions of dollars):

	Note	December 31, 2016	2015	2014
Stockholder		3,207	4,085	6,251
Total non-current portion	**14**	**3,207**	**4,085**	**6,251**
Trade		7,114	7,069	9,518
Energy agreements		56	143	105
Total current portion	**17**	**7,170**	**7,212**	**9,623**

Impairment

The aging of current notes and trade accounts receivable follows (in millions of dollars):

	Note	December 31, 2016	2015	2014
Less than 30 days		2,927	3,904	4,840
From 31 to 180 days		2,480	1,519	2,238
From 181 days to one year		1,569	804	2,006
More than one year		194	985	539
		7,170	**7,212**	**9,623**
Less allowance for doubtful accounts	17	521	535	539
Total		**6,649**	**6,677**	**9,084**

The maximum exposure to credit risk is concentrated on trade accounts receivable. PDVSA estimates the allowance for doubtful accounts based on the aging of the balances and the results of the assessment of the customer portfolio.

The changes in the allowance for doubtful accounts during the years ended December 31, 2016, 2015 and 2014 follows (in millions of dollars):

		Year ended December 31,		
	Note	**2016**	**2015**	**2014**
Balances at January 1		535	539	537
(Decrease) increase		(14)	-	2
Reclassification of assets held for disposal		-	(4)	-
Balances at December 31	**17**	**521**	**535**	**539**

Based on historical delay interest index, PDVSA's management considers that an allowance for doubtful accounts is not required in relation to trade accounts receivable aged less than one year. Trade accounts receivable are distributed among a worldwide reliable customer portfolio.

ii) Liquidity Risk

Liquidity risk is the risk that PDVSA will encounter difficulties in meeting its financial obligations as these come due. PDVSA's approach to managing liquidity consists of assuring, as far as possible, that it will always have sufficient liquidity to meet its obligations when due, both under ordinary and stressed conditions, without incurring in unacceptable losses or risking its reputation.

As a fundamental policy, PDVSA assures it has enough cash available to meet its obligations, including the payment of financial obligations; this excludes the probable impact of extreme circumstances that may not be reasonably predicted, such as natural disasters. Furthermore, PDVSA maintains credit facilities that are also available to meet cash requirements.

PDVSA keeps certain unused credit facilities for the implementation of specific projects, which would not jeopardize the Group's cash flow. In addition, PDVSA continues to seek new financing to cover funding needs for its activities, promote projects development, and meet its obligations.

PDVSA has carried out activities such as: renewal of investment certificates and other loans, new financing with non-controlling interests to develop investment projects, financial operations with guarantee of assets or shares of subsidiaries, partial restructuring of financial debt and issuance of credit notes in order to mitigate the effects that the decline in crude oil and product prices has had on its liquidity (see note 21).

The contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements are presented below (in millions of dollars):

		December 31, 2016						
	Note	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**
Non-derivative financial liabilities:								
Financial debt (1)	21	40,379	60,114	5,627	4,468	9,207	19,447	21,365
Financial leases liabilities	21	697	851	60	60	274	169	288
Total financial debt		41,076	60,965	5,687	4,528	9,481	19,616	21,653
Other liabilities (included in accruals and other liabilities) (2) (3)	24	22,976	22,976	1,832	8,662	2,655	9,045	782
Customers advances (3)	24	5,847	598	171	299	120	8	-
Payables to related parties	24 - 32	6	6	6	-	-	-	-
Trade payable	24	19,818	19,818	19,818	-	-	-	-
Derivative financial liabilities:								
Future exchange contracts:								
Capital outflows		5	5	4	1	-	-	-
Capital inflows		(6)	(6)	(6)	-	-	-	-
Total financial liabilities		**89,722**	**104,362**	**27,512**	**13,490**	**12,256**	**28,669**	**22,435**

(1) PDVSA has certain obligations included in its financial debt with restrictions. A future breach of the restrictions may require PDVSA to pay these obligations earlier than indicated in this summary.

(2) Includes accounts payable to related parties, notes and accounts payable to contractors, interest payable, withholdings and contributions payable, value added tax, production tax and other taxes payable, accounts payable to non-controlling interests and accounts payable for incorporation of assets .

(3) Undiscounted contractual cash flows.

		December 31, 2015						
	Note	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**
Non-derivative financial liabilities:								
Financial debt	21	43,240	65,735	4,014	6,023	13,287	16,078	26,333
Financial leases liabilities	21	476	633	45	44	179	162	203
Total finacial debt		43,716	66,368	4,059	6,067	13,466	16,240	26,536
Other liabilities (included in accruals and other liabilities) (1)	24	18,548	17,628	11,604	984	1,120	3,569	351
Payables to related parties	32	10	10	10	-	-	-	-
Trade payable		18,122	18,122	18,122	-	-	-	-
Derivative financial liabilities:								
Future exchange contracts:								
Capital outflows		15	15	14	1	-	-	-
Capital inflows		(14)	(14)	(13)	(1)	-	-	-
Total financial liabilities		**80,397**	**102,129**	**33,796**	**7,051**	**14,586**	**19,809**	**26,887**

(1) Includes accounts payable to related parties, notes and accounts payable to contractors, interest payable, withholdings and contributions payable, value added tax, production tax and other taxes payable, accounts payable to non-controlling interests and accounts payable for incorporation of assets .

		December 31, 2014						
	Note	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**
Non-derivative financial liabilities:								
Financial debt	21	45,211	69,583	2,862	6,376	18,167	11,456	30,722
Financial leases liabilities	21	525	717	45	45	176	197	254
Total financial debt		45,736	70,300	2,907	6,421	18,343	11,653	30,976
Other liabilities (included in accruals and other liabilities) (1)	24	22,392	22,392	16,385	2,444	-	3,269	294
Payables to related parties	32	18	18	18	-	-	-	-
Trade payable		20,837	20,837	20,837	-	-	-	-
Derivative financial liabilities:								
Future exchange contracts:								
Capital outflows		42	165	123	38	4	-	-
Capital inflows		(42)	(78)	(78)	-	-	-	-
Total financial liabilities		**88,983**	**113,634**	**40,192**	**8,903**	**18,347**	**14,922**	**31,270**

(1) Includes accounts payable to related parties, notes and accounts payable to contractors, interest payable, withholdings and contributions payable, value added tax, production tax and other taxes payable, accounts payable to non-controlling interests and accounts payable for incorporation of assets .

iii) Market Risk

Market risk is the risk that changes in market conditions, such as foreign exchange rates and interest rates may affect PDVSA's income or the value of its financial instruments. The purpose of market risk management is to administer and control exposures to this risk within reasonable parameters, and at the same time to optimize profitability.

The subsidiary CITGO uses derivative financial instruments to manage market risks. At December 31, 2016, 2015 and 2014, and for the years then ended, PDVSA has not specified derivatives as hedging instruments for the operations in Venezuela.

PDVSA is exposed to exchange risk for sales, purchases, assets and liabilities denominated in currencies other than the functional currencies of PDVSA's entities. Foreign currency transactions are primarily denominated in bolivars, and PDVSA's policy consists of managing the net position of monetary assets and liabilities in such currency, in order to reduce the possible impact on the Group due to exchange rate variations in respect of the functional currency (see notes 38-b and 35-a).

Foreign Currency Risk

PDVSA has the following monetary assets and liabilities denominated in currencies other than their functional currency, which are translated to U.S. dollars at the exchange rate in effect at the date of the consolidated statement of financial position (in millions of dollars):

	December 31,		
	2016	**2015**	**2014**
Monetary assets:			
Bolivars	6,628	26,894	31,234
Euros	2,642	2,754	3,967
Other currencies	-	-	154
	9,270	**29,648**	**35,355**
Monetary liabilities:			
Bolivars	12,799	40,062	54,687
Yens	99	110	124
Other currencies	-	29	46
	12,898	**40,201**	**54,857**
Net monetary liability position	**(3,628)**	**(10,553)**	**(19,502)**

Further information on exchange rates with respect to the U.S. dollar the reporting date and average annual exchange rates are indicated in note 38-b.

Foreign Exchange Sensitivity Analysis

A reasonably possible strengthening (weakening) of the bolivar with respect to the U.S. dollar, at the consolidated financial statements date might have affected the measurement of financial instruments in foreign currency, as well as the equity and profit or loss before income tax, in the amounts presented below (in millions of dollars).

This analysis assumes that all the other variables remain constant, and does not consider the impact of projected sales and purchases:

	December 31,	
	Strengthening (5%)	**Weakening (5%)**
Effect of position in bolivars	294	(325)
Effect of position in euros	(126)	139
Effect of position in yen	5	(5)

Interest Rate Risk

A detail of PDVSA`s financial instruments per type of interest rate follows (in millions of dollars):

		December 31,		
	Note	**2016**	**2015**	**2014**
Fixed rate instruments -				
Time deposit		77	647	734
Financial debt	21	(32,331)	(33,927)	(37,384)
Accounts payable to related parties	24	(12,234)	(7,402)	(7,001)
Notes with non-financial entities	24	(3,723)	(1,972)	(437)
		(48,211)	(42,654)	(44,088)
Variable rate instruments -				
Financial debt	21	(8,745)	(9,789)	(8,352)
Total		**(56,956)**	**(52,443)**	**(52,440)**

Fair Value Sensitivity Analysis for Fixed-rate Instruments

A change in the fixed interest rates would not modify PDVSA's consolidated results, since the Company does not account for fixed rate financial assets and liabilities using the fair value hedge accounting model, and they have not allocated derivatives as hedging instruments.

Cash Flow Sensitivity Analysis for Financial Debt at Variable Rate

A change in one percentage point in the interest rate at the consolidated financial statements date would have increased (decreased) profit or loss before income tax in the amounts shown below. This analysis assumes that all other variables remain constant and it is performed using the same bases as in 2015 and 2014 (in millions of dollars):

	Results	
	Increase by one percent	**Decrease by one percent**
December 31, 2016 -		
Financial debt	75	(75)
December 31, 2015 -		
Financial debt	68	(54)
December 31, 2014 -		
Financial debt	64	(63)

iv) Capital Management

As Venezuela's national oil and gas company, PDVSA's approach to managing its equity consists of safeguarding the Company's ability to continue as a going concern, so that it continues to drive the country's development and comprehensive transformation. Equity consists of capital stock, retained earnings, stockholder's additional contribution, and non-controlling interest.

PDVSA's strategy has been to progressively strengthen its equity position through management decisions based on changes in economic conditions and risk characteristics in the operations performed. In order to strengthen its capital structure, PDVSA considers strategies for dividends payment, the creation or transfer of reserves and the sale of assets.

(b) Classification and Fair Value of Financial Instruments

The following table shows the carrying amounts and fair values of financial assets and liabilities, included in consolidated statement of financial position. It does not include information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. The amounts are as follows:

		Carrying value				Fair value			
	Note	**Designated at fair value**	**Loans and accounts receivable**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
December 31, 2016 -									
Non-current accounts receivable	14	-	3,243	-	3,243	-	-	-	-
Recoverable value-added tax	12	318	-	-	318	-	318	-	318
Notes and accounts receivable	17	-	22,678	-	22,678	-	-	-	-
Advances for special contributions and other taxes	18	1,755	-	-	1,755	-	-	1,755	1,755
Derivative assets (included in prepaid expenses and other assets)	18	6	-	-	6	-	6	-	6
Restricted cash	15	-	802	-	802	-	-	-	-
Trading securities (included in prepaid expenses and other assets)	18	42	-	-	42	-	42	-	42
Cash and cash equivalents		-	8,066	-	8,066	-	-	-	-
Financial debt	21	-	-	(41,076)	(41,076)	(18,786)	(9,533)	-	(28,319)
Trade payable		-	-	(19,824)	(19,824)	-	-	-	-
Other liabilities (included in accruals and other liabilities)(1)	24	-	-	(7,928)	(7,928)	-	-	-	-
Financial instruments (2)	24	-	-	(18,265)	(18,265)	-	(12,828)	-	(12,828)
Derivative liabilities (included in accruals and other liabilities)	24	(6)	-	-	(6)	(2)	(4)	-	(6)
December 31, 2015 -									
Non-current accounts receivable	14	-	4,819	-	4,819	-	-	-	-
Recoverable value-added tax	12	490	-	-	490	-	490	-	490
Notes and accounts receivable	17	-	18,206	-	18,206	-	-	-	-
Derivative assets (included in prepaid expenses and other assets)	18	21	-	-	21	-	21	-	21
Restricted cash	15	-	930	-	930	-	-	-	-
Trading securities (included in prepaid expenses and						-			
other assets)	18	44	-	-	44	-	44	-	44
Cash and cash equivalents		-	5,821	-	5,821	-	-	-	-
Financial debt	21	-	-	(43,716)	(43,716)	(11,893)	(13,312)	-	(25,205)
Trade payable		-	-	(18,132)	(18,132)	-	-	-	-
Other liabilities (included in accruals and other liabilities)(1)	24	-	-	(18,598)	(18,598)	-	-	-	-
Derivative liabilities (included in accruals and other liabilities)	24	(15)	-	-	(15)	(6)	(9)	-	(15)
December 31, 2014 -									
Non-current accounts receivable	14	-	7,001	-	7,001	-	-	-	-
Recoverable value-added tax	12	2,903	-	-	2,903	-	2,903	-	2,903
Notes and accounts receivable	17	-	24,357	-	24,357	-	-	-	-
Derivative assets (included in prepaid expenses and other assets)	18	62	-	-	62	-	62	-	62
Restricted cash	15	-	1,576	-	1,576	-	-	-	-
Trading securities (included in prepaid expenses and other assets)	18	50	-	-	50	-	50	-	50
Investments at cost	14	-	10	-	10	-	-	-	-
Cash and cash equivalents		-	7,911	-	7,911	-	-	-	-
Financial debt	21	-	-	(45,736)	(45,736)	(2,973)	(24,506)	-	(27,479)
Trade payable		-	-	(20,855)	(20,855)	-	-	-	-
Other liabilities (included in accruals and other liabilities) (1)	24	-	-	(22,392)	(22,392)	-	-	-	-
Derivative liabilities (included in accruals and other liabilities)	24	(41)	-	-	(41)	(26)	(15)	-	(41)

(1) Includes accounts payable to related parties, notes and accounts payable to contractors, interests payable, withholdings and contributions payable, value added tax, production tax and other taxes payable, accounts payable to non-controlling interests and accounts payable for incorporation of assets.

(2) Includes notes with non-financial entities, customer advances, notes payable to contractors and accounts payable to related parties, include in accruals and other liabilities.

Reconciliation of Fair Value of Level 3 Financial Instruments

At December 31, 2016, the fair value reconciliation of level 3 financial instruments is the following (in millions of dollars):

	Dollars
Balances at January 1	-
Increase from special contribution advances	1,755
Balances at 31 December	1,755

Sensitivity Analysis of Level 3 Financial Instruments

A change of one percentage point in the projected prices of crude oil would have increased (decreased) the consolidated profit or loss before income tax, in the amounts presented below. This analysis assumes that all other variables remain constant (effect in millions of dollars):

	December 31, 2016	
	Increase (5%)	Decrease (5%)
Special contribution advances	11	(11)

(c) Measurement of Fair Values

The valuation techniques used in measuring fair values, as well as the significant observable and unobservable inputs used are summarized as follows:

Financial instrument measured at fair value -

Type	Valuation Techniques	Significant unobservable inputs	Inter-relationship between significant observable inputs and fair value measurement
Recoverable value - added tax	The valuation model considers the present value of expected payments, discounted using a risk-adjusted discount rate for similar instruments payable in the original currency of the transaction. The expected payment is determined considering an expected settlement date of tax credits authorized by the tax administration.	Risk-adjusted discount rate (11,25% in 2016, 6,37% in 2015 and 9,436% in 2014). Based on estimates of discount rates.	The estimated fair value would increase (decrease) if: ▪ New information about approvals or rejections of applications for tax credits by the Venezuelan tax authorities. ▪ Estimates of the settlement date of future tax credits may change the effects on the discounted cash flows. ▪ The discount rate adjusted for risk is lower (higher). Usually, a change in the annual discount rate impacts on the discounted cash flows.
Derivative assets (included in prepaid expenses and other assets)	Fair value at acquisition date.	Not applicable	Not applicable
Trading assets (included in prepaid expenses and other assets)	Market comparison techniques: The fair values are based on quoted prices. Similar contracts are traded in an active market and the prices reflect actual transactions with similar instruments.	Not applicable	Not applicable
Derivative liabilities (included in accruals and other liabilities)	Market comparison techniques: The fair values are based on quoted prices. Similar contracts are traded in an active market and the prices reflect actual transactions with similar instruments.	Not applicable	Not applicable

Financial instrument measured at fair value level 3

Type	Valuation technique	Significant non-observable variables	Interrelation between significant non-observable variables and fair value measurement
Advances for special contributions, tax and other taxes.	Discounted cash flows: The valuation model considers the present value of the discounted expected payment, using a risk-adjusted discount rate.	- Projected crude oil prices. - Estimated export volumetry.	The estimated fair value would increase (decrease) by any change in projected crude oil prices and estimated export volumetry.

Financial instrument not measured at fair value -

Type	Valuation technique
Non-current receivables	Amortized cost
Note and accounts receivable	Amortized cost
Financial debt	Discounted cash flow
Accounts payable to suppliers	Amortized cost
Other liabilities (included in accruals and other liabilities) (1)	Amortized cost and discounted cash flow
Customers advances	Discounted cash flow

(1) Includes accounts payable to related parties, notes and accounts payable to contractors, interests payable, withholdings and contributions payable, value added tax, production tax and other taxes payable, accounts payable to non-controlling interests and accounts payable for incorporation of assets.

(26) PDVSA's Entities

PDVSA's most important entities are listed below:

	Country	Porcentage interest (%)	Main activities
PDVSA Petróleo, S.A.	Venezuela	100	Concentrates most of the country's exploration, production and refining activities for crude oil and products, as well as the trading and supply to the domestic and international markets.
Corporación Venezolana del Petróleo, S.A. (CVP)	Venezuela	100	Manages and administrates the businesses related to PDVSA's oil activities within the national territory in association with domestic or foreign-capital oil companies, which conduct crude oil exploration, production, upgrading and trading activities at the Orinoco Oil Belt "Hugo Chávez Frías" and the exploration and production of crude oil in traditional areas.
PDVSA Gas, S.A.	Venezuela	100	Exploration and exploitation of non-associated gas and extraction and fractionation of Natural Gas Liquids (NGL) transportation, distribution and sale of methane. Because of its importance, this subsidiary is present in almost all the country.
PDV Marina, S.A. (PDV Marina)	Venezuela	100	Maritime distribution and shipping of hydrocarbons and derivatives. This subsidiary was incorporated with a view to becoming PDVSA's shipping company and managing the transportation business of the Venezuelan oil industry.
PDV Holding, Inc.	Unites States of America	100	PDVSA's main refining and marketing operation in the United States of America is represented by CITGO, which is wholly-owned by CITGO Holding Inc., ultimately wholly owned by PDV Holding, Inc.

(27) Non-controlling Interests

See accounting policy in note 38-a

A summary of the information on non-controlling interests prior to intercompany transactions elimination is presented below (in millions of dollars):

	At December, 31 2016				
	Empresas Mixtas Oil Belt [2]	Empresas Mixtas Western area	Other [3]	Eliminations	Total
CVP's non-controlling interests -					
Non-controlling interests percentage:	**30%-40%**	**25%-40%**	**26%-40%**		
Non-current assets	17,314	7,698	6,654		
Current assets	21,255	11,956	8,195		
Non-current liabilities	(1,400)	(1,292)	(1,046)		
Current liabilities	(19,906)	(8,430)	(8,480)		
Net assets	**17,263**	**9,932**	**5,323**		
Net assets attributable to the non-controlling interest in CVP	7,867	4,035	2,432	(1,065)	13,269
Other net assets attributable to the non-controlling interest [1]					10,349
Total non-controlling interests					23,618
Revenues	7,530	3,172	1,831		
Profit	3,249	2,461	2,594		
Total comprehensive income	**3,249**	**2,461**	**2,594**		
Net profit (loss) attributable to non-controlling interests	1,372	1,016	1,076	(204)	3,260
Other comprehensive income distributed to the non-controlling interest [1]					191
Total net income attributable to other non-controlling interests					3,451
Net cash (used in) provided by the operating activities	(3,931)	(2,318)	936		
Net cash used in investing activities	(712)	(70)	(780)		
Net cash provided by (used in) financing activities	4,727	2,243	(23)		
Net Increase (decrease) in cash and cash equivalents	**84**	**(145)**	**133**		

[1] Includes the non-controlling interests of PDVSA América, S.A. and PDVSA Industrial, S.A.

[2] Corresponds to Empresas Mixtas under the direction of "Hugo Chávez Frías" Orinoco Oil Belt.

[3] Corresponds to Empresas Mixtas under the direction of the Oil Belt (new developments), east, and offshore.

A detail of the entities forming part of the non-controlling interests in Empresas Mixtas follows:

Empresas Mixtas Oil Belt [1]	Empresas Mixtas Western	Other
Petrocedeño, S.A.	Baripetrol, S.A.	Boquerón, S.A.
Petrocuragua, S.A.	Lago Petrol, S.A.	Petrobicentenario, S.A.
Petrodelta, S.A.	Petrolera Bielovenezolana, S.A.	Petrocarabobo, S.A.
Petroguárico, S.A.	Petroboscán, S.A.	Petrocumarebo, S.A.
Petrolera Kaki, S.A.	Petrocabimas, S.A.	Petrolera Güiria, S.A.
Petrokariña, S.A.	Petroindependiente, S.A.	Petroindependencia, S.A.
Petrolera Indovenezolana, S.A.	Petroperijá, S.A.	Petrojunín, S.A.
Petromonagas, S.A.	Petroregional del Lago, S.A.	Petromacareo, S.A.
Petronado, S.A.	Petrolera Sino-Venezolana, S.A.	Petromiranda, S.A.
Petropiar, S.A.	Petrourdaneta (Tierra Oeste), S.A.	Petrolera Paria, S.A.
Petroritupano, S.A.	Petrowayu, S.A.	Petroquiriquire, S.A
Petrolera Sinovensa, S.A.	Petrozamora (Tierra Este), S.A.	Petrosucre, S.A.
Petrolera Venango Cupet, S.A.		Petrourica, S.A.
Petrovenbras, S.A.		Petrovictoria, S.A.
Petrozumano, S.A.		Petrowarao, S.A.

[1] "Hugo Chavez Frías" Orinoco Oil Belt

(28) Operating Leases

See accounting policy in note 38-t

Future payments for operating leases contracts follows (in millions of dollars):

	December 31,		
	2016	**2015**	**2014**
Maturity -			
Less than one year	361	344	351
From one to five years	1,009	1,148	1,536
More than five years	727	668	442
Estimated future lease payments	**2,097**	**2,160**	**2,329**

Operating leases expenditure during 2016 totaled approximately $174 million [$175 million in 2015 and $220 million in 2014], which correspond mainly to terminals, buildings and heavy-load vehicles. This cost is included in operating expenses in the consolidated statement of profit or loss and other comprehensive income.

(29) Government Grants

See accounting policy in note 38-h

In 2016, PDVSA received a government grant for $5,726 million for the difference between the selling price and the production costs for the sale of products in Venezuela, which were recognized as accounts receivable from the stockholder. This amount includes recognition of $3,692 million for the sale of 91 and 95-octane gasoline and $2,034 million for the sale of diesel fuel. The grant was recognized reducing operating expenses in the consolidated statement of profit or loss and other comprehensive income for the year 2016 and is presented as part of the current portion of accounts receivable from related parties (see notes 9, 17 and 36-p). During the years ended December 31, 2015, and 2014, PDVSA did not receive grants for this purpose.

In 2015, PDVSA received $1,232 million as a grant from the Chinese-Venezuelan Joint Fund, through BANDES, for the acquisition of goods and services to execute oil projects, which were recognized as deferred income as part of accruals and other liabilities in the consolidated statement of financial position. During 2016, PDVSA amortized this grant in $27 million. At December 31, 2016, $1,205 million are included in accruals and other liabilities on account of this deferred income. [During 2015, there were no amortizations for this concept] (see note 24).

(30) Commitments and Contingencies

See accounting policy in note 38-s

(a) Guarantees

At December 31, 2016, CITGO maintains a guarantee commitment for $6 million to secure debts of subsidiaries. The Group has not accounted for liabilities under this heading. Some PDVSA's subsidiaries have guarantees for the completion of works related to debt and financing agreements of project partnerships.

At December 31, 2016, 2015 and 2014, PDVSA has not accounted for liabilities for these concepts, as historically, claims resulting from guarantees have not been significant.

(b) Agreements with the Organization of the Petroleum Exporting Countries (OPEC)

The Republic is a member of the OPEC, an organization mainly engaged in establishing agreements to ensure the stabilization of crude oil prices through production quotas (see note 1).

At November 30, 2016, an agreement was reached at the headquarters of the OPEC in Vienna to establish a production of 1.97 million barrels per day of crude oil for Venezuela, resulting in a reduction of 95,000 barrels per day for the main oil sales contracts, in order to influence the stabilization of the oil market. The OPEC proposal reaffirms the commitment made by the Organization and the non-OPEC countries to freeze and reduce the oil production agreed during the meeting in Algeria in September 2016. The agreement will come into force in January 2017 and could be renewed in six months (see notes 33 and 36-d).

(c) Litigation and Claims

Based on the analysis of the information available, at December 31, 2016, an estimate of $311 million has been included under provisions (see note 23). Although it is not possible to anticipate the outcome of these demands and claims, the management, based in part on advice of their legal attorneys, does not consider probable that losses associated with the legal proceedings indicated above, exceed amounts already recognized, will generate significant amounts to PDVSA’s consolidated financial position or its operating results.

In addition, PDVSA maintains other litigations and claims:

- The companies Conoco Phillips Petrozuata, B.A. and Phillips Petroleum Company Venezuela Limited filed a lawsuit against PDVSA, in relation to the Petrozuata and Hamaca projects. It was submitted to the International Court of Arbitration of the International Chamber of Commerce of Paris, France. The trial began in 2015 and at December 31, 2016 has not made significant progress.
- PDVSA is also involved in other claims and legal actions in the normal course of its operations totaling $3 million, at December 31, 2016.

In the opinion of the management and their legal attorneys, the final outcome of these actions or claims will not have a materially adverse effect on PDVSA's consolidated financial position, its operating results or liquidity.

(d) Compliance with Environmental Regulations

The majority of PDVSA’s subsidiaries, both in Venezuela and abroad, are subject to various environmental laws and regulations which may require significant expenditures to modify their facilities and prevent or remedy the environmental impact of waste disposal and spills of pollutants. In the United States of America and Europe, operations are subject to several federal, state and local laws and regulations, which may require companies to take actions to remedy or relieve the impact on the environment of early plant decommissioning or spills of pollutants.

PDVSA has invested approximately $11 million to complete the implementation of their Risk Comprehensive Management (SIR-PDVSA®) System, in compliance with the provisions set forth in the Organic Law on Prevention, Working Conditions and the Work Environment 2005, and the Organic Law on the Office of the Republic’s General Comptroller and the National System of Fiscal Control. Additionally, PDVSA has an investment plan to comply with environmental regulations in Venezuela, whereby a total of $322 million was executed in environmental enhancement projects, as well as $260 million to manage investments related to occupational hygiene during 2016. CITGO estimates investments of approximately $192 million for projects regulating environmental risks between 2015 and 2019. In addition, at December 31, 2016, 2015, and 2014, provisions are held to cover costs to remedy environmental issues (see note 23).

In addition as part of their environmental responsibility, PDVSA has designed a plan for environmental remediation and restoration in relation to the liabilities generated until 2004. This plan consider the remediation of pits and out-of-specification mud and crude oil, hazardous materials and waste, facilities, abandoned equipment and equipment to be dismantled, areas impacted by oil-related activities and radioactive sources. Based on the analysis of the detailed information available, at December 31, 2016 PDVSA recognized $432 million for this obligation (see note 23).

CITGO has received several notices for environment violation from the Environmental Protection Agency (EPA) in United States of America and other regulatory agencies, which include notices under the United States of America’s Federal Clean Air Act, and could be designated as a potentially responsible party jointly with other companies with respect to sites under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). These notices are being reviewed and, in some cases, remediation actions are being taken. CITGO is committed to negotiate agreements with the abovementioned authorities.

Conditions that require additional expenditures at various sites may exist, including, but not limited to, PDVSA’s operating complexes, service stations and crude oil storage terminals. The management believes that these matters, in the normal course of business, will not have a material effect on the financial position, liquidity or consolidated operations of PDVSA.

(31) Investigation Cases

The main cases on which the Company is currently performing internal or independent investigations are described below:

(a) Procurement contracts for goods and related services for the "Hugo Chávez Frías" Orinoco Oil Belt.

PDVSA has initiated an investigaction on alleged irregular acts which became public February 2017, and resulting from an arrest warrant against a director and other Company officials, in relation to a procurement process of goods and services for the "Hugo Chávez Frías" Orinoco Oil Belt (FPO for its Spanish acronym).

With the support of various claims received and the collection of other evidence obtained through their internal control mechanisms, PDVSA provided the competent authorities with enough proof for them to issue the detention of such officials involved.

This investigation is being carried out with internal resources and the support of external and internationally-reputed specialists and under the instruction and direction of PDVSA's Audit Commission and, among others, the following procedures have been considered:

- Identification of transactions related to the procurement of goods and services for the FPO that might be affected by these alleged irregular acts, and therefore, determine a representative sample useful for further examination.
- Review of files, payments and other documentation from providers selected, aiming to identify any evidence of fraud.
- Identification of probable fraud modality, control gaps and list of people of interest who may be responsible with regard to these facts.
- Identification of entities and individuals related to providers which evidenced irregular behaviors and potential overpricing.
- To determine, and then delimitate and calculate the overpricing percentages among the population affected. Transactions with providers which evidenced possible overpricing were taken into consideration during this procedure.
- Estimation of the monetary effect, for which the Company developed a method comprising comparison and analysis of internal financial data and the collection of market prices, among others.

In the preparation and presentation of their consolidated financial statements for the year ended 31 December 2016, the Management has considered the monetary effect determined in this first stage of the investigation.

(b) International procurement contracts for goods and related services signed by a subsidiary of PDVSA, between 2009 and 2014

In December 2015, the Southern District of Texas Court, Houston Division, in the United States of America, introduced an indictment against the representatives of a group of contractors and providers of PDVSA, with regard to certain violations to anti-corruption and against money laundering laws, among other charges, in connection with international procurement contracts for goods and related services signed by a subsidiary of PDVSA, between 2009 and 2014.

The Inquiry and Control Commission, as support body of the Audit Commission leads these investigations, which are being carried out through the support of internationally-renowned external specialists on fraud areas, accounting and laws, who report to the Audit Commission and PDVSA's Board of Directors periodically about their progress.

In order to prevent situations of this sort from happening again, the Company has established, among others, the following actions:

- Strengthen the design and implementation of certain internal controls related to the compliance with Venezuelan and international legislations in force applicable to the Company's activities.
- Establish new procedures and controls in the internal process of payment for providers.
- By way of preventive measure, block certain entities listed under PDVSA's contractors' auxiliary register and who present certain signs that may relate them to the entities and individuals under investigation.

- Create a department to verify and conduct investigation and analysis procedures of all related goods and services suppliers.
- Update and enhance the code of ethics, including the development and implementation of a section dedicated to business conduct.

This investigation is still in progress. Nevertheless, at June 2016, some matters of interest had already been identified:

- Confirmation that the Company was a victim of fraud concerning the international procurement process of goods and related services.
- Identify the modalities through which fraud was committed, as well as the violations of the internal controls that let this situation happen.
- Certain people of interest were identified, people who might have taken part and were responsible for the events or who could contribute to the investigation's objectives attainment.
- Evidence allowing to isolate the transactions affected by the fraud from the rest of the transactions related to international procurement of goods and related services. This provided elements to consider that those irregular events were not generalized for all the transactions of international procurement of goods and related services, performed through one of the Group's subsidiaries.

As reported, PDVSA was a victim of a fraud perpetrated by some former contractors and providers, who in coordination with some former employees signed procurement contracts through irregular actions.

To date, eight individuals implicated have pleaded guilty of said fraud in various procedural occasions before the Southern District of Texas Court, Houston Division, in the United States of America.

The Company has made great progress in this case, which remains in course, and has continued to strengthen its internal controls, has implemented new mechanisms and procedures to prevent similar situations and to guarantee their timely prevention, detection and response.

In order to compensate the damages suffered due to these irregular events, the following actions have been taken:

- PDVSA has introduced a restitution request to have its victim condition acknowledged and have the defendants instructed to indemnify the Company for the damages suffered.
- The immediate payment suspension order in favor of the companies related to the people indicted in Houston, Texas was instructed. By virtue of this decision, several of those companies initiated claims in arbitral courst requesting the payment of allegedly-owed invoices.
- PDVSA has identified assets and goods from people related to these irregular events in various countries, and the corresponding prosecution has been approved, both civil and criminal, in the corresponding foreign jurisdictions.

(c) Other

During the first semester of 2017, PDVSA initiated other investigations of lesser importance among which there are public cases linked to providers of public works and services. In one of the cases, related to a construction field provider, all transactions carried out with this provider or with related entities during the last five years were identified, and the contracting processes and related documents were reviewed. This investigation is in progress and up to the date of this report no evidence of irregular behavior in the transactions and contracting processes with that Company or related entities has been identified, nor any possible effect having to be recognized in the consolidated financial statements of the year ended 31 December 2016. Furthermore, in other case related to the acquisition of certain equipment for maritime facilities located in the Eastern side of the country, during early 2017 arrest warrants against two former managers were issued, and an internal investigation for the corresponding contracting process was initiated, aiming at identifying any possible irregular behavior in the internal processes, taking corrective measures, and establishing responsibilities and penalties on the officials and suppliers involved. To the date of this report no relevant effect on the consolidated financial statements of the year ended 31 December 2016 has been identified.

The investigations will continue in order to identify more accurately all those parties responsible for these irregular events, to clarify the possible effects on Company's equity and to exercise future legal actions. As investigation progresses and liabilities are established, the Company will take the necessary legal actions under the Venezuelan law and other applicable laws, including the submission of complaints and accusations to punish the responsible parties and filing civil claims and seizure of property as a way of compensation for the damage suffered.

PDVSA will not tolerate acts of corruption and will continue to investigate and proceed with the purpose of determining responsibility for the facts identified.

PDVSA and their external specialists have estimated that the investigation processes will be extended for a while, and might require changes in their scope as they progress. Therefore, such investigations are subject to a series of uncertainties which possible effects on the results of operations and the consolidated financial position of PDVSA cannot be determined with sufficient accuracy.

(32) Related Parties

PDVSA considers related parties its Stockholder, its equity-accounted investees, the Group's directors and executives and their relatives, companies owned by the Stockholder and other government institutions. As the national oil company owned by the Republic, and according to its social liabilities and specific responsibilities, PDVSA performs significant transactions with related parties. The amounts presented in the consolidated financial statements are not necessarily the same to those that would have resulted, had these transactions been conducted with third parties. These transactions relate mainly to:

- Management support in agreements and contracts signed by the Republic and the compliance with the obligations deriving thereof by supplying crude oil and products (see note 32-b).
- Contributions for social development and to FONDEN (see note 11).
- Fiscal obligations, including production tax and taxes (see note 12).
- Financial and investment operations with the BCV and financial institutions of the Venezuelan State (see notes 21 and 24).
- Government grants (see note 29).

A summary of transactions and balances with related parties follows (in millions of dollars):

		Year ended December 31,		
	Note	**2016**	**2015**	**2014**
Activities of the year:				
Revenues -				
Sales of crude oil, products and others				
Companies owned by the Stockholder and other government institutions		(20)	(47)	(1,186)
Equity-accounted investees		(588)	(901)	(1,919)
Costs and expenses-				
Stockholder:				
Operating, selling, administrative and general expenses (Grant)	29	(5,726)	-	-
Companies owned by the Stockholder and other government institutions:				
Purchases of crude oil and products, net to CITGO Holding associate and Petroquímica de Venezuela, S.A.		144	88	189
Other operating, selling, administrative and general expenses		229	112	306
Production, extraction and other taxes	12	4,624	6,294	13,466
Discount of the promissory notes with the BCV	7 - 24	400	-	-
Other expenses, net-				
Legal contributions and others	10 - 35	46	395	1,882
Share of profit or loss of equity - accounted investees, net of tax	10	(23)	86	94
Contributions for social development	11	977	9,189	5,321
Estimated income tax expense in Venezuela	12	719	2,539	9,250
Deferred tax benefit in Venezuela	12	(27)	(6,719)	(4,563)

	Note	December 31, 2016	2015	2014
Year-end balances:				
Buildlings used by government entities	14	56	56	56
Equity-accounted investees	14	204	500	1,265
Recoverable valued - added tax	12 - l	318	490	2,903
Funds for execution of social development projects	15	207	242	614
Income tax paid in excess and prepaid	18	178	732	347
Advances for special contributions	18	1,755	1,903	1,904
Income tax payable in Venezuela		797	3,084	9,114
Account trade payable		6	10	18
Accruals and other liabilities -				
Payable to related parties	24	12,234	7,402	7,001
Withholdings and contributions payable	24	263	1,395	2,827
Recoverable valued - added tax	24	200	277	264
Production and other taxes payable	24	168	1,194	1,933
Payable to non-controlling interest	24	4	4	4
Notes and accounts receivable:				
Equity-accounted investees		142	707	714
Stockholder, companies owned by the Stockholder and other government institutions	14 - 17	14,146	10,077	11,155
		14,288	10,784	11,869
Less current portion	17	14,288	10,327	11,571
Non-current portion	**14**	**-**	**457**	**298**

(a) *Transactions with the Stockholder*

Production Tax

During the year ended December 31, 2016, production tax was paid in cash to the Stockholder amounting to $83 million [$1,037 million in 2015 and $9,250 million in 2014].

Energy and Supply Agreements

Energy and supply agreements establish, among other matters, the supply of crude oil and products by PDVSA to the national oil companies of relevant countries and/or Empresas Mixtas incorporated for this purpose, at selling prices equivalent to the market price.

During the year ended December 31, 2016, under the Supply Agreement entered into with the People's Republic of China, PDVSA delivered crude oil and products totaling 505 TBPD [579 TBPD in 2015 and 472 TBPD in 2014], with a value of $5,803 million [$8,371 million in 2015 and $14,371 million in 2014] Collections on the volumes delivered by PDVSA are received by BANDES to guarantee compliance with the commitments accorded by the Republic in respect of such agreement and any remaining amounts are transferred to PDVSA as collection of accounts receivable from the Stockholder. During the year ended December 31, 2016, BANDES transferred to PDVSA $3,835 million [$2,950 million in 2015 and $8,123 million in 2014] corresponding to collections received.

Energy agreements with Latin America and the Caribbean establish, among other conditions, payment terms between 30 and 90 days for a significant portion of each shipment and a longer-term for the remaining portion, between 15 and 25 years. These agreements are effective for a one-year period and may be renewed upon mutual consent by the parties involved. These agreements are not subject to guarantees.

During the year ended December 31, 2016, PDVSA delivered crude oil and products totaling 123 TBPD [185 TBPD in 2015 and 255 TBPD in 2014], within the framework of the Energy Cooperation Agreements. The long-term portion financed at December 31, 2016, subject to compensation and constituted by trusts of these agreements totals $3,207 million; [$4,085 million in 2015 and $6,251 million in 2014] (see notes 12-g, 14 and 17). The compensation could be carried out with goods and services received by the Republic of which 114 TBPD worth $3,207 million, [61 TBPD worth $108 million in 2015 and 86 TBPD worth $2,251 million in 2014], correspond to the portion financed in the long term, subject to compensation and constituted by trusts of these agreements (see notes 12-g, 14 and 17). Compensation could be carried out with goods and services received by the Republic.

(b) Balances with Stockholder, Companies Owned by the Stockholder and Other Government Institutions

PDVSA made sales to companies owned by the Stockholder and other government institutions, as summarized below (in millions of dollars):

	Year ended December 31,		
	2016	**2015**	**2014**
Corporación Eléctrica Nacional, S.A. (CORPOELEC by its Spanish acronym)	8	8	83
Petroquímica de Venezuela, S.A. (PEQUIVEN by its Spanish acronym)	6	22	733
Corporación Venezolana de Guayana	-	3	35
Fertilizantes Nitrogenados de Venezuela, C.E.C. (Fertinitro by its Spanish acronym)	2	10	300
Others	4	4	35
Total	**20**	**47**	**1,186**

Notes and accounts receivable from the Stockholder, companies owned by the Stockholder and other government institutions include the following (in millions of dollars):

	December 31,		
	2016	**2015**	**2014**
Bolivarian Republic of Venezuela	11,603	7,691	7,978
CORPOELEC	192	304	1,032
Fondo Simón Bolívar para la Reconstrucción, S.A.	227	64	47
PEQUIVEN	168	777	801
Corporación Venezolana de Guayana	5	102	291
BANDES	90	90	90
Civil Association Administradora de los Fondos de Pensiones de los Jubilados de Petróleos de Venezuela, S.A.	-	7	225
Others	1,861	1,042	691
Total	**14,146**	**10,077**	**11,155**

Accounts receivable from the Republic originate mainly from sales of crude oil and products on behalf of the Republic under contracts and agreements signed with governments of other countries (see note 32-a). In addition, in 2016 these accounts receivable include a Government grant that reduces costs and expenses by fuel sales in Venezuela (see notes 9 and 29).

In November 2014, PDVSA sold to BCV investment certificates for $2,400 million, recognizing gains for $2,102 million, due to the difference between the carrying amount and the selling value of those instruments.

(c) Balances and Transactions with Equity-accounted Investees

PDVSA made sales to equity-accounted investees which are summarized below (in millions of dollars):

	Year ended December 31,		
	2016	**2015**	**2014**
Nynas AB	405	405	1,263
Chalmette Refining	-	272	223
Mount Vernon Phenol Plant Partnership (Mt Vernon)	183	224	433
Total	**588**	**901**	**1,919**

During 2015, the equity-accounted investee Chalmette Refining LLC was sold. This transaction generated gains from sales for $30 million, recognized as other expenses, net (see note 10).

Notes and accounts receivable from equity-accounted investees, provided mainly by the abovementioned sales, comprise the following (in millions of dollars):

	December 31,		
	2016	**2015**	**2014**
Chalmette Refining	-	565	549
CV Shipping, Ltd.	107	105	102
TCP Petcoke Corporation	22	9	28
Mount Vernon Phenol Plant Partnership (Mt. Vernon)	13	28	35
Total	**142**	**707**	**714**

(d) Balances and Transactions with Key Management Personnel

During 2016, compensation paid by PDVSA to its directors for salaries and social security totaled approximately $0.15 million [$0.21 million in 2015 and $0.74 million in 2014].

In addition to salaries and social security contributions, PDVSA grants non-monetary benefits to its directors, as well as employee benefits and post-employment benefits. Under the terms of PDVSA's internal regulations, directors have the same rights as all other employees, with respect to eligibility for retirement plan and post-employment benefits other than pension plans. At December 31, 2016, liabilities recognized in this regard amount to approximately $1.20 million [$1.62 million in 2015 and $1.37 million in 2014] (see note 22).

Certain directors of PDVSA hold key positions in other related parties, and some of their powers include influencing the operating and financial policies of such companies.

(33) Information on Crude Oil and Natural Gas Liquids (NGL) Production, Refining and Exports

Following a summary of operational information on crude oil and natural gas liquids (NGL) production, refining and exports based on PDVSA's sub - ledgers and production reports verified by the Ministry (in TBPD):

	Year ended December 31,		
	2016	**2015**	**2014**
Oil and NGL production (per geographic area):			
Eastern division	709	837	903
Western division	585	707	750
Orinoco Oil Belt Hugo Chávez Frías	1,277	1,319	1,246
Total production (1)	**2,571**	**2,863**	**2,899**
Refining capacity (unaudited):			
Domestic sector (2)	1,303	1,303	1,303
International sector (3)	1,188	1,427	1,519
Total refining capacity	**2,491**	**2,730**	**2,822**
Crude oil volume processed in refineries (unaudited):			
Domestic sector	654	863	920
International sector	902	1,089	1,018
Total crude oil volume processed in refineries	**1,556**	**1,952**	**1,938**
Own exports:			
Crude oil	1,818	1,950	1,897
Products	371	475	460
Total exports (4)	**2,189**	**2,425**	**2,357**

(1) Includes crude oil condensated from plant for 3 TBPD in 2016 [4 TBPD in 2015 to 6 TBPD in 2014] and includes LGN for 105 TBPD [117 TBPD in 2015 and 114 TBPD in 2014].

(2) Includes domestic sector refineries: Paraguana Refining Complex - CRP for its Spanish acronym (Amuay, Cardon and Bajo Grande), El Palito, Puerto La Cruz and San Roque.

(3) Includes the aliquot corresponding to PDVSA refineries on the international sector, as well as its 100% interest in Isla, Lake Charles, Lemont and Corpus Christi refineries. In 2016, PDVSA's shareholding in foreign refining business was reduced, mainly with the sale of HOVENSA in February 2016 (248 TBPD).

(4) For 2016, it includes sales made within the framework of Energy Corporation Agreements and Incorporation Agreement of the Chinese/Venezuelan Joint Fund, delivered according to the agreements between the Republic and the countries of these agreements as well as obligations of delivering crude oil and products upon receipt of customers advances (see notes 24 and 32-a).

Further information on production commitment can be found in notes 30-b and 36-d.

(34) Financial Information of Domestic and International Sectors

A consolidated summary of PDVSA's financial information by sectors and activities is presented below, in compliance with Article 20 of the Hydrocarbons Organic Law (in millions of dollars):

	Year ended December 31, 2016							
	Domestic Sector							
	Exploration and production	Gas	Refining trade, supply and others	Eliminations (1)	Total Domestic Sector (2)	International Sector	Eliminations and reclassifications (3)	Consolidated
Revenues:								
Sales of crude oil, products and others	22,878	72	7,955	(30)	30,875	23,017	(11,915)	41,977
Financial income	9,923	3,882	(7,814)	-	5,991	34	-	6,025
	32,801	**3,954**	**141**	**(30)**	**36,866**	**23,051**	**(11,915)**	**48,002**
Costs and expenses:								
Purchases of crude oil and products, net	4,511	1,186	4,279	-	9,976	19,692	(11,851)	17,817
Operating, selling, administrative and general expenses	6,182	566	595	(546)	6,797	2,388	(64)	9,121
Exploration expenses	124	-	-	-	124	-	-	124
Depreciation and amortization	4,793	806	3,123	-	8,722	668	-	9,390
Production, extraction and other taxes	4,576	6	42	-	4,624	-	-	4,624
Financial costs	1,293	-	1,922	-	3,215	405	-	3,620
Other expenses, net	729	295	221	516	1,761	(387)	-	1,374
	22,208	2,859	10,182	(30)	35,219	22,766	(11,915)	46,070
Profit (loss) before contributions for social development and income tax	**10,593**	**1,095**	**(10,041)**	**-**	**1,647**	**285**	**-**	**1,932**
Contributions for social development	65	-	897	-	962	15	-	977
Profit (loss) before income tax	**10,528**	**1,095**	**(10,938)**	**-**	**685**	**270**	**-**	**955**
Income tax:								
Current tax expense	572	-	147	-	719	4	-	723
Deferred tax expenses (benefit)	(489)	283	179	-	(27)	121	-	94
	83	283	326	-	692	125	-	817
Discontinued operations (4)								
Profit (loss) from discontinued operations, net of tax	-	-	1,090	-	1,090	(400)	-	690
Profit (loss) net	**10,445**	**812**	**(10,174)**	**-**	**1,083**	**(255)**	**-**	**828**
Other comprehensive income:								
Remeasurements of benefit liability, net of tax	424	-	-	-	424	(20)	-	404
Foreign operations - foreing currency translation differences	-	-	360	-	360	-	-	360
Other comprehensive income, net of tax	**424**	**-**	**360**	**-**	**784**	**(20)**	**-**	**764**
Total comprehensive income (loss)	**10,869**	**812**	**(9,814)**	**-**	**1,867**	**(275)**	**-**	**1,592**

(1) Represents eliminations of sales, purchases and costs among activities.

(2) The domestic sector mainly consists of the following subsidiaries: PDVSA Gas, PDVSA Petróleo, CVP and PDV Marina.

(3) Represents eliminations and reclassifications of sales, purchases and others between domestic and international sectors for consolidation purposes.

(4) See notes 6, 19 and 38-c.

	Year ended December 31, 2015							
	Domestic Sector							
	Exploration and production	Gas	Refining trade, supply and others	Eliminations (1)	Total Domestic Sector (2)	International Sector	Eliminations and reclassifications (3)	Consolidated
Revenues:								
Sales of crude oil, products and others	39,917	207	2,563	(215)	42,472	28,209	(15,342)	55,339
Financial income	12,226	12,674	(7,802)	-	17,098	(268)	-	16,830
	52,143	**12,881**	**(5,239)**	**(215)**	**59,570**	**27,941**	**(15,342)**	**72,169**
Costs and expenses:								
Purchases of crude oil and products, net	11,123	529	2,656	(215)	14,093	24,214	(15,342)	22,965
Operating, selling, administrative and general expenses	13,348	854	366	-	14,568	2,318	(58)	16,828
Exploration expenses	50	-	-	-	50	-	-	50
Depreciation and amortization	6,192	778	1,381	-	8,351	644	-	8,995
Production, extraction and other taxes	5,665	13	616	-	6,294	-	-	6,294
Financial costs	960	-	990	-	1,950	443	-	2,393
Other expenses, net	3,246	340	323	-	3,909	19	58	3,986
	40,584	2,514	6,332	(215)	49,215	27,638	(15,342)	61,511
Profit (loss) before contributions for social development and income tax	**11,559**	**10,367**	**(11,571)**	**-**	**10,355**	**303**	**-**	**10,658**
Contributions for social development	974	-	8,162	-	9,136	53	-	9,189
Profit (loss) before income tax	**10,585**	**10,367**	**(19,733)**	**-**	**1,219**	**250**	**-**	**1,469**
Income tax:								
Current tax expense	1,603	204	732	-	2,539	633	-	3,172
Deferred tax expenses (benefit)	(1,634)	(102)	(4,983)	-	(6,719)	(170)	-	(6,889)
	(31)	102	(4,251)	-	(4,180)	463	-	(3,717)
Discontinued operations (4)								
Profit from discontinued operations, net of tax	-	-	1,825	-	1,825	334	-	2,159
Profit (loss) net	**10,616**	**10,265**	**(13,657)**	**-**	**7,224**	**121**	**-**	**7,345**
Other comprehensive income:								
Remeasurements of benefit liability, net of tax	(4,067)	-	(874)	-	(4,941)	(57)	-	(4,998)
Foreign operations - foreing currency translation differences	-	-	241	-	241	-	-	241
Other comprehensive income, net of tax	**(4,067)**	**-**	**(633)**	**-**	**(4,700)**	**(57)**	**-**	**(4,757)**
Total comprehensive income (loss)	**6,549**	**10,265**	**(14,290)**	**-**	**2,524**	**64**	**-**	**2,588**

(1) Represents eliminations of sales, purchases and costs among activities.

(2) The domestic sector mainly consists of the following subsidiaries: PDVSA Gas, PDVSA Petróleo, CVP and PDV Marina.

(3) Represents eliminations and reclassifications of sales, purchases and others between domestic and international sectors for consolidation purposes.

(4) See notes 6, 19 and 38-c.

	Year ended December 31, 2014							
	Domestic Sector							
	Exploration and production	Gas	Refining trade, supply and others	Eliminations (1)	Total Domestic Sector (2)	International Sector	Eliminations and reclassifications (3)	Consolidated
Revenues:								
Sales of crude oil, products and others	94,566	3,259	11,406	(27,489)	81,742	45,693	(25,883)	101,552
Financial income	5,508	-	14,823	-	20,331	12	-	20,343
	100,074	**3,259**	**26,229**	**(27,489)**	**102,073**	**45,705**	**(25,883)**	**121,895**
Costs and expenses:								
Purchases of crude oil and products, net	30,771	1,451	16,134	(27,489)	20,867	42,236	(25,837)	37,266
Operating, selling, administrative and general expenses	19,097	3,237	2,387	-	24,721	2,725	(46)	27,400
Exploration expenses	69	-	7	-	76	-	-	76
Depreciation and amortization	5,807	641	970	-	7,418	620	-	8,038
Production, extraction and other taxes	13,171	255	40	-	13,466	-	-	13,466
Financial costs	1,999	-	1,885	-	3,884	181	-	4,065
Other expenses, net	1,923	170	8,222	-	10,315	(369)	-	9,946
	72,837	5,754	29,645	(27,489)	80,747	45,393	(25,883)	100,257
Profit (loss) before contributions for social development and income tax	**27,237**	**(2,495)**	**(3,416)**	**-**	**21,326**	**312**	**-**	**21,638**
Contributions for social development	3,303	3	1,970	-	5,276	45	-	5,321
Profit (loss) before income tax	**23,934**	**(2,498)**	**(5,386)**	**-**	**16,050**	**267**	**-**	**16,317**
Income tax:								
Current tax expense	2,151	502	6,597	-	9,250	465	-	9,715
Deferred tax expense (benefit)	10,085	(106)	(14,542)	-	(4,563)	(46)	-	(4,609)
	12,236	396	(7,945)	-	4,687	419	-	5,106
Discontinued operations (4)								
Profit from discontinued operations, net of tax	-	-	(1,530)	-	(1,530)	(607)	-	(2,137)
Profit (loss) net	**11,698**	**(2,894)**	**1,029**	**-**	**9,833**	**(759)**	**-**	**9,074**
Other comprehensive income:								
Remeasurements of benefit liability, net of tax	1,060	-	330	-	1,390	-	-	1,390
Foreign operations - foreign currency translation differences	-	-	2,001	-	2,001	-	-	2,001
Other comprehensive income, net of tax	**1,060**	**-**	**2,331**	**-**	**3,391**	**-**	**-**	**3,391**
Total comprehensive income (loss)	**12,758**	**(2,894)**	**3,360**	**-**	**13,224**	**(759)**	**-**	**12,465**

(1) Represents eliminations of sales, purchases and costs among activities.

(2) The domestic sector mainly consists of the following subsidiaries: PDVSA Gas, PDVSA Petróleo, CVP and PDV Marina.

(3) Represents eliminations and reclassifications of sales, purchases and others between domestic and international sectors for consolidation purposes.

(4) See notes 6, 19 and 38-c.

	December 31, 2016						
	Domestic Sector						
	Exploration and production	Gas	Refining, trade, supply and others	Total Domestic sector (1)	International Sector	Eliminations and reclassifications (2)	Consolidated
Assets							
Properties, plants and equipment	85,546	19,865	16,876	122,287	5,277	-	127,564
Deferred tax asset	2,186	434	(164)	2,456	40	-	2,496
Accounts receivable and other assets	3,829	8	1,783	5,620	10,581	(12,127)	4,074
Recoverable value-added tax	204	68	46	318	-	-	318
Restricted cash	91	-	166	257	362	-	619
Non-current assets	**91,856**	**20,375**	**18,707**	**130,938**	**16,260**	**(12,127)**	**135,071**
Inventories	5,023	827	2,083	7,933	1,977	-	9,910
Notes and accounts receivable	10,541	250	10,161	20,952	1,726	-	22,678
Prepaid expenses and other assets	14,036	461	14,385	28,882	15,838	(39,017)	5,703
Restricted cash	32	-	136	168	15	-	183
Cash and cash equivalents	4,106	3	3,585	7,694	372	-	8,066
Assets held for disposal	-	-	3,482	3,482	4,570	-	8,052
Current assets	**33,738**	**1,541**	**33,832**	**69,111**	**24,498**	**(39,017)**	**54,592**
Total assets	**125,594**	**21,916**	**52,539**	**200,049**	**40,758**	**(51,144)**	**189,663**
Equity	**81,445**	**18,652**	**(19,884)**	**80,213**	**107**	**6,780**	**87,100**
Liabilities							
Financial debt	2,924	-	27,296	30,220	3,675	-	33,895
Employee and other post-employment benefits	2,393	(7)	388	2,774	840	-	3,614
Deferred tax liability	962	715	(123)	1,554	649	-	2,203
Provisions	46	-	2,061	2,107	395	-	2,502
Accruals and other liabilities	14,350	209	13,411	27,970	2,195	(18,774)	11,391
Non-current liabilities	**20,675**	**917**	**43,033**	**64,625**	**7,754**	**(18,774)**	**53,605**
Financial debt	715	-	5,861	6,576	605	-	7,181
Employee and other post-employment benefits	(86)	179	104	197	1	-	198
Trade payable	9,856	1,531	5,771	17,158	2,974	(308)	19,824
Income tax payable	662	3	132	797	3	-	800
Provisions	-	-	141	141	21	-	162
Accruals and other liabilities	12,327	634	16,663	29,624	28,131	(38,842)	18,913
Liabilities related to assets held for disposal	-	-	718	718	1,162	-	1,880
Current liabilities	**23,474**	**2,347**	**29,390**	**55,211**	**32,897**	**(39,150)**	**48,958**
Total liabilities	**44,149**	**3,264**	**72,423**	**119,836**	**40,651**	**(57,924)**	**102,563**
Total equity and liabilities	**125,594**	**21,916**	**52,539**	**200,049**	**40,758**	**(51,144)**	**189,663**

(1) The domestic sector mainly consists of the following subsidiaries: PDVSA Gas, PDVSA Petróleo, CVP and PDV Marina.

(2) Represents eliminations and reclassifications between domestic and international sectors for consolidation purposes.

	December 31, 2015						
	Domestic Sector						
	Exploration and production	Gas	Refining, trade, supply and others	Total Domestic sector (1)	International Sector	Eliminations and reclassifications (2)	Consolidated
Assets							
Properties, plants and equipment	87,300	20,484	14,140	121,924	5,109	-	127,033
Deferred tax asset	5,363	16	4,684	10,063	-	-	10,063
Accounts receivable and other assets	2,439	118	3,446	6,003	7,760	(7,365)	6,398
Recoverable value-added tax	472	92	(74)	490	-	-	490
Restricted cash	37	-	219	256	348	-	604
Non-current assets	**95,611**	**20,710**	**22,415**	**138,736**	**13,217**	**(7,365)**	**144,588**
Inventories	2,786	943	3,673	7,402	2,274	-	9,676
Notes and accounts receivable	4,441	649	11,888	16,978	1,228	-	18,206
Prepaid expenses and other assets	4,100	604	21,688	26,392	19,333	(38,642)	7,083
Restricted cash	126	-	190	316	10	-	326
Cash and cash equivalents	2,771	10	2,474	5,255	565	-	5,821
Assets held for disposal	-	-	7,012	7,012	5,811	-	12,823
Current assets	**14,224**	**2,206**	**46,925**	**63,355**	**29,221**	**(38,642)**	**53,935**
Total assets	**109,835**	**22,916**	**69,340**	**202,091**	**42,438**	**(46,007)**	**198,523**
Equity	**74,747**	**17,879**	**2,956**	**95,582**	**1,258**	**(5,962)**	**90,879**
Liabilities							
Financial debt	3,286	-	30,489	33,775	3,141	-	36,916
Employee and other post-employment benefits	3,306	(25)	3,805	7,086	770	-	7,856
Deferred tax liability	414	-	25	439	991	-	1,430
Provisions	1,651	107	31	1,789	284	-	2,073
Accruals and other liabilities	4,576	886	1,444	6,906	498	(727)	6,677
Non-current liabilities	**13,233**	**968**	**35,794**	**49,995**	**5,684**	**(727)**	**54,952**
Financial debt	-	-	5,771	5,771	1,029	-	6,800
Employee and other post-employment benefits	257	71	39	367	-	-	367
Trade payable	9,259	1,152	5,891	16,302	2,138	(308)	18,132
Income tax payable	1,454	324	1,306	3,084	360	-	3,444
Provisions	123	60	36	219	6	-	225
Accruals and other liabilities	10,762	2,462	15,996	29,220	29,124	(39,010)	19,334
Liabilities related to assets held for disposal	-	-	1,551	1,551	2,839	-	4,390
Current liabilities	**21,855**	**4,069**	**30,590**	**56,514**	**35,496**	**(39,318)**	**52,692**
Total liabilities	**35,088**	**5,037**	**66,384**	**106,509**	**41,180**	**(40,045)**	**107,644**
Total equity and liabilities	**109,835**	**22,916**	**69,340**	**202,091**	**42,438**	**(46,007)**	**198,523**

(1) The domestic sector mainly consists of the following subsidiaries: PDVSA Gas, PDVSA Petróleo, CVP and PDV Marina.

(2) Represents eliminations and reclassifications between domestic and international sectors for consolidation purposes.

	December 31, 2014						
	Domestic Sector						
	Exploration and production	Gas	Refining, trade, supply and others	Total Domestic Sector (1)	International Sector	Eliminations and reclassifications (2)	Consolidated
Assets							
Properties, plants and equipment	84,979	20,382	29,445	134,806	6,442	-	141,248
Deferred tax asset	4,116	313	5,580	10,009	-	-	10,009
Accounts receivable and other assets	3,598	196	6,629	10,423	7,450	(8,200)	9,673
Recoverable value-added tax	-	-	974	974	22	-	996
Restricted cash	38	-	176	214	70	-	284
Non-current assets	**92,731**	**20,891**	**42,804**	**156,426**	**13,984**	**(8,200)**	**162,210**
Inventories	1,938	860	5,890	8,688	3,076	-	11,764
Recoverable value-added tax	1,244	628	35	1,907	-	-	1,907
Notes and accounts receivable	6,263	2,874	12,897	22,034	2,408	(85)	24,357
Prepaid expenses and other assets	3,357	1,426	16,099	20,882	10,316	(23,221)	7,977
Restricted cash	847	-	435	1,282	10	-	1,292
Cash and cash equivalents	2,367	27	4,226	6,620	1,291	-	7,911
Current assets	**16,016**	**5,815**	**39,582**	**61,413**	**17,101**	**(23,306)**	**55,208**
Total assets	**108,747**	**26,706**	**82,386**	**217,839**	**31,085**	**(31,506)**	**217,418**
Equity	**50,664**	**19,849**	**14,205**	**84,718**	**3,751**	**1,288**	**89,757**
Liabilities							
Financial debt	20,204	-	17,916	38,120	1,751	-	39,871
Employee and other post-employment benefits	3,816	355	8,453	12,624	355	-	12,979
Deferred tax liability	149	-	75	224	1,123	-	1,347
Provisions	2,518	134	-	2,652	206	-	2,858
Accruals and other liabilities	3,393	139	14,886	18,418	2,486	(6,024)	14,880
Non-current liabilities	**30,080**	**628**	**41,330**	**72,038**	**5,921**	**(6,024)**	**71,935**
Financial debt	2,930	-	2,599	5,529	336	-	5,865
Employee and other post-employment benefits	44	1,527	225	1,796	17	-	1,813
Trade payable	9,521	1,610	7,641	18,772	2,391	(308)	20,855
Income tax payable	4,403	827	3,884	9,114	440	-	9,554
Provisions	295	237	74	606	-	-	606
Accruals and other liabilities	10,810	2,028	12,428	25,266	18,229	(26,462)	17,033
Current liabilities	**28,003**	**6,229**	**26,851**	**61,083**	**21,413**	**(26,770)**	**55,726**
Total liabilities	**58,083**	**6,857**	**68,181**	**133,121**	**27,334**	**(32,794)**	**127,661**
Total equity and liabilities	**108,747**	**26,706**	**82,386**	**217,839**	**31,085**	**(31,506)**	**217,418**

(1) The domestic sector mainly consists of the following subsidiaries: PDVSA Gas, PDVSA Petróleo, CVP and PDV Marina.

(2) Represents eliminations and reclassifications between domestic and international sectors for consolidation purposes.

(35) Laws, Resolutions and Legal Contributions

(a) Exchange Agreements

The most important foreign exchange agreements for PDVSA are summarized as follows:

Exchange Agreement N° 35, Official Gazette N° 40,865, effective date March 9, 2016:

It sets forth the rules that will govern the operations of the foreign currency exchange control regime fixing the protected exchange rate (*DIPRO for its Spanish acronym*) at Bs.9.98 per dollar for purchases and Bs.10 per dollar for sales, as well as the Supplementary Floating Exchange System (Spanish *DICOM*) at Bs.274.80 per dollar for purchases and Bs.215.34 per dollar for sales at their effective date price. Such exchange agreement also indicates the activities to which each type of exchange rate corresponds.

Foreign currencies purchase and sale transactions generated by export and/or sale operations of PDVSA and its subsidiaries hydrocarbons activities, as well as those of the Empresas Mixtas referred to in the Organic Hydrocarbons Law, the Organic Law on Gaseous Hydrocarbons and the Organic Law for the Development of Petrochemical Activities will be completed at any of the exchange rates provided for in this exchange agreement, (reduced in 0.25% for sales), taking into account the programming, coordination and assessments made by the Sectoral Vice Presidency of the Economy, the Ministry of People´s Power for Banking and Finance, and the BCV, on the basis of the policies established and the availability of foreign currencies to meet the economy’s needs, governed by the exchange rate referred to in this agreement.

Assets denominated in a currency other than bolivars, represented by the exploitation rights referred to in Decree N° 9,368 of January 30, 2013, published in Official Gazette of the Republic N° 40,109 of February 13, 2013, whereby the National Executive transferred to PDVSA, or the subsidiary designated by it, the right to develop directly or through a State entity the activities provided for in the Decree with Rank, Value and Force of Organic Law that Reserves the State Gold Exploration and Exploitation Activities as well as ancillary and related activities thereto and, in the areas defined by Resolution N° 177 of the Ministry of People’s Power for Petroleum and Mining of December 28, 2012, published in Official Gazette (Extraordinary) of the Republic N° 6,094 of December 28, 2012, and by other intangible assets in foreign currencies from the operators referred to in this article for these activities as well as such gold sector operators liabilities denominated in a currency other than bolivars shall be recorded and valued at the DICOM rate.

Exchange Agreement N° 33, Official Gazette N° 6,171, effective date February 10, 2015:

It defines the regulations governing foreign exchange transactions in the national financial system, denominated Marginal Foreign Exchange System (SIMADI for its Spanish acronym), through which banking institutions, foreign exchange agents, securities dealers and the “Bolsa Pública de Valores Bicentenaria” (Venezuela’s State-Run Securities Exchange) act as exchange intermediaries in any foreign currencies and securities in foreign currency markets, whether currently existing or to be developed in the future. With respect to this agreement:

- Universal banks may manage, among the various buyers, foreign currency flows provided by sellers, on the terms established in Chapter II of the aforementioned exchange agreement.
- Universal banks and foreign exchange agents may execute transactions as specialized intermediaries in retail foreign currency transactions only with individuals.
- Authorized securities dealers and universal banks, as well as the “Bolsa Pública de Valores Bicentenaria” are authorized as operators to trade in local currency, foreign currencies securities issued or to be issued by the Republic, its decentralized entities or any other entity, public or private, domestic or foreign, that are traded in regulated international markets.

On February 10, 2015 the National Executive and the BCV informed through official notices:

- Operator institutions authorized to act through Alternative Currency Exchange System (SICAD II), as well as the general public, that starting February 12, 2015, foreign currency purchase and sale transactions in cash or instruments in a currency other than bolivars would not be processed through the abovementioned system.
- Operator institutions shall continue with the appropriate operating processes for the settlement of negotiated balances, in accordance with customers’ instructions and for the prices accorded in the SICAD II up to and including February 11, 2015.

- The general public is reassured that, for purposes of foreign currency purchase and sale operations, as well as for compliance with those obligations that, pursuant to the foreign exchange regulations is applicable to the official exchange rate set forth in Article 14 of Exchange Agreement N° 27, the exchange rate corresponding to the last session held in the SICAD II, published on the BCV website, will continue to be used as a benchmark until another rate is determined, and informed through the mechanisms deemed appropriate.
- The amounts that apply to the transactions contemplated in Exchange Agreement N° 33 to foreign exchange operators and the public in general: a) minimum of US$3,000 or transactions involving exchanging foreign currencies for local currency, b) maximum amounts of the foreign currency sales transactions that foreign exchange companies can execute for natural persons and c) a minimum of US$300 per individual for retail foreign exchange transactions.

Consequently, since February 12, 2015 until March 9, 2016, three legal mechanisms for the purchase-sale of foreign currencies were in effect in Venezuela, summarized as follows:

- Through the National Foreign Trade Center (CENCOEX for its Spanish acronym), for imports of the food and health sector, which exchange rate was Bs.6.30 per US$1.
- SICAD, based on which the BCV invited some sectors to participate in auctions. The exchange rate for the last auction, which took place September 24, 2014, was Bs.12 per US$1.
- SIMADI based on which banking institutions, foreign exchange agent, securities dealers and the "Bolsa Pública de Valores Bicentenaria" acted as exchange intermediaries in any foreign exchange and securities in currencies other than bolivars markets, whether currently existing or to be developed in the future. On February 12, 2015, the first day of activity of this mechanism, the exchange rates were Bs.169.62 per US$1 for purchases and Bs.170.04 per US$1 for sales.

This agreement was totally derogated with the publication of the Exchange Agreement N° 38 (see note 36-a).

Exchange Agreement N° 32, Official Gazette N° 6,167, effective date December 30, 2014:

- It establishes that the settlement of foreign currency sales transactions made by PDVSA to the BCV from financing, financial instruments and the collection of debts provided by export and/or hydrocarbons sales activities or transactions conducted within the framework of Energy Cooperation Agreements shall be made at any of the official exchange rates agreed to under the exchange agreements in effect.

Exchange Agreement N° 30, Official Gazette N° 40,504, effective date September 24, 2014:

- It establishes that the settlement of foreign currency sales transactions made by PDVSA to the BCV to be delivered in bolivars to the FONDEN for the special contributions referred to in the Law on Partial Reform of the Decree N° 8,807 with the Decree-Law Creating the Special Contribution for Extraordinary Prices and Exorbitant Prices in the International Hydrocarbons Market, published in Official Gazette N° 40,114 of February 20, 2013 shall be made at any of the official exchange rates agreed to under the exchange agreements in effect at the time of payment of this contribution.

Exchange Agreement N° 28, Official Gazette N° 40,378, effective date April 4, 2014 (partially derogated):

- It establishes that the purchase exchange rate applicable to PDVSA for the sale of foreign currencies deriving from financing, financial instruments, capital contributions in cash, asset sales, dividends received, debt collection, provision of services and any other sources, coming from activities or transactions other than from the export and/or sale of hydrocarbons will be equal to the exchange rate resulting from the last foreign exchange allocation made through the SICAD II, that applies to the date of the relevant transaction, reduced in 0.25%.
- Foreign currencies generated by service companies that are part of the National Petroleum Industrial Conglomerate and currencies managed or received by the People's Savings Fund referred to in the Decree with Rank, Value and Force of Law of the National Savings Fund of the Working Class and People's Savings Fund and those that are intended for private investments by companies in the oil, gas and petrochemical sectors shall be sold through SICAD II.

This agreement was partially derogated by Exchange Agreement N° 35.

Exchange Agreement N° 27, Official Gazette N° 40,368, effective date March 14, 2014:

- The SICAD II was established and administered by the BCV and the People's Ministry of Economy, Finance and Public Banking.

This agreement was subsequently derogated.

Exchange Agreement N° 14, Official Gazette N° 40,108, effective date February 9, 2013:

- This agreement established an exchange rate of Bs.6.2842 per dollar for purchases and Bs.6.30 per dollar for sales.

This agreement was derogated by Exchange Agreement N° 35.

Exchange Agreement N° 9, Official Gazette N° 39,239, effective date August 11, 2009:

- The foreign currencies received from the exports of hydrocarbons including the gaseous hydrocarbons and other will be of mandatory sale to the Central Bank of Venezuela except for foreign currencies provided by PDVSA's activities, which will sell to the BCV only the amounts necessary to comply with the operating and functioning expenses in the country where such company operates, as well as the tax contributions to which the company is bound in accordance with the Republic's Budget Law. The BCV shall purchase such foreign currencies at the exchange rate set in accordance with the provisions of Article 6 of Foreign Exchange Agreement N° 1 of February 5, 2003.
- PDVSA and subsidiaries shall not maintain funds in a currency other than the local currency within the National Territory for more than 48 hours, except for those amounts corresponding to funds placed abroad, for up to a maximum limit established.
- These funds shall be used to comply with contracts setting forth foreign currency payment obligations only regarding its external component.
- PDVSA and subsidiaries shall submit to the BCV detailed information on a monthly basis regarding the foreign currency cash flows generated by their activities, as well as their foreign currency asset and liability positions.
- The companies created under the association agreements signed by PDVSA within the framework of the derogated Organic Law Reserving the Hydrocarbon Industry and Trade to the State, the Empresas Mixtas referred to in the Hydrocarbons Organic Law and the Gaseous Hydrocarbons Organic Law, as well as the Empresas Mixtas formed under the provisions of the Law for the Development of Petrochemical Activities, may maintain foreign exchange accounts in banking or similar institutions, for the revenues received, with the purpose of making the necessary payments and disbursements abroad. This must be monitored by the BCV, which will enact the corresponding regulation. The rest of the foreign currencies shall be of mandatory sale to the BCV at the exchange rate fixed in accordance with Article 6 of Exchange Agreement N° 1 of February 5, 2003.

(b) Resolution N° 130, Ministry of People's Power for Petroleum

In the Official Gazette (Extraordinary) N° 41,022 of November 2, 2016, Resolution N° 130 by the Ministry was published, and which purpose is to regulate the evaluation of new production units projects, the registration and licenses for companies that industrialize refined hydrocarbons for non-petrochemical use.

(c) Resolution on Setting of Prices and Type of Products which will be Sold in the Establishments for the Sale of Liquid Fuels

On February 18, 2016 Official Gazette N° 40,851 published Resolution N° 15 of the Ministry, which fixes the prices per type of products that will be sold in the establishments for the sale of liquid fuel. These are duly authorized by the Ministry, establishing the following: 95 *Research Octane Number* (RON) gasoline in Bs.6 per liter and 91 RON gasoline in Bs.1 per liter. The prices fixed in this Resolution will only be applicable to engine gasolines sold in retail; engine gasoline prices sold in wholesale and delivered to the establishments will be fixed per instruction or as per notice issued by the General Director for the Internal Market of the Ministry (see notes 9 and 29).

This resolution derogates that of Official Gazette N° 38,251 of August 16, 2005.

(d) Creation of CAMIMPEG

On February 10, 2016, Presidential Decree N° 2,231 was published in Official Gazette N° 40,845. It authorized the incorporation of a State-run company named "Compañía Anónima Militar de Industrias Mineras, Petrolíferas y de Gas" (Military Company for the Mining, Oil and Gas Industries – CAMIMPEG), which will be attached to the Ministry of People's Power for Defense. CAMIMPEG will have its headquarters in Caracas, and its social purpose will consist of conducting all lawful activities in connection with the oil, gas and mining services in general (see note 36-h).

(e) Economic Emergency Decree throughout the national territory

On January 14, 2016, Decree N° 2,184 was published in Official Gazette (Extraordinary) N° 6,214, whereby a state of economic emergency throughout the national territory is delcared, meaning that the Executive Power is entitled to take the appropriate measures to address effectively such exceptional and extraordinary situation of critital juncture that the Venezuelan economy is going through.

The measures that the National Executive deems advisable to take will be particularly related to the following aspects:

- To dispose of the resources provided by the budgetary savings of the 2015 financial and economic period.
- To allocate extraordinary resources to projects, whether set forth or not in the Budget Law, to the agencies and entities of the public administration.
- To design and implement special measures of immediate application aimed at reducing tax evasion and tax avoidance.
- To exempt the entities and contracting agencies in certain sectors from the modalities and requirements of the public procurement regime.
- To waive the formalities, procedures and requirements for the import and nationalization of goods.
- To implement special measures to expedite the transit of goods in ports and airports throughout the country.
- To exempt entities of the public or private sector and agencies from the exchange procedures established by CENCOEX and the BCV.
- To request enterprises from the public and private sector to increase their production levels, as well as the supply of certain inputs to the production centers of food or of essential goods.
- To take all the necessary measures to ensure timely access by the population to food, medicines and other basic goods.
- To take the necessary measures to stimulate foreign investment for the benefit of the national production infrastructure development.
- To develop, strengthen and protect the Socialist Programs System ("Misiones y Grandes Misiones").

This decree will remain in force for 60 days, starting as of the date of its publication in Official Gazette of the Republic, and may be extended for further 60 days in accordance with constitutional procedure. Such decree has been extended several times during 2016 and was in force until July 2017 (see note 36-m).

(f) Decree with Rank, Value and Force of Law of the Partial Amendment of the Central Bank of Venezuela Law

It sets forth that the foreign currencies obtained by PDVSA from the export of hydrocarbons must be sold at the exchange rate in force at the transaction date. However, foreign currencies necessary to meet foreign currency tax contributions and to which the subjects authorized to perform these activities are bound are exempted.

It is also sets forth that PDVSA will be able to maintain foreign currency funds, with previous authorization from the BCV, for payment of its financial obligations abroad, as well as for complying with operating and foreign investing payments, under the respective laws, which will be reflected in the Company's balances.

Likewise, it shall report quarterly or by request of the BCV, on the use and purpose of such funds. It also points out that PDVSA or the entity created for managing the oil industry shall inform the BCV on the foreign currencies income obtained for any purpose, for the corresponding programming. The BCV, considering the estimates on an adequate level of operating international reserves that may have been set by its Directors, their average during the period, as well as their projected performance for the following term shall transfer to the FONDEN, if applicable, the corresponding surplus, so that it can be used for the financing of investments projects in the economy, education and health sectors, improving the profile and the balance of public debt as well as for assisting special and strategic situations. The transfer of resources with regard to the preceding paragraph will be performed by accrediting the corresponding balances in a special deposit account in foreign currency opened on behalf of FONDEN at the BCV, where payments requested by FONDEN will be deposited, in order to meet the abovementioned purposes, in foreign currency or in bolivars, with prior sale of the corresponding foreign currency to the BCV.

(g) Decree N° 2,167, for the Decree with Rank, Value and Force of Law Governing the Foreign Exchange Regime and Crimes

On December 30, 2015, Decree No 2,167 was published in the Official Gazette (Extraordinary) N° 6,210, containing the Decree with Rank, Value and Force of Law Governing the Foreign Exchange Regime and Infringements (Decree Law) with the purpose of regulating the terms and conditions on which agencies and entities having jurisdiction over the regime for managing foreign currencies exercise the powers that have been conferred on them by the laws and regulations, in accordance with the exchange agreements issued to such effect and the guidelines for the execution of such policy and, in addition, the fundamental parameters for the participation of public and private individuals and companies, in the acquisition of foreign currencies and the deeds that constitute infringements on the matter and corresponding sanctions.

The Decree Law designates PDVSA and other public and private entities as sellers of foreign currencies through foreign currency transactions in alternative foreign currency exchange market, regulated by the relevant exchange agreements without prejudice of access to the mechanisms managed by the foreign exchange control regime authorities.

(h) Decree with Rank, Value and Force of Law Amending the Income Tax Law

On December 30, 2015, Decree N° 2,163 was published in Extraordinary Official Gazette N° 6,210, containing the Decree -Law of Partial Amendment of the Income Tax Law. Among the most significant changes, there are:

- Income shall be deemed to be available from the moment when the transactions generating them are conducted, except in credit transfers and discount transactions which product be recoverable in several annuities. Therefore, any income provided by the transfer of properties or movable goods, including that deriving from royalties and similar holdings and from dividends, produced by the independent exercise of non-commercial professions and the disposal of real estate shall no longer be considered available when it is paid.
- Liable subjects classified as special subjects by the customs and tax administration shall be excluded from the inflation adjustment system set forth by the Income Tax Law.
- Anything related to rebates shall be eliminated concerning activities and investments.

(i) Certification of Gaseous Hydrocarbon Reserves

Resolution N° 82 of the Ministry was published in Official Gazette N° 40,529 dated October 29, 2014, which adds 2,295 million regular cubic feet of new proved gaseous hydrocarbon reserves, resulting in nation’s total proved reserves of gaseous hydrocarbons of 197,089 billion regular cubic feet.

(j) Certification of Hydrocarbon Reserves

Resolution N° 030 of the Ministry was published in Official Gazette N° 40,392 of April 11, 2014, which adds 1.6 million barrels of proved oil reserves, resulting in nation's total proved oil reserves of 298,353 million barrels.

(k) Creation of the Ministry of People’s Power for Ecological Mining Development

On June 9, 2016, Decree N° 2,350 was published in Official Gazette N° 40,922, whereby the Ministry of People´s Power for Ecological Mining Development is created. This Ministry is responsible for all matters pertaining to the mining activity, as well as for the development, utilization and control of non-renewable natural resources over which the entity has control.

(l) Decree with Rank, Value and Force of Organic Law Reserving the State the Exploration and Exploitation Activities of Gold and of other Strategic Minerals

On December 30, 2015, the Decree with Rank, Value and Force of the Organic Law Reserving the State the Exploration and Exploitation Activities of Gold and other Strategic Minerals was published in Extraordinary Official Gazette N° 6,210. This Decree-Law amends the previous Decree-Law Reserving the State the Exploration and Exploitation Activities of Gold dated November 18, 2014.

(m) Presidential Decree Reserving the National Executive Branch, through the Ministry, the Exercise of Nickel Exploration and Exploitation Activities

On October 4, 2013, Presidential Decree N° 455 was published in Official Gazette N° 40,265, which reserves the National Executive, through the Ministry, direct exercise of nickel exploration and exploitation activities, as well as other nickel-related minerals, which are located in the area comprising the former concessions, in the Municipalities of Santos Michelena and Guaicaipuro of Aragua and Miranda States, respectively.

(n) Decree of Transfer to PDVSA or a Designated Subsidiary the right to conduct the contemplated Gold Exploration and Exploitation Activities

In Official Gazette N° 40,109 of February 13, 2013 Presidential Decree N° 9,368 was published, transferring to PDVSA or a designated subsidiary the power to conduct directly or through a State entity the gold exploration and exploitation activities, as well as any required ancillary activities; the required activities will be carried out in accordance with the principles of sustainable development, conservation of the environment and land use planning, on the technical and economic terms most appropriate for the rational exploitation of the deposits.

(o) Resolution N° 177 of the Ministry regarding the Delimitation of the Geographical Area Where the Gold Exploration and Exploitation Activities reserved for the State will be conducted

In Extraordinary Official Gazette N° 6,094, dated December 28, 2012, Resolution N° 177 of the Ministry was published, delimiting the geographical area where PDVSA or a designated subsidiary will conduct activities contemplated in Article 1 of the Decree-Law on Organic Law Reserving the State the regular and ancillary Gold Exploration and Exploitation activities.

These activities are linked to the subsidiaries of PDVSA Industrial, S.A. classified as discontinued operations (see notes 6, 19 and 38-c).

(p) Decree with Rank, Value and Force of Law Creating a Special Tax for Extraordinary Prices and Exorbitant Prices in the International Hydrocarbon Market

On February 20, 2013, the Law Creating a Special Tax for Extraordinary Prices and Exorbitant Prices in the International Hydrocarbons Market was published in Official Gazette N° 40,114. The abovementioned law repeals Decree N° 8,807.

This reform establishes that extraordinary prices are those which monthly average of international quotations of the basket price of Venezuelan liquid hydrocarbons is higher than the price established in the Budget Law for the corresponding fiscal year, but less than or equal to $80 per barrel. Exorbitant prices are those prices whose monthly average of international quotations of the Venezuelan liquid hydrocarbons basket exceeds $80 per barrel. With regard to the percentage for extraordinary prices, it was provided that if the monthly average of the international quotations for the basket price of Venezuela's liquid hydrocarbons is greater than the price established in the Budget Law for that concerned fiscal year, but less than or equal to $80 per barrel, an aliquot of 20% for the difference between the two prices shall be applied.

In connection with the exorbitant price aliquot, the law establishes the following:

- When exorbitant prices are higher than $80 per barrel, but lower than $100 per barrel, an aliquot of 80% of the total amount of the difference between the two prices will be applied.
- When exorbitant prices are equal to or higher than $100 per barrel, but lower than $110 per barrel, an aliquot of 90% of the total amount of the difference between the two prices will be applied.
- When exorbitant prices are equal to or higher than $110 per barrel, an aliquot of 95% of the total amount of the difference between the two prices will apply.

Furthermore, exemptions are ratified in the case of:

- Companies performing activities referred to in Articles 6 and 8 of said Law, related to the implementation of projects involving new development of reservoirs, as well as the volumes associated with enhanced recovery projects or production remediation projects, declared as such by the Ministry of People's Power for Petroleum and Mining, which shall establish by resolution, the parameters to declare as such the volumes exempt from this tax.
- Export of volumes in compliance with international agreements for cooperation or financing.

Likewise, a ceiling of $80 per barrel was established as the maximum price for the calculation and payment of royalties, extraction tax and export registration tax as provided by the Hydrocarbons Organic Law.

This law repeals provisions by the BCV Law, enacted on April 8, 2010 and published in Official Gazette N° 39,419 of May 7, 2010, regulating PDVSA's contribution to the FONDEN, as well as any other provision of equal or lower rank that may be inconsistent with the aforementioned law.

(q) Decree with Rank, Value and Force of Organic Law on the National Working Class Savings Fund and the People's Savings Fund

In Official Gazette N° 39,915 of 4 May 2012, Presidential Decree N° 8,896 was published, dictating Decree with Rank, Value and Force of Organic Law on the National Working Class Savings Fund and the People's Savings Fund. The objective of the National Working Class Savings Fund is to generate and manage financial and investment instruments, as well as to administer and manage other funding sources necessary to aid with the payment of the State's social benefit debts to employees, as well as promoting national savings through investment mechanisms. To this end, savings banks and funds, workers, companies and the general public will participate, with a view to developing national production sectors. Based on the foregoing, it was decided to incorporate the subsidiary PDVSA Social, S.A., which will have shares in the Empresas Mixtas transferred from CVP. The dividends generated by these assets will be transferred to the National Savings Fund. Amounts representing 3.33% of the value of liquid hydrocarbons extracted from any reservoir payable by Empresas Mixtas as an extraction tax will be transferred to this Fund.

(r) Organic Law on Sports, Physical Activities and Physical Education

On August 23, 2011, Official Gazette N° 39,741 was published, containing the Organic Law on Sports, Physical Activities and Physical Education. This law establishes that companies or other private or public organizations performing for-profit economic activities in the country must make a contribution of 1% of their net profits or annual accounting income if it is greater than 20,000 Tax Units. This contribution will be made in accordance with the parameters defined in the Regulations to the Law or with those issued by the Ministry of People's Power for Sports. During the year ended December 31, 2016, PDVSA contributed $1 million in 2016 [$18 million in 2015 and $98 million en 2014], which is included in other expenses, net, in the consolidated statement of profit or loss and other comprehensive income (see note 10). The determination of this contribution was made through DIPRO exchange rate in 2016, SICAD II in 2015 and SICAD I and II in 2014 (see note 35-a).

On February 28, 2012, Official Gazette N° 39,872 was published, containing Partial Regulation N° 1 under the Organic Law on Sports, Physical Activities and Physical Education, which establishes the rules for the payment of contributions to the National Fund for the Development of Sports. Payment can be made in legal tender or in a combined manner, with projects charged addressed to the bank of projects of the National Sports Institute (Spanish IND). Payment for projects shall not exceed 50% of the corresponding contributions. Returns for these contributions must be filed within 120 calendar days subsequent to the fiscal year closing.

The relevant standard establishes that filing estimated returns is mandatory for taxpayers bound to make this contribution, 190 days subsequent to the fiscal year closing.

(s) Law Amending the Organic Law on Science, Technology and Innovation (LOCTI for its Spanish acronym)

On November 18, 2014, Official Gazette (Extraordinary) N° 6,151 was published, containing the Law that Partially Amends the LOCTI. This reform establishes that private or public legal entities, whether domiciled in the Republic or abroad, performing business activities within the national territory will pay, on an annual basis an established percentage of the gross revenues obtained during the previous period, in accordance with the business activity they perform, as follows:

- 2% when the business activity is listed under the Law on the Control of Casinos, Bingo Facilities and Slot Machines, as well as any area relating to the industry and trade of ethyl alcohol, alcoholic beverages and tobacco.

- 1% for private companies operating in business areas subject to the Gaseous and Liquid Hydrocarbons Organic Law including mining, its processing and distribution activities.
- 0.5% for state-owned companies if the business activity is listed in the Gaseous and Liquid Hydrocarbons Organic Law including mining, its processing and distribution activities.
- 0.5% for any other business activity.

Among the most significant changes in the recent amendment of the law, the following may be highlighted:

- The National Science, Technology and Innovation Fund (Spanish *FONACIT*) will be responsible for the administration, collection, control, monitoring and verification and quantitative and qualitative determination of the contributions for science, technology and innovation and their applications.
- The same aliquots established in former law remain in effect, pursuant to the taxpayer's activity, but it specifies that the applicable percentage will be determined on the gross income actually earned in the immediately previous fiscal year, for any activity conducted by the entity.
- "Gross revenues" are defined as revenues, income and flows that tax payers ordinarily, occasionally, or extraordinarily earn as a result of any economic activity, provided that they are not obligated to reimburse or return them, without any costs or deductions of any sort.
- In derogative provisions, Number 4 of Article 2 and Article 8 of the Partial Regulations under the Organic Law on Science, Technology and Innovation pertaining to contributions, financing and the results thereof, and ethics in research, technology and innovation, published in Official Gazette N° 39,795 of November 8, 2011, remain without effect.

During the year ended December 31, 2016, PDVSA contributed $44 million [$352 million in 2015 and $908 million in 2014], reported as part of other expenses, net, in the consolidated statement of comprehensive income (see note 10). The determination of this contribution was effected through DIPRO exchange rate in 2016, SICAD II in 2015 and SICAD I and II in 2014 (see note 35-a).

(t) Organic Law on Drugs (LOD for its Spanish acronym)

On November 5, 2010, the Official Gazette N° 39,546 was published (reprinting due to material errors) containing the LOD, which repealed Organic Law against Illicit Trafficking and Consumption of Stupefacient and Psychotropic Substances (LOCTICSEP for its Spanish acronym) effective as of its publication date. This Law establishes that all private legal entities, consortia and public entities with 50 or more employees are subject to pay the equivalent of 1% of their earnings or profit for the pertinent fiscal year to the National Antidrug Fund (FONA for its Spanish acronym) within 60 calendar days after the end of the fiscal year. For purposes of this obligation, legal entities that are part of business groups will be consolidated, while the resources obtained by the FONA for this concept will be earmarked for the financing of plans, projects and programs for the comprehensive prevention of illegal drugs trafficking.

During the year ended December 31, 2016, PDVSA contributed $1 million [$25 million in 2015 and $350 million in 2014], reported as part of other expenses, net, in the consolidated statement of profit or loss and other comprehensive income (see note 10). The determination of this contribution was effected through DIPRO exchange rate in 2016, SICAD II in 2015 and SICAD I and II in 2014 (see note 35-a).

(36) Subsequent Events

(a) Exchange Agreement N° 38

On May 19, 2017 Exchange Agreement N° 38 was published in Official Gazette N° 6,300, establishing that the foreign currency auctions carried out through DICOM could be performed by individuals and companies from the private sector who wish to provide their offer and demand bids and by the BCV (see note 35-a).

PDVSA, its subsidiaries and the Empresas Mixtas engaged in the hydrocarbons industry will be able to participate only as sellers.

Foreign currency auctions correspond to an administered-floating system among monitored mobile tops and bottoms, where the value payable by each buyer will be equivalent to the proposal they have made to acquire it, regardless of the resulting exchange rate.

The foreign currency auction will consist of an ordinary auction open to all sectors, and a contingency auction which will take place when the ordinary auction – due to an excess of demand or supply – fails to allocate the demanded currency below the highest value or above the lowest value of the top or bottom established.

The exchange rate will fluctuate within the lower and the higher limits, within the monitored ranks defined. Its value in legal tender will be the lowest value proposed by the foreign currency buyers resulting allotted, that is, the marginal value over the allotted demands. This value will be the calculation basis for determining the value of the foreign currency bids offered.

(b) New Accounting Pronouncements

On May 18, 2017, the IASB issued the IFRS 17 *Insurance Contracts*, which replaces the IFRS 4 *Insurance Contracts* and demands that all insurance contracts are accounted for consistently, benefitting both investors and insurance companies. Insurance obligations are accounted for using the current values, instead of the historical cost. The information will be updated periodically, by providing more useful information to the users of the financial statements.

IFRS 17 is effective for annual periods starting on January 1, 2021. Its early adoption is permitted. The Company is in the process of assessing the impact that this standard may have over their consolidated financial statements.

(c) Settlement of Litigations

On May 1, 2017, the District Court for the District of Delaware, in the United States of America, ruled in favor of PDVSA with regard to a case introduced by Crystallex International Corp., demanding the payment of dividends from CITGO Petroleum Corporation for an amount of $2,800 million.

In addition, on May 1, 2017, the U.S. Supreme Court ruled in favor of PDVSA with regard to the case Helmerich & Payne, a company who denounced the expropriation of their drills in 2010, when the Venezuelan Government nationalized 11 drills that had been idle during several months.

(d) Extension of the Production Adjustment Agreement

In May 2017, the OPEC and other 11 major producing and non-OPEC countries, agreed on extending for nine more months Venezuela's production adjustment at 1.97 million barrels per day (TBPD), initially approved (see notes 30-b and 33).

(e) PDVSA's bonds

During February, April, and May 2017, PDVSA made the payment of principal and interests of the following bonds (in millions of dollars):

	Maturity year	Payment month	Interest rate %	Dollars	Concept
PDVSA's bonds 2035	2035	May	9.75	146	Payment of interests
PDVSA's bonds 2026	2026	May	6.00	135	Payment of interests
PDVSA's bonds 2024	2024	May	6.00	150	Payment of interests
PDVSA's bonds 2021	2021	May	9.00	108	Payment of interests
PDVSA's bonds 2017	2017	May	8.50	48	Payment of interests
PDVSA's bonds 2037	2037	April	5.50	41	Payment of interests
PDVSA's bonds 2027	2027	April	5.38	81	Payment of interests
PDVSA's bonds 2022	2022	April	6.00	90	Payment of interests
PDVSA's bonds 2020	2020	April	8.50	143	Payment of interests
PDVSA's bonds 2017	2017	April	5.25	2,060	Payment of principal and interests
PDVSA's bonds 2022	2022	February	12.75	191	Payment of interests
				3,193	

(f) Rosneft's advance payment received

In April 2017, by agreement for the sale of crude oil and products to Rosneft Trading, S.A., PDVSA received an advanced payment of $1,015 million (see note 24).

(g) Transfer of Control over Subsidiaries of PDVSA Industrial, S.A.

In March 2017, in accordance with the Official Gazettes N° 40,922; 41,030; 40,931 and 40,552, issued during 2016, PDVSA transferred its Stockholder the control of financial transactions and operations of some subsidiaries of PDVSA Industrial, S.A., mainly related to the mining sector, which were classified as discontinued operations at December 31, 2016 (see notes 6 and 19).

The financial effects of this operation are not significant with regard to the equity attributable to the Stockholder.

(h) Agreement between PDVSA and CAMIMPEG

In March 2017, PDVSA and CAMIMPEG signed a memorandum of understanding that includes a partnership between both companies regarding security and defense affairs, and also an agreement that will serve to raise production levels at the "Urdaneta" field, in Zulia State, which is estimated to take place during 24 months, with an investment of approximately $400 million (see note 35-d).

(i) Official Notice by the BCV

On March 23, 2017, the BCV issued an official notice, in accordance with the stipulated in Resolution N° 16-03-01 published in the Official Gazette N° 40,879 from April 5, 2016, which establishes that the exchange rate for determining the taxable base of internal taxes applicable to the primary activities of liquid and gaseous hydrocarbons will be the specified in Article 1 of the Exchange Agreement N° 35 from March 9, 2016 (see note 35-a).

(j) China-Venezuela Mixed Commission - Agreements signing

On February 13, 2017, the China-Venezuela Mixed Commission signed a series of cooperative and economic agreements. The agreements, endorsed by PDVSA, include the memorandum of understanding of PDVSA's participation in the Nahai Refinery construction project in China; the engineering, procurement and facilities construction contract to increase extra heavy crude oil production in the facilities of the Empresa Mixta Petrolera Sinovensa, S.A.; the memorandum of understanding for the development of the Petrozumano S.A. Empresa Mixta; and the financing provided by the China Development Bank as part of the Special Fund for oil projects.

In the same way, agreements include the memorandum of understanding for a well exploitation pilot test work plan or the Empresa Mixta Petrourica, S.A.; the constitution of the Empresa Mixta Venezolana de Mantenimientos Especializados Remensa, S.A. (VEMESA); the constitution of a Empresa Mixta between PDVSA and Shandong Kerui Chinese company to develop maintenance capacities for the provision of specialized services; and the memorandum of understanding between PDVSA and Shanghai for the corporate insurance and reinsurance program of PDVSA and its subsidiaries.

(k) Dissolution of the Primary Sector of PDVSA Agrícola, S.A.

On January 31, 2017 Presidential Decree N° 2,712 was published in Official Gazette N° 41,086, instructing the transfer to Corporación de Desarrollo Agrícola, S.A., under the custody of the Ministry of People's Power for the Productive Agriculture and Land, all of the Socialist Agricultural Production Units (UPSA for its Spanish acronym) and the Social Property Units (UPS for its Spanish acronym), part of PDVSA Agricola, S.A. (see notes 6 and 19).

(l) PDVSA's Board of Directors Modification

On January 29, 2017 the Presidential Decree N° 2,703 was published in Extraordinary Official Gazette N° 6,284, which established the modification of the members of PDVSA's Board of Directors.

(m) Extension of the Economic Emergency Decree throughout the National Territory

On January 13, 2017 Presidential Decree N° 2,667 was published in Official Gazette N° 41,074, establishing an extension of 60 days for the period stipulated in Decree N° 2,548 Economic Emergency Decree, published on November 14, 2016.

On March 13, 2017 Official Gazette N° 41,112 published Decree N° 2,742, establishing the extension of Decree N° 2,667 for 60 days, and subsequently, on May 13, 2017, Extraordinary Official Gazette N° 6,298 published Decree N° 2,849 which extends Decree N° 2,742 for 60 more days (see note 35-e).

(n) Financial Debt Waivers

The contractual clauses established in various financing instruments of Petróleos de Venezuela, S.A. require the publication of consolidated financial statements audited during diverse terms after the closing of each accounting period; nevertheless, due to the complexity of the additional operations and reviews that have delayed the publication of the financial information required, the Company requested and obtained the corresponding waivers of their financiers during 2017. PDVSA's Management does not expect any breaches in the foreseeable future.

(o) Credit Agreements

On June, 15, 2017, CITGO Aruba Refining N.V. (subsidiary wholly-owned by PDV Holding) signed a credit agreement with maturity at June, 14, 2018. The funds of the before mentioned agreement will be used to transform the refinery in a heavy crude oil enhancement facility. The principal amounts of the agreement will bear interest at a LIBOR rate plus a margin of 7.5% payable monthly. The credit agreement is guaranteed by assets of related companies.

(p) Dividend Decree

On June 14, 2017, during PDVSA's Stockholder's Meeting a bolivar-dividend was decreed for an amount of $1,463 million, [equivalent to $5,726 million at 31 December 2016 (see notes 9, 29 and 32)], which was used to compensate the account receivable from the Republic, with regard to the recognition of the difference between the selling price and the production cost of the 91 and 95 octane gasoline and diesel fuel, distributed in Venezuela during 2016.

(37) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis, except for certain assets and liabilities that have been measured at fair value:

- Recoverable value-added tax.
- Advance for special contribution and other taxes.
- Derivative financial instruments.
- Trading assets.
- Employee benefits and other post-employment benefits (present value of the defined benefit obligation less the fair value of plan assets).

The methods used to measure fair values are discussed in notes 4 and 25-c.

(38) Significant Accounting Policies

Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow:

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The Company, subsidiaries and equity-accounted investees, have consistently applied these accounting policies to all years presented in these consolidated financial statements.

(a) Basis of Consolidation

Business Combinations

Business combinations are accounted for using the acquisition method at the date on which control is transferred to PDVSA. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any arising goodwill is tested annually for impairment. Any gain on a bargain purchase is recognized immediately in profit or loss. Transaction costs are expensed as incurred, except for those related to the issuance of debt or equity, which are accounted for in accordance with IAS 32 *Financial Instruments: Introduction* and IAS 39 *Financial Instruments: Recognition and Measurement.*

The consideration transferred does not include the amounts related to the settlement of pre-existing realtionships for transactions executed before the acquisition date. Such amounts are recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If it is necessary to exchange the payment licenses based on actions for maintained licenses for the employees of an acquired company, one portion or the whole amount of the replacement licenses of the buyer are included in the measurement of the consideration transferred in the business combination. This is performed based on the market value of the replacement licenses compared to the value based on the market license of the acquiree and the extent to which replacement licenses relate to the service prior to the combination.

Investments in Subsidiaries

A subsidiary is an entity controlled by PDVSA. The financial statements of subsidiaries are included in the consolidated financial statements from the date when control commences until the date control ceases. PDVSA controls an entity if it is exposed to, or has rights to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its control over the entity.

Non-controlling Interests

PDVSA measures any non-controlling interest as the proportional share in identifiable net assets of the acquiree on the acquisition date.

Adjustments to non-controlling interests resulting from transactions that do not result in a loss of control are accounted for as equity transactions.

Loss of Control

When the control over a subsidiary ceases, PDVSA derecognizes the assets and liabilities of the subsidiary and any non-controlling interest and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any remaining interest is measured at fair value on the date control ceased.

Interest in Equity-accounted Investment

Interest in Equity-accounted Investments includes investments in associates and jointly-controlled entities.

Associates are companies on which PDVSA has significant influence but not control or joint control over their operating and financial policies. An Empresa Mixta is an agreement by which PDVSA has joint control, through which it has rights to the net assets under the agreement, instead of having rights on the assets and obligations provided by its liabilities.

Investment in equity-accounted investees are initially recognized at cost, including transaction costs; subsequently, these are measured using the equity method until the date when the significant influence or joint control cease.

PDVSA's consolidated financial statements include the share of gain or losses and other comprehensive income, from the date when the significant influence and joint control commence and until the date these cease.

Transactions eliminated in Consolidation

Balances and transactions between the Parent Company and subsidiaries (intercompany transactions) as well as any other unrealized income or expense from intercompany transactions are eliminated in consolidation. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the equity amount in such entities. Unrealized losses are eliminated in the same manner as unrealized gains, but only to the extent that there has been no evidence of impairment.

(b) Foreign Currency

Foreign Currency Transactions

Transactions in foreign currency (any currency other than the functional currency) are translated into the respective functional currency of the subsidiary, using the exchange rates applicable at the transactions dates.

Monetary assets and liabilities denominated in foreign currency at the date of the consolidated statement of financial position are translated into the functional currency using the exchange rates applicable on such date. Non-monetary assets and liabilities denominated in foreign currencies that are presented at fair value are translated into the functional currency using the exchange rate on the date when the fair value was determined. Other non-monetary items in foreign currency measured at historical cost are translated at the exchange rate in effect at the transaction date (historical exchange rate).

Foreign exchange profits or losses generated as a result of the foregoing are recognized on a net basis in the consolidated statement of profit or loss and other comprehensive income and are presented as part of financial income or expenses.

Translation to the Presentation Currency

The translation of PDVSA's consolidated financial statements from dollars to bolivars, a presentation currency different from the functional currency, was made in accordance with International Accounting Standard N° 21 (IAS 21) as follows: assets and liabilities at the exchange rates in force on the date of the consolidated statement of financial position, and income and expenses at the average exchange rates in force during each year. All the exchange differences generated as a result of the foregoing are reported as part of other comprehensive income.

Within the framework of the foreign exchange agreements in force, during the year ended December 31, 2016, Petróleos de Venezuela, S.A. and some of its domestic subsidiaries conducted sales transactions of dollars, bonds and other financial instruments stated in dollars, using the exchange rates in force for the bolivar with respect to the dollar. As a result of such transactions, and in accordance with the provisions of IAS 21, PDVSA determined the exchange rate to translate the balances in dollars of the consolidated financial statements to bolivars (presentation currency).

Exchange Rates and Inflation Indexes

The following chart shows the exchange rates with respect to the dollar at the accounting closing and inter-annual increases in the NCPI, as published by the BCV:

	December 31, 2016	2015	2014
Exchange rates of other currencies with respect to the dollar:			
Exchange rate of the euro (€) with respect to the dollar at closing date (€/$1)	1.05	0.91	0.82
Exchange rate of the yen (¥) with respect to the dollar at closing date (¥/$1)	117.23	120.38	120.39
Exchange rate of the Argentinean peso with respect to the dollar at closing date (ARS/$1)	15.72	12.97	8.55
Exchange rates of the bolivar with respect to the dollar:			
Exchange rate of the bolivar (Bs.) with respect to the dollar at closing date (Bs./$1) according to Exchange Agreement N° 9	-	6.30	6.30
Exchange rate of the bolivar with respect to the dollar in the Supplementary Foreign Exchange System (SICAD) (Bs./$1)	-	13.50	12.00
Exchange rate of the bolivar with respect to the dollar in the Alternative Foreign Exchange System (SICAD II) (Bs./$1)	-	52.10	49.99
Exchange rate of the bolivar with respect to the dollar at closing date (Bs./$1) in the Exchange Agreement N° 33 - Marginal Foreign Exchange System (SIMADI)	-	198.69	-
Exchange rate of the bolivar with respect to the dollar at closing date (Bs./$1) in the Exchange Agreement N° 35 - Protected Exchange (DIPRO)	10.00	-	-
Exchange rate of the bolivar with respect to the dollar at closing date (Bs./$1) in the Exchange Agreement N° 35 - Supplementary Exchange (DICOM)	674.81	-	-
Inflation rates in Venezuela:			
Year-over-year increases in the NCPI (%) [(1)]	-	180.90	68.54

(1) Pending publicaiton by the BCV for the year 2016

(c) *Discontinued Operations*

A discontinued operation is a component of the Company's business whose transactions and cash flow may be clearly distinguished from the rest of the Company and:

- It represents a business line or a geographic area that is significant and can be considered to be separate from the rest.
- It is part of a single coordinated plan to dispose of on a business line or a geographic area that is significant and can be considered to be separate from the rest.
- Is a subsidiary exclusively purchased to be resold.

The classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as maintained for disposal, whichever occurs first.

When an operation is classified as a discontinued operation, the comparative consolidated statements of profit or loss and other comprehensive income are presented as if the operation had been discontinued at inception of the comparative years.

(d) *Revenue Recognition*

Revenues from the sale of crude oil, natural gas, refined products and other items are measured at fair value of the consideration received or to be received, net of commercial discounts and royalties on the volumes shipped on behalf of the Republic and are recognized in the consolidated statements of profit or loss and other comprehensive income when the significant risks and rights deriving from ownership have been transferred to the buyer, the recovery of the particular account receivable is probable, there is sufficient evidence of a sales agreement, the prices have been set or are determinable, and PDVSA has no future involvement with the assets sold. Mostly, the transfer of significant risks and rights deriving from ownership is governed by the terms of delivery stipulated in the contracts with the customers.

In the case of revenues from activities other than PDVSA's principal business, these are recognized when revenues have been realized through the transfer of risks and benefits associated with the sale of assets, when the service has been provided or in proportion to the stage of completion of the transaction or contract, at the end of the period being reported, for services provided and construction contracts.

(e) Employee Benefits and Other Post-retirement Benefits

Short-term Benefits

Obligations for short-term benefits, such as employee bonuses, vacations and other benefits are accounted for in profit and loss to the extent that the services are provided by the employees.

Defined Contribution Plans

PDVSA offers its employees a defined contribution plan, in the form of a savings plan. The expenses associated with this plan are accounted for in profit and loss as the services are provided by the employees.

Defined Benefit Plans

PDVSA's net obligations for defined benefit plans are calculated separately for each plan, estimating the amount of the future benefit that the employees have earned in prior periods and the current period, discounting such amount and deducting the fair value of the plan assets.

The calculation of the obligations is performed annually by qualified actuaries using the projected unit credit method. If the calculation results in a potential asset for PDVSA, the asset recognized is limited to the present value of the economic benefits available in the form of any future refunds from the plan or reduction in future contributions to the plan. To calculate the present value of economic benefits, any existing minimum financing requirement is taken into consideration.

Remeasurement of the net defined benefit liability, which includes actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset limit that might result are immediately recognized in other comprehensive income. PDVSA determines the net interest expense (income) on liabilities (assets) in applying a discount rate used for measuring the obligation of the defined benefit at the commencement of the annual period, taking into consideration any net change in the defined benefit liabilities (assets) during the period, resulting from the contributions and payments of benefits. The net interest expense and other expenses related to defined benefits plans are recognized in operating expenses and selling, administrative and general expenses in the consolidated statement of profit or loss and other comprehensive income.

The asset ceiling is the present value of any economic benefits available as refunds of the plan or reductions in the future contributions to itself.

The discount rate used reflects the market yield, which at the consolidated financial statements date of top-tier debt instruments issued by PDVSA with maturity dates similar to those where such obligations must be paid.

If plan benefits are modified or if a plan is reduced, the resulting change in benefits related to past services or to the gain or loss in the reduction of the plan is recognized immediately in profit or loss. PDVSA recognizes the gains or losses in the liquidation of a defined plan when it occurs.

Post-employment Benefits Other Than Pensions

These benefits include health and dental plans, funeral insurance, and electronic food cards.

Employee Termination Benefits

Employee termination benefits for employees in Venezuela are established by the labor law and the collective labor contract in effect. A significant portion of employee benefits has been deposited in a trust account for the benefit of each employee. PDVSA does not have a specific portfolio of assets to guarantee compliance with this defined employee termination benefits resulting in no calculations of fair value of assets.

The Company's net obligation with respect to benefits from the guarantee of employee benefits is defined in the collective bargaining agreement in effect and the Organic Labor and Workers Law (LOTTT, for its Spanish acronym), which came into effect in May 2012 retroactively and with characteristics of a defined benefit plan under IAS 19, *Employee Benefits*.

Under the LOTTT, payment of the right to employee benefits is established in proportion to the length of service, calculated based on the salary earned by the employee upon termination of the employment relationship.

(f) Research and Development

Research and Development expenses for activities conducted in order to obtain new scientific or technological knowledge are recognized in profit or loss when incurred and are presented as part of operating expenses in the consolidated statements of profit or loss and other comprehensive income. During the year ended December 31, 2016, the expenses recognized by way of research and development amounted to $180 million [$74 million in 2015 and $191 million in 2014].

(g) Contributions for Social Development

PDVSA participates in the social and comprehensive development of the country through contributions for social programs and projects. These contributions are recognized directly in profit or loss when the obligation is acquired, except for contributions made through various funds, which include trust and restricted cash funds, recognized in profit or loss when disbursements are made, with the administrative responsibility for the funds with the trustees and beneficiaries.

Contributions to the National Development Fund, FONDEN, S.A. (FONDEN, for its Spanish acronym) are disbursements in accordance with the Decree with the Rank, Value and Force of Law Creating the Special Contribution for Extraordinary Prices and Exorbitant Prices in the International Hydrocarbons Market.

(h) Government Grants

Government grants are initially recognized at fair value when these are received, and if there is reasonable assurance that PDVSA will comply with the conditions associated with them. Grants of non-monetary assets are recognized at fair value, or, if there is no reasonable certainty of their value, at nominal value.

Government grants received as compensation for expenses already incurred, without subsequent related costs are recognized in the profit or loss of the period when the grants becomes payable, reducing the expenses related to such grants.

Grants of assets are recognized by PDVSA in the consolidated statement of financial position as deductions of the carrying amount of the assets to which such grants relate and are recognized in profit or loss on a systematic basis over the course of the periods where the Company recognizes the cost related to the compliance with the grant as expenses.

(i) Financial Income and Costs

Financial income presented in the consolidated statements of profit or loss and other comprehensive income consists primarily of foreign exchange profits, results obtained from transactions involving the sale of financial instruments, transactions executed with debt instruments issued by PDVSA, interest on noncurrent accounts receivable accounted for at amortized cost, results of the effects of inflation on the net monetary position of subsidiaries whose functional currency is the bolivar and the yield on invested funds.

The financial costs presented in the consolidated statement of profit or loss and other comprehensive income comprise the expenses from financial obligations interests, the changes (loss) in the fair value of the financial assets, the financial cost for the obligation of assets retirement and the losses for transactions with financial instruments.

Financial costs that are not directly attributable to the acquisition, construction or production of qualifying asset are recognized in profit or loss using the effective interest method. An asset is considered suitable when it requires a substantial period of time before being ready for use.

Foreign exchange profit and losses are recognized on a net basis, either as financial income or financial costs, depending on whether the effect of foreign currency exchange rate fluctuations result in a net asset or liability position.

(j) Income Tax

Income tax expense consists of current tax and deferred tax. The income tax expense is recognized in profit or loss each year, unless it involves items related to a business combination or items recognized directly in equity or other comprehensive income.

The current tax is the expected tax payable calculated on the taxable income for the year, using the methodology established by the law in effect and the tax rate in effect at the end of the reporting period. Deferred assets and liabilities are recognized for temporary differences existing between the amounts of assets and liabilities presented in the consolidated statement of financial position and their corresponding tax basis, as well as losses and tax credits that can be carried forward to future periods. The value of deferred assets and liabilities is determined using the tax rates that are expected to be applicable to taxable income in the year when temporary differences are recovered or settled, according to the applicable law. The effect on deferred assets and liabilities of changes in tax rates is recognized in income for the year when these become effective.

In the determination of the amount of current and deferred tax, PDVSA takes into consideration the impact of uncertain tax positions and the possibility that a tax obligation or additional interest may arise. PDVSA considers that its tax payable is adequate for all fiscal years, based on its assessment of various factors, including interpretations of law provisions and previous experiences. These evaluations are based on estimates and assumptions, and might also include a series of judgments regarding future events.

A deferred tax is recognized only to the extent that it is probable that future taxable income will be available against which it can be offset. Deferred tax assets are reviewed as of the date of the financial statements and are reduced to the extent that the probability that the related tax benefit to be realized is reduced. Deferred tax assets and liabilities are only offset if certain criteria are met.

Income tax related to the distribution of dividends, determined based on the laws and regulations of each tax jurisdiction is recognized as a liability when the obligation to pay such dividends is generated.

(k) Inventories

Inventories of crude oil and products are measured at cost or net realization cost, the lowest. The cost of these inventories mainly includes production costs, refining, transportation, royalties, and other necessary costs for their sale and distribution. The cost of these inventories is calculated using the average cost method. The net realization value is the estimated sale value during the normal course of business, less termination costs and the estimated expense of the sale.

Materials and supplies are measured at the lowest between their average cost and the net realization value. These are divided into two groups: non-current asset and current asset.

(l) Properties, Plants and Equipment

Recognition and Measurement

Properties, plants and equipment are measured at cost, including cost of capitalized loans, less the accumulated depreciation and impairment losses. The successful efforts method is used for oil and gas exploration and producing activities, taking into consideration the IFRS 6, *Exploration for and Evaluation of Mineral Resources* for exploration and evaluation assets recognition. The costs of development wells and related properties, plants and equipment engaged in the exploitation of crude oil and gas are accounted for as part of the cost of the assets. The costs of exploratory wells are recognized as assets until it is determined whether they are commercially feasible and, otherwise are recognized in exploration expenses. Other exploration expenses are recognized in exploration expenses, when incurred.

The initial cost of properties, plants and equipment includes disbursements directly attributable to the acquisition of such assets, as well as the amounts associated with asset retirement obligations. These assets are recognized when it is likely that they will generate future economic benefits.

The financing cost of projects that require major investments and that is incurred for specific financing of projects is recognized as part of properties, plants and equipment when it is directly attributable to the construction or acquisition of a qualifying asset. The capitalization of these costs is suspended during the periods when the performance of construction activities is interrupted and their capitalization concludes when the activities necessary for the use of a suitable asset have been substantially completed.

The initial cost of assets constructed by the Company includes financing interest, the costs of materials and direct labor, as well as any other direct costs attributable to the placement into service; it also includes the costs of dismantling and removal at the location where assets are constructed.

All disbursements related to the construction or acquisition of properties, plants and equipment during the phase prior to the start-up are initially presented at cost as works in progress.

Once the assets are ready for use, they are transferred to the relevant component of properties, plants and equipment and depreciation commences.

The gain or loss arising from disposal of an asset of properties, plants and equipment is determined by the difference between the amount received on the sale or disposal, if any, and the net carrying amount of the asset, and it is recognized as other net expenses on the consolidated statements of profit or loss and other comprehensive income.

Subsequent Costs

The costs of major maintenance, as well as those for the replacement of significant parts of properties, plants and equipment are capitalized in the cases when it is possible that the future economic benefits incorporated to PDVSA and their cost can be reliably measured; these are depreciated in the estimated periods covered, between the date of the maintenance and replacement of such parts and the next time these will be performed. Disbursements for minor maintenance, repairs and renovations made to keep the facilities in normal operating condition are charged to operating expenses.

Depreciation and Amortization

Depreciation and amortization of costs capitalized for wells and crude oil and gas production facilities is determined according to the units of production method by field, using as a basis the proved developed reserves, which consists of the amounts of crude oil and gas that can be recovered from existing wells, with equipment and methods currently in use. The rates used are revised annually based on a reserves analysis and are applied retroactively at the beginning of the year.

Capitalized costs of other properties, plants and equipment are depreciated over their estimated useful life, using the straight-line method, whose average useful life in years range between:

	Useful life in years
Refining plants and facilities	17 - 25
Crude oil, gas and products storage and transportation facilities	12 - 25
Buildings and constructions	20
Machinery and equipment	5 - 10
Land, maritime and air transportation units	3 - 20
Industrial and camp support services	10 - 17
Remaining assets	3 - 10

When items of properties, plants and equipment have different useful lives, these are accounted for separately as a significant component of the asset.

The methods of depreciation, the average useful life and the residual value of properties, plants and equipment are reviewed annually and adjusted prospectively when necessary. Land is not depreciated.

Properties, plants and equipment are depreciated since the dates when these are installed and ready for use or, in the case of assets constructed by PDVSA, since the date when these have been completed and ready for use.

Estimation of Reserves

Estimates for oil and gas reserves made by PDVSA and certified by the Ministry are an integral part of the Company's decision-making. The volume of oil and gas reserves is used to calculate the depreciation expense per production unit by field and the asset retirement obligation, allowing PDVSA to evaluate the recoverability of the investments made in the exploration and production processes. Any change in the volumes of reserves might have a significant impact on PDVSA's comprehensive income (see Annex I Supplementary information unaudited).

(m) Costs Associated with Asset Retirement Obligations

PDVSA capitalizes the estimated costs associated with the retirement obligations of those assets used for crude oil and gas exploration and production activities and other industrial facilities based on the plan future disposal of these assets. These estimated costs are measured and presented at their present value at closing of each period. The cost is capitalized as part of the related asset and amortization is recognized in profit or loss over the asset's useful life.

(n) Goodwill

Goodwill resulting from the acquisition of subsidiaries is presented as part of accounts receivable and other assets.

Goodwill resulting from the acquisition of non-controlling interests is included as part of the carrying amount of the investment.

Goodwill is measured at cost less accumulated impairment losses. Regarding non-controlling interests, impairment losses of these investments are allocated to the carrying amount of the investment.

(o) Assets Held for Disposal

Non-current assets or groups of assets to be disposed of and comprising both assets and liabilities are classified as held for sale or as held for distribution among holders if it is highly probable that these may be recovered fundamentally through sale and not through continued used.

These assets or groups of assets held for disposal, in general, are measured at the least value between the carrying amount and their fair value less the costs of sale. Any impairment loss is allocated first to the goodwill, an then allocated on a pro-rata basis to the remaining assets and liabilities, but such loss is not allocated to inventories, financial assets, deferred tax assets, biological assets or assets for employee benefits, which will continue to be measured in accordance with the Company's other accounting policies. Impairment losses in the initial classification as held for disposal or held for distribution among holders, as well as the subsequent gains and losses resulting from remeasurement are reported in the consolidated statements of profit or loss and other comprehensive income.

As these have been classified as held for disposal, properties, plant and equipment do not continue to depreciate, and equity-accounted investees cease to be accounted for using this method.

(p) Financial Instruments

Non-derivative Financial Assets and Liabilities – Recognition and Disposal

Loans and receivables are recognized on the date when these are originated. All other financial assets and liabilities (including those designated at fair value with changes through profit or loss) are initially recognized on the transaction date, which is the date when PDVSA obliges or commits itself to the contractual clauses of the instrument. Any interest originating from the transfer of the financial assets is recognized as a separate asset or liability.

PDVSA derecognizes a financial asset when the contractual rights to cash flows deriving from the asset expire or when it transfers the rights to receive contractual cash flows from the financial assets in the transaction in which substantially all of the risks and benefits related to the ownership of the potential asset are transferred. Any interest in the transfer of financial assets created or retained by PDVSA is recognized as a separate asset or liability.

PDVSA derecognizes a financial liability when its contractual obligations are discharged or canceled or have expired.

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position, when and only when, PDVSA has the legal right to offset the amounts, and intends to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Non-derivative Financial Assets – Measurement

Financial Assets at Fair Value through Profit or Loss

Financial assets are classified at fair value through profit or loss or as available for sale in the initial recognition. Costs directly attributable to the transaction are recognized as income as incurred. Subsequent to the initial recognition, financial assets are accounted for at fair value and prospective changes are recognized in income. Financial assets recorded at fair value are presented as trading assets in prepaid expenses and other assets. Recoverable tax credits and a portion of accounts receivable are measured at fair value after their initial recognition.

Loans and Accounts Receivable and Financial Assets Held to Maturity

These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these assets are measured at amortized cost using the effective interest method.

Financial Assets Available for Sale

These are initially recognized at fair value plus any attributable transaction costs. Subsequent to their initial recognition, such assets are measured at fair value and changes other than losses due to impairment and the effects of changes in the exchange rate are recognized in other comprehensive income. When the asset is disposed, the gains or losses accumulated in equity are reclassified to profit or losses.

Non-Derivative Financial Liabilities – Measurement

These are classified in the category of other financial liabilities, which are initially recognized at fair value less any cost directly attributable to the transaction. Subsequent to initial recognition, such liabilities are measured at amortized cost using the effective interest method. Other non-derivative financial liabilities consist primarily of financial debt.

See note 38-i for the accounting policy to account for financial income and costs.

PDVSA acknowledges in the consolidated financial debt only the debt with financial institutions, Government debts and the financial leases. Other debt instruments such as promissory notes and credit notes are introduced as part of accrued expenses and other liabilities.

Derivative Financial Instruments

These are recognized initially at fair value and are included as part of prepaid expenses and other assets or accruals and other liabilities. Attributable transaction costs are recognized in income when they occur. After the initial recognition, derivative instruments are measured at fair value, and any change in such fair value is recognized in the statement of income. The effects of changes in the fair values of derivatives are not significant and are recognized in the financial results of the year.

PDV Holding, Inc., a PDVSA subsidiary, uses futures, financial swaps and options agreements to reduce its exposure to market risk (see note 25). To manage these risks, management has defined certain references according to its appropriate risk profile for the economic environment where PDV Holding, Inc. conducts its activities and finances its assets. PDV Holding, Inc. reduces the risk of price volatility for a portion of its inventories of crude oil and related products. In such years, PDV Holding, Inc. has not used hedge accounting.

PDV Holding, Inc. is exposed to changes in the variable interest rates of its financial debt resulting from fluctuations in the *London InterBank Offered Rate* (LIBOR). PDV Holding, Inc. manages its exposure to interest rates fluctuations through interest rate swap agreements, in order to balance its fixed-rate and variable debt. PDV Holding, Inc. has not used hedge accounting for these agreements.

In accordance with its corporate policy, PDVSA does not issue or hold derivative financial instruments for trading or speculative purposes.

(q) Cash and Cash Equivalents

Cash and cash equivalents are subject to non-significant risks of changes in their fair value and are used by PDVSA primarily to manage its short-term commitments. PDVSA considers cash equivalents placements and time deposits with original maturities of less than three months and available on a current basis. At December 31, 2016, cash and cash equivalents amounted to $619 million [$647 million in 2015 and $734 million in 2014].

(r) Impairment of Asset Value

Non-derivative Financial Assets

Financial assets not accounted for at fair value through profit or loss, including interest in equity-accounted investees are evaluated by PDVSA on each date of the consolidated statement of financial position to determine whether there is any objective evidence of impairment. A financial asset is impaired if there is objective evidence of impairment as the result of one or more events of loss occurring after the initial recognition of the asset, and this event or events have had a negative impact on the estimated future cash flows of the asset that can be reliably estimated.

Objective evidence that the financial assets are impaired may include default or delinquency by a debtor, restructuring of an amount owed to PDVSA on terms that would not be considered otherwise, indications that a debtor or issuer will be declared bankrupt, disappearance of an active market for a security and observable data indicating a decrease in the determination of the cash flow expected from a group of financial assets, among other aspects. In assessing impairment, PDVSA uses historical trends of the likelihood of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Significant financial assets are evaluated individually to determine impairment. Remaining financial assets that have similar credit risk characteristics are evaluated as a group.

An impairment loss related to a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate of the financial asset. Impairment losses are recognized in the consolidated statement of comprehensive income. If the impairment loss decreases subsequently and this can be objectively related to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed in profit or loss.

Impairment losses in financial assets available for sale are recognized in reclassifying these accumulated losses accumulated in equity to profit or loss. The reclassified amount will be the difference between the acquisition cost (net of any reimbursement or amortization of the principal) and the current fair value, less any loss from impairment of value of this financial asset previously recognized in profit or loss. If, in a subsequent period, fair value increases and this increase can be objectively related to an event occurring after the impairment loss was recognized in profit on loss, this loss will be reversed in profit or loss; otherwise, it is reversed through other comprehensive income.

A loss from impairment related to an investment recognized under the equity method is measured in comparing the recoverable amount of the investment with its carrying amount. Impairment losses are recognized in profit or loss and are reversed if there has been a favorable change in the estimates used for determining the recoverable amount.

Non-financial Assets

The value of non-financial assets, excluding inventories, biological assets, and deferred tax is reviewed on each date on the consolidated statements of financial position to determine whether there is any indication of impairment. If indications exist, the recoverable value of the asset is estimated. In the case of goodwill, the useful life of which is undefined, the values to be recovered are determined on an annual basis. A loss from impairment is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable value.

Impairment is determined by PDVSA based on the cash-generating units, geographical locations, and the end-use of the production generated by each unit. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. To assess impairment, the goodwill resulting from a business combination is allocated to the cash-generating units expected to benefit from synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sale. To determine value in use, the net future cash flows expected to be generated by the assets are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.

In the determination of fair value less cost to sale, the amount that can be obtained from the sale of a cash-generating unit is based on a transaction conducted in conditions of mutual independence between the duly-informed interested parties, less the costs to sale or disposal.

Impairment losses are recognized in profit or loss. Impairment losses recognized with respect to cash-generating units are first reduced from the carrying amount of any goodwill associated with those units and then from the carrying amount of other assets of the unit on a pro rata basis.

Impairment losses are reversed only if the reversal realtes to a change in the estimates used, after which the impairment loss was recognized; these reversals will not exceed the carrying amount net of depreciation and amortization that would have been determined had the impairment never been recognized. Impairment losses associated with goodwill are not reversed.

(s) Provisions

A provision is recognized if, as the result of a past event, PDVSA has incurred in a current, legal, or implicit obligation that can be reliably estimated, and it is probable that a future outflow of economic benefits will be required to settle the obligation. Provisions are determined in discounting the expected future cash flow at a pretax rate over the estimated payment terms, if the term as well as the risk associated to those obligations can be reliably estimated. The reversal of the discount is recognized as financial costs (see note 23).

Environmental Issues

In accordance with the environmental policy established by PDVSA and applicable laws and regulations, a liability is recognized when costs are probable and can be reasonably estimated. Disbursements related to environment remediation, linked to revenues from current or future transactions are accounted for as expenses or assets, as applicable. Disbursements related to operations in the past that do not contribute to the obtaining of current or future revenues are accounted for in profit or loss. The creation of these provisions coincides with the identification of an obligation related to environmental remediation, for which PDVSA has adequate information to make a reasonable estimate of the cost involved. Subsequent adjustments to estimates are made, if necessary, upon obtaining of additional information.

Assets Disposals

The provision for the disposal of assets is recognized when the Company has obligations related to the abandonment of the wells, which consist of dismantling and removing their facilities and restoring the site. This is recognized at fair value on the date when such obligation is incurred, based on discounted future cash flows. The determination of fair value is based on existing regulations and technologies. The carrying amount of the provision is reviewed and adjusted annually taking into account changes in such variables. The applied discount rate is reviewed annually.

Changes in the fair values of the obligation are added to or deducted from the cost of the related asset. The adjusted value of the asset is depreciated over its remaining useful life. Therefore, once the asset has reached the end of its useful life, all subsequent changes in the fair value of the obligation are recognized in profit or loss. The increase or decrease in the obligation for each year elapsed is recognized in profit or loss as financial income and costs (see note 7).

Costs and obligations associated with the disposal of assets related to the main structures used in refining, trade and supply activities are not estimated, due to the fact that those assets are deemed to have an indefinite life as the result of major maintenance.

Litigation and Other Claims

Provisions for litigation and claims are recognized in the event that there are legal actions, government investigations, proceedings or other legal actions that are pending or subject to being filed in the future against PDVSA, as the result of past events, in respect to which it is likely that there will be an outflow of resources that include economic benefits to pay for that obligation and based on which it is possible to make a reliable estimate.

(t) Leases

Determination of Whether an Agreement Contains a Lease

When an agreement is entered into, PDVSA's management determines whether such agreement is or contains a lease.

At the time of the execution or reevaluation of an agreement, PDVSA separates payments and other considerations required by the agreement into those for the lease and those for other elements, based on their relative fair values. If PDVSA concludes that for a financial lease it is impracticable to separate payments reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset identified. Subsequently, the liability is reduced as payments are made and an imputed financial cost is recognized on the liability using PDVSA's incremental borrowing rate.

Leased Assets

Leases under which PDVSA substantially assumes all ownership risks and rewards are classified as financial leases. When initially recognized, the leased asset is measured at the lower amount between its fair value and the present value of minimum future payments under the lease. After initial recognition, the asset is accounted for in accordance with the accounting policies applicable to such asset. Other leases are deemed operating leases; accordingly, these assets under operating leases are not recognized in the consolidated statement of financial position.

Lease Payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expenses over the term of the lease.

Minimum payments made under financial leases are distributed between financial costs and the reduction of the outstanding liabilities. Financial costs are allocated to each year during the lease term, so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Fair Value Measurement

Fair value is the price that would be received for selling an asset or paid for transferring a liability in an orderly transaction between market participants at the measurement date in the principal market or, in its absence, the most advantageous market to which PDVSA has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When one is available, PDVSA measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long –term positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If PDVSA determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

(39) Standards Issued but not yet Applied

A set of new standards, amendments and interpretations to current standards are effective for annual periods beginning after January 1, 2016 and have not been applied in preparing these consolidated financial statements.

In addition, management is also assessing the following standards and amendments, in order to determine their potential impact on the consolidated financial statements:

- Disclosure Initiative (Amendments to IAS 7 *Statement of Cash Flows*)

  The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

  Amendments are effective for annual periods beginning on or after January 1, 2017; early adoption is permitted.

- Recognition of Deferred Tax Assets for Unrealised Losses *(*Amendments to IAS 12 *Income Taxes)*

  The amendments clarify the accounting of the deferred tax assets help understand better the accounting of deferred tax assets for unrealized losses related to debt instruments measured at fair value.

  The amendments are effective for the anual periods starting on or after January 1, 2017; early adoption is permitted.

- IFRS 15 *Revenue from Contracts with Customers*

  IFRS 15 establishes a comprehensive framework for determining how much and when revenue is recognized. It replaces the current guidelines for the recognition of revenues, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

  IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- IFRS 9 *Financial Instruments (2014)*

  IFRS 9 (2014) replaces the guidelines in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidelines on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. The guidelines related to the recognition and derecognition of financial instruments under IAS 39 remained the same.

  IFRS 9 (2014) is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

- IFRS 16 *Leases*

  IFRS 16 introduces a new model of acounting leasing only for lessers. The lesser recognizes a ready-to-use asset that represents his right to use the underlying asset and a leasing liability that represents his obligation to make leasing payments. The lessees shall continue to classify the leasings as financial or operational.

  The IFRS 16 replaces the current leasing guidelines, including IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions in the Legal Form of a Lease*.

  This standard shall be effective for the periods beginning on January 1, 2019 or at a later date. Its early adoption is permitted for entities that apply IFRS 15 *Revenues from Contracts with Customers*.

The following tables provide supplementary information about oil and gas exploration, development and production activities. This supplementary information is not covered by in the audit opinion issued by the independent auditors. Production activities are carried out primarily on Venezuelan territory by PDVSA Petróleo, PDVSA Gas and CVP'S Empresas Mixtas, while exploration activities are carried out in Venezuela, Bolivia and Cuba through discontinued subsidiary PDVSA América, S.A. (see notes 6 and 19).

Table I - Crude Oil and Natural Gas Reserves

All crude oil and natural gas reserves are located on Venezuelan territory and are owned by the Republic. Crude oil and natural gas reserves are estimated by PDVSA and certified by the Ministry based on the reserve definitions established by the American Petroleum Institute (API) of the United States of America.

Proved reserves are the estimated quantities of oil and gas present in known deposits which, with reasonable certainty, are expected to be recovered in the future under existing economic and operating conditions. Due to the inherent uncertainties and limited nature of the data relating to deposits, reserve estimates are subject to change in time, as additional information becomes available. Proved reserves do not include additional volumes which may result from the extension of areas currently explored or from the application of secondary recovery processes not yet tested as yet and determined to be economically feasible.

Proved developed reserves of crude oil and gas include the quantities that can be expected to be recovered from existing wells with equipment and operating methods currently in use. Proved undeveloped reserves are volumes expected to be recovered through investments in the drilling of new wells in undeveloped areas or in the completion of existing wells.

Proved hydrocarbons liquid reserves have been grouped into condensed, light, medium, heavy crude oil and extra-heavy crude oil and natural gas (in millions of barrels). Proven reserves are summarized as follows (in millions of equivalent barrels):

	December 31,								
	2016			2015			2014		
	Condensed and light, medium and heavy Crude Oil	Extra-Heavy Crude Oil (Including empresas mixtas	Natural Gas	Condensed and light, medium and heavy Crude Oil	Extra-Heavy Crude Oil (Including empresas mixtas	Natural Gas	Condensed and light, medium and heavy Crude Oil	Extra-Heavy Crude Oil (Including empresas mixtas	Natural Gas
Proved developed reserves	8,913	4,031	6,783	9,099	4,257	6,784	8,404	4,574	6,522
Proved undeveloped reserves	32,085	257,222	28,165	32,258	255,264	27,931	32,811	254,164	27,679
Proved developed and undeveloped oil reserves	**40,998**	**261,253**	**34,948**	**41,357**	**259,521**	**34,715**	**41,215**	**258,738**	**34,201**
Equity-accounted investees (1) Proved developed and undeveloped oil reserves	**-**	**-**	**-**	**550**	**-**	**-**	**567**	**-**	**-**

(1) In 2016 the operations of Rio Napo Compañía de Economía Mixta (subsidiary of PDVSA América, S.A.). (2015 and 2014 reserves of that company) (see note 6 and 19).

A summary of annual changes in the proved reserves of hydrocarbons liquid and natural gas follows:

a) Condensed, Light, Medium, Heavy Crude Oil and Extra-Heavy Crude Oil (in million of barrels)

	Year ended December 31,					
	2016		2015		2014	
	Empresas Mixtas [1]	Total (including Empresas Mixtas)	Empresas Mixtas [1]	Total (including Empresas Mixtas)	Empresas Mixtas [1]	Total (including Empresas Mixtas)
Proved developed and undeveloped reserves of conventional crude oil at January 1st	14,301	41,357	10,669	41,215	9,217	40,054
Revisions	29	502	573	755	397	1,625
Extensions and new discoveries	13	51	14	20	67	201
Production	(153)	(534)	(184)	(627)	(166)	(668)
Transfers [2]	116	(379)	3,229	(6)	1,154	3
Proved developed and undeveloped reserves of condensed, light, medium and heavy crude oil at December 31	14,306	40,997	14,301	41,357	10,669	41,215
Proved developed and undeveloped reserves of extra-heavy crude oil at December 31	111,518	261,253	112,376	259,521	111,986	258,738
Total proved developed and undeveloped reserves at December 31 [1]	**125,824**	**302,250**	**126,677**	**300,878**	**122,655**	**299,953**
Total proved developed reserves subject to production, including extra-heavy crude oil at December 31 (included in the previous total)	**4,659**	**12,944**	**4,988**	**12,931**	**4,123**	**12,978**

(2) Includes in 2016 condensed crude oil reserves for 2,497 million of barrels [2,342 million barrels in 2015 and 2,357 million barrels in 2014].

(3) The transfer corresponds to reclassifications to extra-heavy crude oil, as a result of analysis and technical studies submitted to the Ministry.

Extra-Heavy Crude Oil

Venezuela has significant reserves of extra-heavy crude oil (less than 8 API degrees), which are being developed by PDVSA Petróleo jointly with foreign companies through Empresas Mixtas with operations at the "Hugo Chávez Frías" Orinoco Oil Belt and in applying of new technologies for crude oil refining and upgrading.

The changes in proved developed and undeveloped reserves of extra-heavy crude oil associated to the Empresas Mixtas operating at the "Hugo Chávez Frías" Orinoco Oil Belt, as well as the total proved developed and undeveloped reserves of extra-heavy crude oil follow (in millions of barrels):

	Year ended December 31,					
	2016		2015		2014	
	Empresas mixtas [1]	Total (including empresas mixtas)	Empresas mixtas [1]	Total (including empresas mixtas)	Empresas mixtas [1]	Total (including empresas mixtas)
Proved developed and undeveloped reserves of extra-heavy crude oil at January 1	112,376	259,521	92,583	258,738	92,664	258,299
Revisions [2]	3,225	1,720	657	1,109	181	789
Transfers [3]	(3,854)	379	19,403	6	-	-
Development and new discoveries	-	-	-	42	-	-
Others	-	-	-	-	(3)	(3)
Production	(229)	(367)	(267)	(374)	(259)	(347)
Proved developed and undeveloped reserves of extra-heavy crude oil at December 31	**111,518**	**261,253**	**112,376**	**259,521**	**92,583**	**258,738**
Proved developed reserves subject to production of extra-heavy crude oil at December 31	**1,584**	**4,031**	**1,791**	**4,257**	**1,546**	**4,574**

(1) Includes Petropiar, S.A., Petrocedeño, S.A., and Petromonagas, S.A., which are aimed at the production of synthetic crude. It also includes Empresas Mixtas Petrolera Sinovensa, S.A., Petrolera Indovenezolana S.A, and others that produce diluted crude oil 16 °API (Merey Segregation).

(2) Includes Petrodelta, S.A., Petrolera Sinovensa S.A., Petromongas, S.A., Petropiar, S.A., and Petroritupano.

(3) Corresponds to transfer between Empresas Mixtas and PDVSA Petróleo [reserves assignment to Petrozamora S.A. in 2015].

In June 2005, the Ministry assigned the Orinoco Magna Reserva Project to CVP in order to quantify and certify the reserves of the "Hugo Chávez Frías" Orinoco Oil Belt. The established strategic guidelines aimed at transforming the area into an engine for economic, social, industrial, technological and sustainable development for the country through the valuation and optimal development of hydrocarbon resources, within the current legal framework and the development plan of the nation.

In order to quantify and certify the reserves, the Orinoco Oil Belt was divided into four main large areas: Boyacá, Junín, Ayacucho and Carabobo, and these were subsequently subdivided into 45 blocks (including the areas assigned to the Empresas Mixtas). These were quantified as a result of a joint effort between the CVP and the professionals of 24 companies of 19 countries that signed understanding agreements with the national government.

During 2016, the total proved crude oil reserves increased by 2,273 million barrels [1,926 million barrels in 2015 and 2,615 million barrels in 2014], as summarized below (in millions of barrels):

	Year ended December 31,		
	2016	**2015**	**2014**
Ayacucho	2,535	683	784
Junín (1)	(1,347)	14	-
Boyacá	19	-	-
Carabobo	515	543	635
Traditional areas	551	649	1,137
Offshore	-	37	59
Total incorporation of reserves	**2,273**	**1,926**	**2,615**

(1) It includes, the change of reserves subject to the geological reintegration and reservoir parameters.

The "Hugo Chávez Frías" Orinoco Oil Belt is home to 1,457,912 million barrels of Original Oil in Place (OOIP), and it is estimated that its recoverable reserves will be 289,126 million barrels, based on the total recovery factor of 20%. Until 2007, a total of 57,060 million barrels had been certified, with 73,738 million barrels in 2008, 38,920 million barrels in 2009, 86,282 million barrels in 2010, 949 million barrels in 2011, 400 million barrels in 2012, 1,495 million barrels in 2013, 1,691 million barrels in 2014, 1,293 billion barrels in 2015, and 1,980 million barrels in 2016, thus raising official reserves to 263,808 million barrels over the past ten years.

b) Natural Gas Reserves (in billion cubic feet)

	Year ended December 31,		
	2016	**2015**	**2014**
Proved developed and undeveloped reserves of natural gas at January 1	164,895	161,845	160,702
Revisions	1,816	3,419	2,425
Extensions and new discoveries	751	1,344	459
Production	(2,681)	(2,608)	(2,651)
Injection	820	895	910
Transfer	(121)	-	-
Proved developed and undeveloped reserves of natural gas at December 31	165,480	164,895	161,845
Proved development and undevelopment reserves of natural gas related to reserves of extra-heavy crude oil at December 31	37,218	36,454	36,523
Total proved developed and undeveloped reserves of natural gas at December 31	**202,698**	**201,349**	**198,368**
Total proved developed reserves of natural gas submitted to production, including those related to extra-heavy crude oil at December 31 (included in the previous total)	**39,342**	**39,350**	**37,731**

Table II - Costs Incurred in Exploration and Development Activities

Exploration costs include the costs incurred in connection with geological, geophysical, drilling activities and equipping activities regarding exploratory wells. Development costs include those related to drilling and equipping development wells, enhanced recovery projects and facilities to extract, treat and store crude oil and natural gas. Annual costs, as summarized below, include amounts recorded in both expenses and assets accounts related to PDVSA's hydrocarbon reserves (in millions of dollars):

	Year ended December 31,								
	2016			2015			2014		
	Condensed Ligth Medium Heavy Crude	Extra-heavy Crude	Total	Condensed Ligth Medium Heavy Crude	Extra-heavy Crude	Total	Condensed Ligth Medium Heavy Crude	Extra-heavy Crude	Total
Exploration costs	124	-	124	50	-	50	76	-	76
Development costs	3,474	2,327	5,801	18,048	3,803	21,851	17,031	5,885	22,916
Total	**3,598**	**2,327**	**5,925**	**18,098**	**3,803**	**21,901**	**17,107**	**5,885**	**22,992**

Table III - Costs Recognized as Assets in Oil and Gas Production Activities

The following table summarizes costs recognized as assets in oil and gas production activities and the corresponding accumulated depreciation and amortization at December 31 related to PDVSA's condensed, light, medium, heavy crude oil and extra-heavy crude oil reserves (in millions of dollars):

	December 31,								
	2016			2015			2014		
	Condensed Light Medium Heavy Crude Oil	Extra-heavy Crude Oil	Total	Condensed Light Medium Heavy Crude Oil	Extra-heavy Crude Oil	Total	Condensed Light Medium Heavy Crude Oil	Extra-heavy Crude Oil	Total
Assets used in production	69,516	13,845	83,361	42,266	12,388	54,654	45,581	10,053	55,634
Equipment and facilities	51,065	15,928	66,993	61,194	16,135	77,329	31,350	14,661	46,011
Total assets in production activities	120,581	29,773	150,354	103,460	28,523	131,983	76,931	24,714	101,645
Accumulated depreciation	(46,416)	(17,131)	(63,547)	(46,017)	(9,735)	(55,752)	(44,867)	(11,735)	(56,602)
Construction in progress	48,691	7,838	56,529	38,936	8,071	47,007	44,731	8,471	53,202
Net costs recognized as assets	**122,856**	**20,480**	**143,336**	**96,379**	**26,859**	**123,238**	**76,795**	**21,450**	**98,245**

Table IV - Results of Operations Corresponding to Oil and Gas Production Activities for Each Year (in million dollars)

	Year ended December 31,								
	2016			2015			2014		
	Condensed Light Medium Heavy Crude Oil	Extra-heavy Crude Oil	Total	Condensed Light Medium Heavy Crude Oil	Extra-heavy Crude Oil	Total	Condensed Light Medium Heavy Crude Oil	Extra-heavy Crude Oil	Total
Sales	7,826	9,467	17,293	7,621	12,149	19,770	16,879	22,983	39,862
Transfers	20,578	-	20,578	25,321	-	25,321	37,094	-	37,094
Production costs	(14,009)	(2,579)	(16,588)	(12,968)	(2,767)	(15,735)	(14,188)	(4,913)	(19,101)
Production and extraction tax	(2,080)	(2,374)	(4,454)	(2,989)	(3,306)	(6,295)	(2,326)	(10,686)	(13,012)
Depreciation	(4,218)	(2,780)	(6,998)	(4,741)	(2,749)	(7,490)	(3,650)	(3,250)	(6,900)
Exploration expenses	(124)	-	(124)	(50)	-	(50)	(76)	-	(76)
Profit before income tax	7,973	1,734	9,707	12,194	3,327	15,521	33,733	4,134	37,867
Income tax	(3,987)	(867)	(4,854)	(6,748)	232	(6,516)	(16,862)	(2,067)	(18,929)
Profit from production operations	**3,986**	**867**	**4,853**	**5,446**	**3,559**	**9,005**	**16,871**	**2,067**	**18,938**

Sales of oil production are calculated using international market prices as if the entire production were sold.

Production costs include extraction expenses incurred to operate and maintain productive wells and related equipment and facilities, including costs of operating labor, materials and supplies, fuel consumed in operations and the costs of operating liquid natural gas plants incurred by PDVSA and Empresas Mixtas.

Exploration costs include the costs of geological and geophysical activities, as well as costs incurred in exploratory well drilling without discovery.

Depreciation expenses correspond to assets used in production activities. Income tax expense is calculated using the statutory rate for the year. To this purposes, results in production operations do not include financial costs, overhead expenses, or their associated tax effects.

The following table summarizes the average selling prices per unit and production costs (in dollars):

	Year ended December 31,		
	2016	**2015**	**2014**
Average sale prices:			
Crude oil, per barrel	35.15	44.65	88.42
Basket price of gas, per barrel	1.28	2.33	26.53
Natural gas, per barrel	0.20	0.43	11.17
Average production costs per equivalent oil barrel	**7.65**	**10.68**	**18.05**
Average production costs per equivalent oil barrel, excluding Empresas Mixtas	**7.18**	**3.93**	**15.10**

Table V - Standardized Measure of Discounted Future Cash Flows Related to Proven Oil and Gas Reserves

As a result of the uncertainties related to the time required to develop the country's extra-heavy crude oil reserves, the calculation of discounted future cash flows, only considered proved condensed, light, medium, heavy crude oil and the extra-heavy crude oil reserves produced by the subsidiaries of CVP at the "Hugo Chávez Frías" Orinoco Oil Belt.

Estimated future cash inflows from production are determined in applying average export prices and the oil and gas year-end quantities of estimated proved reserves. Future cash flows from extra-heavy crude oil production are determined using average export prices and quantities of the upgraded crude oil that will be produced in plants (including PetroPiar, S.A., PetroCedeño, S.A., Petromonagas, S.A., and Petrolera Sinovensa, S.A.) and in the case of the new businesses (Empresas Mixtas in preoperating stage located at the "Hugo Chavez Frias"Orinoco Oil Belt), extra-heavy crude oil produced is not upgraded. Upgraded crude oil prices at year-end approximate to conventional crude oil prices with similar characteristics. Future development and production costs are those considered necessary to add and develop estimated proved reserves at year-end, assuming that the same economic conditions are maintained. Future production and extraction taxes correspond to the total amounts to be paid for Export Registration Tax, Extraction Tax, Production Tax, Special Advantages and the Special Contribution for Extraordinary Prices and Exorbitant Prices in the International Hydrocarbons Market. Future income tax expense is calculated in applying the appropriate year-end statutory tax rates. These rates are applied to estimated future pre-tax cash flows. This calculation requires annual estimates regarding when the future expenditures will be incurred and when the proved reserves will be extracted.

The information provided below does not represent certified estimates of PDVSA's expected future cash flows. Proved reserves may change over time as new information becomes available. Furthermore, probable and possible reserves, which may become proved in the future, are excluded from the calculation. The valuation method requires assumptions of the timing of future extraction of proved reserves and the timing and amount of future development and production costs. The calculations are made at December 31 each year and should not be relied upon as an indication of PDVSA's future cash flows or the value of the oil and gas reserves (in millions of dollars):

	Year ended December 31,								
	2016			2015			2014		
	Condensed Light Medium Heavy Crude Oil	Extra-heavy Crude Oil	Total	Condensed Light Medium Heavy Crude Oil	Extra-heavy Crude Oil	Total	Condensed Light Medium Heavy Crude Oil	Extra-heavy Crude Oil	Total
Future cash flows	1,484,364	3,013,616	4,497,980	2,007,911	4,004,236	6,012,147	3,871,090	9,542,850	13,413,940
Future production costs	(385,848)	(175,007)	(560,855)	(266,385)	(929,175)	(1,195,560)	(232,210)	(213,841)	(446,051)
Future production and extraction tax (1)	(485,203)	(1,136,991)	(1,622,194)	(654,784)	(1,292,093)	(1,946,877)	(1,842,943)	(4,027,271)	(5,870,214)
Future development costs	(416,527)	(74,544)	(491,071)	(393,865)	(411,090)	(804,955)	(242,341)	(768,531)	(1,010,872)
Future income tax expenses	(17,468)	(811,280)	(828,748)	(286,307)	(742,683)	(1,028,990)	(751,165)	(1,676,042)	(2,427,207)
Asset retirement cost	(8,130)	(121)	(8,251)	(3,477)	(191)	(3,668)	(14,243)	(1,383)	(15,626)
Future net cash flows	**171,188**	**815,673**	**986,861**	**403,093**	**629,004**	**1,032,097**	**788,188**	**2,855,782**	**3,643,970**
Effect of discounting net cash flow at 10%	(139,205)	(797,980)	(937,185)	(336,520)	(569,974)	(906,494)	(598,525)	(1,640,993)	(2,239,518)
Future discounted cash flows	**31,983**	**17,693**	**49,676**	**66,573**	**59,030**	**125,603**	**189,663**	**1,214,789**	**1,404,452**

(1) The effect of the Law Creating Special Contributions for Extraordinary Prices and Exorbitant Prices on the International Hydrocarbons Market is included since 2014.

Table VI - Analysis of Changes in Discounted Future Net Cash Flows Related to Proved Crude Oil and Natural Gas Reserves

The following table summarizes the changes for each year (in millions of dollars):

	Year ended December 31,								
	2016			2015			2014		
	Condensed Light Medium Heavy Crude Oil	Extra-heavy Crude Oil	Total	Condensed Light Medium Heavy Crude Oil	Extra-heavy Crude Oil	Total	Condensed Light Medium Heavy Crude Oil	Extra-heavy Crude Oil	Total
Present value at January 1:									
Sales, net of production costs and taxes	(12,315)	(4,514)	(16,829)	(37,459)	(6,303)	(43,762)	(37,459)	(8,112)	(45,571)
Value of additional reserves throughout the year due to extensions and discoveries	331	-	331	541	-	541	1,527	-	1,527
	(11,984)	(4,514)	(16,498)	(36,918)	(6,303)	(43,221)	(35,932)	(8,112)	(44,044)
Changes in the value of reserves of the previous year resulting from:									
Development costs incurred in the year	40,035	4,812	44,847	12,139	6,483	18,622	11,911	4,797	16,708
Changes in future development costs	(11,944)	7,230	(4,714)	44,144	27,744	71,888	100,835	71,250	172,085
Net changes in prices and production costs	(95,562)	12,491	(83,071)	(108,037)	315,308	207,271	28,824	168,895	197,719
Revisions of prior reserve estimates	3,255	4,592	7,847	5,769	3,485	9,254	16,934	25,929	42,863
Net changes in income tax expenses	48,249	(4,047)	44,202	25,590	71,507	97,097	(74,575)	(11,042)	(85,617)
Unwinding of discount	7,363	6,290	13,653	11,402	21,479	32,881	11,402	15,965	27,367
Net changes in production tax and others	(21,059)	(68,193)	(89,252)	(1,533)	(595,460)	(596,993)	16,247	(215,508)	(199,261)
Total change throughout the year	**(41,647)**	**(41,339)**	**(82,986)**	**(47,444)**	**(155,757)**	**(203,201)**	**75,646**	**52,174**	**127,820**