

BRAZILIAN PETROLEUM CORP

Form 424B5

March 26, 2003

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Filed pursuant to Rule 424(b)(5)

Registration Nos. 333-92044

333-92044-01

Prospectus Supplement, dated March 24, 2003, to Prospectus dated August 14, 2002

U.S.\$400,000,000

9.00% Global Step-Up Notes due 2008

## **Petrobras International Finance Company**

Payments supported by a standby purchase agreement provided by

**Petróleo Brasileiro S.A. PETROBRAS**

(BRAZILIAN PETROLEUM CORPORATION PETROBRAS)

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The notes are general, unsecured, unsubordinated obligations of Petrobras International Finance Company, or PIFCo, will mature on April 1, 2008 and will bear interest at the rate of 9.00% per annum until April 1, 2006 and at a rate of 12.375% per annum thereafter. Interest on the notes is payable on April 1 and October 1 of each year, beginning on October 1, 2003. PIFCo will pay additional amounts related to the deduction of certain withholding taxes in respect of certain payments on the notes. A holder of the notes will have the right to require PIFCo to repurchase such holder's notes on April 1, 2006 for a price equal to the principal amount of such holder's notes plus accrued and unpaid interest, if any, and any other amounts then due and owing through the date of such repurchase. The notes will have the benefit of credit support provided by Petróleo Brasileiro S.A. PETROBRAS, or Petrobras, under the terms of a standby purchase agreement which will obligate Petrobras to purchase from the noteholders their rights to receive payments in respect of the notes from PIFCo in the event of nonpayment by PIFCo. The notes will be redeemable without premium prior to maturity at PIFCo's option solely upon the imposition of certain withholding taxes.

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PIFCo may apply for a listing of the notes on the Luxembourg Stock Exchange at some time after the closing date, but there is no certainty that an application will be made or that the listing will be approved by the Luxembourg Stock Exchange.

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See *Risk Factors* on page S-17 to read about factors you should consider before buying the notes offered in this prospectus supplement and the accompanying prospectus.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

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	Per Note	Total
	<hr/>	<hr/>
Initial price to the public	98.65%	\$ 394,600,000
Underwriting discount	0.625%	\$ 2,500,000
Proceeds, before expenses, to PIFCo	98.025%	\$ 392,100,000

The offering price set forth above does not include accrued interest, if any. Interest on the notes will accrue from the date of original issuance of the notes, expected to be March 31, 2003.

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The underwriter expects to deliver the notes in book-entry form only through the facilities of The Depository Trust Company against payment in New York, New York on or about March 31, 2003.

## **Bear, Stearns & Co. Inc.**

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**Special Selling Agents:**

**Safra International Bank and Trust Ltd.  
BB Securities Ltd.**

**Pactual Overseas Corporation  
Itau Bank, Ltd.**

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**ABOUT THIS PROSPECTUS SUPPLEMENT**

This document consists of two parts. The first part is the prospectus supplement, which describes the specific terms of the notes PIFCo is offering and certain other matters relating to PIFCo and Petrobras and their financial condition. The second part, the accompanying base prospectus, gives more general information about notes that PIFCo and Petrobras may offer from time to time. Generally, references to the prospectus mean this prospectus supplement and the accompanying prospectus combined. If the description of the notes in this prospectus supplement differs from the description in the accompanying prospectus, the description in this prospectus supplement supersedes the description in the accompanying prospectus.

You should rely only on the information incorporated by reference or provided in this prospectus supplement or in the accompanying prospectus. PIFCo and Petrobras have not authorized anyone to provide you with different information. Neither PIFCo nor Petrobras is making an offer to sell the notes in any state or country where the offer is not permitted. You should not assume that the information in this prospectus supplement, the accompanying prospectus or any document incorporated by reference as provided herein is accurate as of any date other than the date of the relevant document.

In this prospectus supplement, unless the context otherwise requires, references to Petrobras mean Petróleo Brasileiro S.A.-Petrobras and its consolidated subsidiaries taken as a whole, and references to PIFCo mean Petrobras International Finance Company, a wholly-owned subsidiary of Petrobras, and its consolidated subsidiaries taken as a whole. Terms such as we, us and our generally refer to both Petrobras and PIFCo, unless the context requires otherwise.

**FOR NEW HAMPSHIRE RESIDENTS ONLY**

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER THIS CHAPTER WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

**DIFFICULTIES OF ENFORCING CIVIL LIABILITIES AGAINST NON-U.S. PERSONS**

Petrobras is a *sociedade de economia mista* (mixed-capital company), a public sector company with some private sector ownership, established under the laws of Brazil, and PIFCo is an exempt limited liability company incorporated under the laws of the Cayman Islands. All or a substantial portion of the assets of Petrobras and PIFCo are located outside the United States, and at any time all of their executive officers and directors, and certain advisors named in this prospectus supplement, may reside outside the United States. As a result, it may not be possible for you to effect service of process on any of those persons within the United States. In addition, it may not be possible for you to enforce a judgment of a United States court for civil liability based upon the United States federal securities laws against any of those persons outside the United States. For further information on potential difficulties in effecting service of process on any of those persons or enforcing judgments against any of them outside the United

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States, see Difficulties of Enforcing Civil Liabilities Against Non-U.S. Persons in the accompanying prospectus.

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**FORWARD-LOOKING STATEMENTS**

Many statements made or incorporated by reference in this prospectus supplement are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act ) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ), that are not based on historical facts and are not assurances of future results. Many of the forward-looking statements contained in this prospectus supplement may be identified by the use of forward-looking words, such as believe, expect, anticipate, should, planned, estimate and potential, among others. We have made forward-looking statements that address, among other things, our:

regional marketing and expansion strategy;

drilling and other exploration activities;

import and export activities;

projected and targeted capital expenditures and other costs, commitments and revenues;

liquidity; and

development of additional revenue sources.

Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements. These factors include:

our ability to obtain financing;

general economic and business conditions, including crude oil and other commodity prices, refining margins and prevailing exchange rates;

competition;

technical difficulties in the operation of our equipment and the provision of our services;

changes in, or failure to comply with, governmental regulations;

receipt of governmental approvals and licenses;

business abilities and judgment of personnel;

availability of qualified personnel;

international, Brazilian and Cayman Islands political, economic and social developments;

military operations, terrorist attacks, wars or embargoes; and

the costs and availability of adequate insurance coverage.

These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially from those expressed or forecast in any forward-looking statements as a result of a variety of factors, including those in Risk Factors set forth in this prospectus supplement and in documents incorporated by reference in this prospectus supplement and the accompanying prospectus.

All forward-looking statements attributed to us or a person acting on our behalf are expressly qualified in their entirety by this cautionary statement, and you should not place reliance on any forward-looking statement contained in this prospectus supplement and the accompanying prospectus.

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**PRESENTATION OF FINANCIAL AND OTHER INFORMATION**

In this prospectus supplement, references to Real, Reais or R\$ are to Brazilian Reais and references to U.S. Dollars or U.S.\$ are to United States Dollars.

The audited consolidated financial statements of PIFCo as of December 31, 2002 and 2001, and for each of the years in the three-year period ended December 31, 2002, and the accompanying notes, which are included in PIFCo's Report on Form 6-K furnished to the Securities and Exchange Commission, or SEC, on March 20, 2003, have been presented in U.S. Dollars and prepared in accordance with accounting principles generally accepted in the United States of America (which we refer to as U.S. GAAP). We refer to these financial statements as the audited PIFCo financial statements.

The audited consolidated financial statements of Petrobras and its consolidated subsidiaries as of December 31, 2002 and 2001, and for each of the years in the three-year period ended December 31, 2002, and the accompanying notes, which are included in Petrobras' Report on Form 6-K furnished to the SEC on March 19, 2003, have been presented in U.S. Dollars and prepared in accordance with U.S. GAAP. We refer to these financial statements as the audited Petrobras financial statements. Petrobras publishes financial statements in Brazil in Reais in accordance with the accounting principles required by Brazilian corporate law and the regulations promulgated by the CVM (which we refer to as Brazilian GAAP). Brazilian GAAP differs in significant respects from U.S. GAAP.

As described more fully in Note 2(a) to the audited Petrobras financial statements, the U.S. Dollar amounts as of the dates and for the periods presented in the audited Petrobras financial statements have been remeasured or translated from the Real amounts in accordance with the criteria set forth in Statement of Financial Accounting Standard No. 52 of the U.S. Financial Accounting Standards Board, or SFAS 52. Accordingly, U.S. Dollar amounts presented in this prospectus supplement that were derived from the financial statements as of dates or for periods ending subsequent to December 31, 1997 have been translated from Reais at the period-end exchange rate (for balance sheet items) or the average exchange rate prevailing during the period (for income statement and cash flow items).

Unless the context otherwise indicates:

historical data contained in this prospectus supplement that were not derived from the financial statements have been translated from Reais on a similar basis;

forward-looking amounts (including estimated future capital expenditures and legal and environmental contingent liabilities) have been translated from Reais at the rate of R\$3.53=U.S.\$1.00, which was the exchange rate (established by the Brazilian Ministry of Planning, Budget and Management) that we used for purposes of translating budgetary and forward-looking amounts into U.S. Dollars; and

estimated future capital expenditures are based on the most recently budgeted amounts, which may not have been adjusted to reflect all factors that could affect such amounts. In particular, our planned future contributions to investments funded through project finance are not included in estimated future capital expenditures and are, instead, presented

separately.

For additional information regarding inflation in Brazil and fluctuations in the exchange rate of the Real, see Inflation and Exchange Rate Variation below.

Certain figures included in this prospectus supplement have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

The crude oil and natural gas reserve data in this prospectus supplement are only estimates, and Petrobras' actual production, revenues and expenditures with respect to its reserves may differ materially from these estimates.

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**INFLATION AND EXCHANGE RATE VARIATION**

**Inflation**

Since the introduction of the Real as the new Brazilian currency in July 1994, inflation has remained relatively limited, although it has increased since the devaluation of the Real in January 1999. Annual rates of inflation, as measured by the National Consumer Price Index (*Índice Nacional de Preços ao Consumidor*), have decreased from 2,489.1% in 1993, to 929.3% in 1994, to 8.4% in 1999 and to 5.3% in 2000. The same index increased to 9.4% in 2001 and to 14.7% in 2002. Inflation has had, and may continue to have, effects on our financial condition and results of operations. A large percentage of our total costs are in Reais, and our suppliers and service providers generally attempt to increase their prices to reflect Brazilian inflation. As expressed in U.S. Dollars, however, these increases have been typically offset at least in part by the effect of the appreciation of the U.S. Dollar against the Real.

**Exchange Rate Variation**

Since Petrobras adopted the Real as its functional currency in 1998, the devaluation of the Real has had, and will continue to have, multiple effects on Petrobras' results of operations. Petrobras' reporting currency for all periods is the U.S. Dollar. Petrobras maintains its financial records in Reais, and translates its statements of operations for any given period into U.S. Dollars at the average rate for the period. The amounts reported in Petrobras' statements of operations in any given period will be reduced at the same rate as the Real has devalued in relation to the U.S. Dollar during that period.

From its introduction on July 1, 1994 through March 1995, the Real appreciated against the U.S. Dollar. On March 6, 1995, in an effort to address concerns about the overvaluation of the Real relative to the U.S. Dollar, the Central Bank of Brazil introduced new exchange rate policies that established a band within which the Real/U.S. Dollar exchange rate could fluctuate (*faixa de flutuação*, or fluctuation band), and announced that it would buy or sell, as applicable, U.S. Dollars whenever the rate approached the upper or the lower limit of the band. From March 1995 through January 1999, the Central Bank of Brazil allowed the gradual devaluation of the Real against the U.S. Dollar. Responding to pressure on the Real, on January 13, 1999, the Central Bank of Brazil widened the foreign exchange rate band. Because the pressure did not ease, on January 15, 1999, the Central Bank of Brazil allowed the Real to float freely. The Real depreciated 8.5% in 2000, 16% in 2001 and 52.3% in 2002 against the U.S. Dollar. As of March 20, 2003, the exchange rate of the Real to the U.S. Dollar was R\$3.4826 per U.S.\$1.00, representing an appreciation of approximately 1.44% in 2003 year-to-date. The Real may depreciate or appreciate substantially in the future. For further information regarding interest rate fluctuations, see Risk Factors Risks Relating to Petrobras.

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The following table sets forth the commercial selling rate for U.S. Dollars for the periods and dates indicated. The average exchange rates represent the average of the month-end exchange rates (R\$/U.S.\$) during the relevant period.

**COMMERCIAL SELLING RATE FOR U.S. DOLLARS**

	For the Year Ended December 31, (R\$ /U.S.\$)			
	High	Low	Average(1)	Period End
2002	3.955	2.271	2.998	3.533
2001	2.835	1.935	2.352	2.320
2000	1.985	1.723	1.830	1.956
1999	2.165	1.208	1.814	1.789
<b>2003</b>				
January	3.662	3.275	3.442	3.525
February	3.658	3.493	3.590	3.563
March (up to and including March 20, 2003)	3.662	3.275	3.490	3.483

Source: Central Bank of Brazil

(1) Year-end figures stated for calendar years 2002, 2001 and 2000 represent the average of the month-end exchange rates during the relevant period. The figure provided for the period of calendar year 2003 up to and including March 20, 2003 represents the average of the exchange rates at the close of trading on each business day during such period.

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**INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

We are incorporating by reference into this prospectus supplement the following documents that we have filed with the SEC:

**PIFCo**

- (1) the PIFCo Report on Form 6-K, furnished to the SEC on March 20, 2003, which includes audited consolidated financial statements of PIFCo, prepared in accordance with U.S. GAAP, as of December 31, 2001 and 2002 and for each of the years in the three-year period ended December 31, 2002, and an analysis of PIFCo's financial condition and results of operations for the year ended December 31, 2002;
- (2) the PIFCo Annual Report on Form 20-F/A for the year ended December 31, 2001, filed with the SEC on March 20, 2003; and
- (3) any future filings of PIFCo on Form 20-F made with the SEC under the Exchange Act after the date of this prospectus supplement and prior to the termination of the offering of the securities offered by this prospectus supplement, and any future reports of PIFCo on Form 6-K furnished to the SEC during that period that are identified in those forms as being incorporated into this prospectus supplement or the accompanying prospectus.

**Petrobras**

- (1) the Petrobras Report on Form 6-K, furnished to the SEC on March 19, 2003, which includes audited consolidated financial statements of Petrobras, prepared in accordance with U.S. GAAP, as of December 31, 2001 and 2002 and for each of the years in the three-year period ended December 31, 2002, and an analysis of Petrobras' financial condition and results of operations for the year ended December 31, 2002;
- (2) the Petrobras Report on Form 6-K furnished to the SEC on March 12, 2003, relating to a press release titled "Oil Discovery in Sergipe State";
- (3) the Petrobras Report on Form 6-K furnished to the SEC on February 18, 2003, relating to a press release titled "Board of Directors Approvals";
- (4) the Petrobras Report on Form 6-K furnished to the SEC on February 10, 2003, relating to a press release titled "Minister Jose Dirceu Resigns from the Board of Directors of Petrobras";

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(5) the Petrobras Report on Form 6-K furnished to the SEC on January 22, 2003, relating to a press release titled New Financial and Investor Relations Director Appointed ;

(6) the Petrobras Report on Form 6-K furnished to the SEC on January 9, 2003, relating to a press release titled Petrobras Financial Exposure to the Energy Segment ;

(7) the Petrobras Report on Form 6-K furnished to the SEC on January 8, 2003, relating to a press release titled Petrobras Unable to Obtain a BOVESPA Level 2 Listing ;

(8) the Petrobras Report on Form 6-K furnished to the SEC on January 8, 2003, relating to a press release titled Main Highlights of E&P Brazil in 2002 ;

(9) the Petrobras Report on Form 6-K furnished to the SEC on January 6, 2003, relating to a press release titled Curriculum Vitae, Jose Eduardo de Barros Dutra ;

(10) the Petrobras Report on Form 6-K furnished to the SEC on December 12, 2002, relating to a press release titled Issuance of Non-Convertible Debentures ;

(11) the Petrobras Report on Form 6-K furnished to the SEC on December 11, 2002, relating to a press release titled Changes to the Structure of the International Division ;

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(12) the Petrobras Report on Form 6-K furnished to the SEC on December 10, 2002, relating to a press release titled Petrobras Resumes Production in the Roncador Field ;

(13) the Petrobras Report on Form 6-K furnished to the SEC on December 10, 2002, relating to a press release titled New Oil Discovery in the Campos Basin ;

(14) the Petrobras Report on Form 6-K furnished to the SEC on November 5, 2002, relating to a press release titled Petrobras Again States That Its Platforms Comply with the Regulations ;

(15) the Petrobras Report on Form 6-K furnished to the SEC on October 25, 2002, relating to a press release titled Petrobras Takes Over Control of Petrolera Santa Fe ; and

(16) the Petrobras Annual Report on Form 20-F for the year ended December 31, 2001, filed with the SEC on July 1, 2002; and

(17) any future filings of Petrobras on Form 20-F made with the SEC under the Exchange Act after the date of this prospectus supplement and prior to the termination of the offering of the securities offered by this prospectus supplement, and any future reports of Petrobras on Form 6-K furnished to the SEC during that period that are identified in those forms as being incorporated into this prospectus supplement or the accompanying prospectus.

No reference to Perez Companc S.A. in this prospectus supplement, the accompanying prospectus or any document incorporated by reference into either of them should be understood to incorporate by reference any filing made by Perez Companc S.A. or its affiliates (other than PIFCo, Petrobras and its subsidiaries), including the Annual Report on Form 20-F for the year ended December 31, 2001 filed by Perez Companc S.A. with the SEC on July 1, 2002.

**WHERE YOU CAN FIND MORE INFORMATION**

Information that we file later with the SEC that is incorporated by reference will automatically update and supersede this information. This means that you should look at all of the SEC filings and reports that we incorporate by reference to determine if any of the statements in this prospectus supplement, the accompanying prospectus or in any documents previously incorporated by reference have been modified or superseded.

Documents incorporated by reference in this prospectus supplement are available without charge, excluding all exhibits, unless an exhibit has been specifically incorporated by reference in this prospectus supplement. Each person to whom this prospectus supplement and the accompanying prospectus are delivered may obtain documents incorporated by reference by requesting them either in writing or orally, by telephone or by e-mail from us at the following address:

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Luciana Bastos de Freitas Rachid

Executive Manager, Investor Relations

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Avenida República do Chile, 65

20035-900 Rio de Janeiro RJ, Brazil

Telephone: (55-21) 2534 4477

Email: [petroinvest@petrobras.com.br](mailto:petroinvest@petrobras.com.br)

In addition, you may review copies of the materials we file with or furnish to the SEC without charge, and copies of all or any portion of such materials can be obtained at the Public Reference Section of the SEC, 450 Fifth Street, N.W., Washington D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. We also file materials with the SEC electronically. The SEC maintains an Internet site that contains materials that we file electronically with the SEC. The address of the SEC's website is <http://www.sec.gov>.

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**SUMMARY**

*This summary of the offering made by PIFCo highlights key information described in greater detail elsewhere, or incorporated by reference, in this prospectus supplement and the accompanying prospectus. You should read carefully the entire prospectus supplement, including the accompanying prospectus and the documents incorporated by reference, which are described under *Incorporation of Certain Documents by Reference* and *Where You Can Find More Information* and in the accompanying prospectus.*

*In this prospectus supplement, unless the context otherwise requires, references to *Petrobras* mean *Petróleo Brasileiro S.A.* and its consolidated subsidiaries taken as a whole, and references to *PIFCo* mean *Petrobras International Finance Company*, a wholly-owned subsidiary of *Petrobras*, and its consolidated subsidiaries taken as a whole. Terms such as *we*, *us* and *our* generally refer to both *Petrobras* and *PIFCo*, unless the context requires otherwise.*

**PIFCo**

PIFCo is a wholly-owned subsidiary of Petrobras, incorporated under the laws of the Cayman Islands. PIFCo was formed to facilitate and finance the import of crude oil and oil products into Brazil. Accordingly, its primary purpose is to act as an intermediary between third-party oil suppliers and Petrobras by engaging in crude oil and oil product purchases from international suppliers and resales in U.S. Dollars to Petrobras on a deferred payment basis, at a resale price that includes a premium to compensate PIFCo for its financing costs. PIFCo is generally able to obtain credit to finance purchases on the same terms granted to Petrobras, and it buys crude oil and oil products at the same price that suppliers would charge Petrobras directly. In strategic terms, Petrobras uses PIFCo to provide additional access to international capital markets in order to establish a comprehensive approach to its offshore trade and financing activities.

In addition to its import business, PIFCo also engages in a number of non-core activities that are conducted by three wholly-owned subsidiaries:

Petrobras Netherlands B.V., or PNBV, a Dutch company, incorporated to engage in leasing activities of primarily offshore exploration and production of crude oil and natural gas equipment to be used by Petrobras, while taking advantage of the import and export tax benefits provided by the Netherlands and Brazil;

Petrobras Europe Ltd., or PEL, a U.K. company, intended to act as an agent and advisor in connection with Petrobras activities in Europe, the Middle East, the Far East and North Africa; and

Petrobras Finance Limited, or PFL, a Cayman Islands company, incorporated with the purpose of facilitating Petrobras export receivables securitization program.

PIFCo's principal executive office is located at Anderson Square Building, P.O. Box 714, George Town, Grand Cayman, Cayman Islands, B.W.I., and its telephone number is (55-21) 2534-1410.

**Petrobras**

Petrobras is one of the world's largest integrated oil and gas companies, engaging in a broad range of oil and gas activities. For the year ended December 31, 2002, Petrobras had sales of products and services of U.S.\$33.0 billion, net operating revenues of U.S.\$22.6 billion and net income of U.S.\$2.3 billion. Petrobras engages in a broad range of activities, which cover the following segments of its operations:

exploration, development and production of crude oil and oil products in Brazil;

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refining, transportation and marketing of crude oil, oil products and fuel alcohol, including investments in petrochemicals;

distribution of oil products and fuel alcohol to end-users;

commercialization and transportation of natural gas produced in or imported into Brazil, including participation in natural gas distribution and transportation companies in Brazil and development of thermoelectric power projects and related power activities; and

international activities, including exploration and production, transportation, distribution and natural gas and power activities outside of Brazil.

Petrobras principal executive office is located at Avenida República do Chile, 65 20035-900 Rio de Janeiro RJ, Brazil, and its telephone number is (55-21) 2534 4477.

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**Table of Contents****SUMMARY FINANCIAL INFORMATION FOR PIFCO**

The following table sets forth PIFCo's summary financial information, presented in U.S. Dollars and prepared in accordance with U.S. GAAP. The data as of December 31, 2002, 2001 and 2000 and for each of the three years in the period ended December 31, 2002 have been derived from the audited consolidated financial statements of PIFCo as of December 31, 2002 and 2001 and for the years ended December 31, 2002, 2001 and 2000, which are included in PIFCo's Report on Form 6-K furnished to the SEC on March 20, 2003. The information below should be read in conjunction with, and is qualified in its entirety by reference to, the PIFCo financial information in the audited PIFCo financial statements.

	For the Year Ended December 31,		
	2002	2001	2000
	(in thousands of U.S. Dollars)		
<b>Income Statement Data:</b>			
Sales of crude oil, oil products and services	\$ 6,390,226	\$ 6,260,514	\$ 7,937,003
Lease income	36,062	10,682	
Cost of sales	(6,371,465)	(6,253,009)	(7,912,615)
Lease expense	(24,004)	(10,542)	
General and administrative expenses	(1,178)	(114)	
Gross profit	29,641	7,531	24,388
Financial income <sup>(1)</sup>	219,580	158,804	221,578
Financial expense <sup>(1)</sup>	(314,683)	(187,101)	(219,637)
Gain on materials and equipment		435	
Net income (loss)	(65,462)	\$ (20,331)	\$ 26,329
<b>Balance Sheet Data (end of period):</b>			
Cash and cash equivalents	\$ 260,629	\$ 48,593	\$ 51,198
Total assets	8,697,302	4,277,769	3,244,465
Loans payable to related parties	3,688,249	334,564	1,716,565
Short-term debt and current portion of long-term debt	367,470	990,427	530,352
Capital lease	68,948		
Long-term debt	3,248,716	2,335,000	245,000
Capital lease long-term	601,733		
Total stockholder's equity	43,926	49,388	9,719

- (1) Financial income represents primarily the profits made on sales of crude oil and oil products to Petrobras. Financial expense consists of costs incurred by PIFCo in financing its activities in connection with the importation by Petrobras of oil and oil products.

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The following table sets forth Petrobras summary consolidated financial information, presented in U.S. Dollars and prepared in accordance with U.S. GAAP. The data as of December 31, 2002, 2001 and 2000 and for each of the three years in the period ended December 31, 2002 have been derived from the audited consolidated financial statements of Petrobras as of December 31, 2002 and 2001 and for the years ended December 31, 2002, 2001 and 2000, which are included in Petrobras Report on Form 6-K, furnished to the SEC on March 19, 2003. The information below should be read in conjunction with, and is qualified in its entirety by reference to, the audited Petrobras financial statements.

	<b>For the Year Ended December 31,</b>		
	<b>2002</b>	<b>2001</b>	<b>2000</b>
(in millions of U.S. Dollars)			
<b>Income Statement Data:</b>			
Sales of products and services	\$ 32,987	\$ 34,145	\$ 35,496
Net operating revenues	22,612	24,549	26,955
Cost of sales <sup>(1)</sup>	11,506	12,807	13,449
Depreciation, depletion and amortization	1,930	1,729	2,022
Exploration, including exploratory dry holes	435	404	440
Impairment of oil and gas properties	75	145	37
Selling, general and administrative expenses <sup>(2)</sup>	1,741	1,751	1,450
Research and development expenses	147	132	152
<b>Total costs and expenses</b>	<b>15,834</b>	<b>16,968</b>	<b>17,550</b>
Other expense, net <sup>(3)</sup>	(3,546)	(2,789)	(1,602)
<b>Income (loss) before income taxes and minority interest</b>	<b>3,232</b>	<b>4,792</b>	<b>7,803</b>
Income tax (expense) benefit	(1,153)	(1,389)	(2,523)
Minority interest	232	88	62
<b>Net income</b>	<b>2,311</b>	<b>\$ 3,491</b>	<b>\$ 5,342</b>
<b>Cash Flow Data:</b>			
Cash provided by (used in):			
Operating activities	\$ 6,287	\$ 8,743	\$ 7,714
Investing activities	(6,656)	(4,592)	(3,651)
Financing activities	(1,614)	(1,754)	(810)
<b>Balance Sheet Data (end of period):</b>			
Cash and cash equivalents	\$ 3,301	\$ 7,360	\$ 5,826
Total assets	32,018	36,864	39,136
Short-term debt and current portion of long-term debt	1,398	2,041	4,080
Current portion of project financings and capital lease obligations	588	978	801
Long-term debt	6,987	5,908	4,833
Project financings and capital lease obligations	5,707	5,083	3,426
Total stockholders equity	9,301	13,247	14,705

(1) Amounts reported are net of impact of government regulation of U.S.\$(68) million and U.S.\$19 million for the years ended December 31, 2001 and 2000, respectively.

(2) Amounts reported are net of impact of government regulation of U.S.\$6 million, U.S.\$(45) million and U.S.\$(81) million for the years ended December 31, 2002, 2001 and 2000, respectively.

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- (3) Amounts reported include financial charges to the Petroleum and Alcohol Account of U.S.\$(2) million, U.S.\$(16) million and U.S.\$(35) million for the years ended December 31, 2002, 2001 and 2000, respectively. For more information on the Petroleum and Alcohol Account, see the audited Petrobras financial statements.

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**THE OFFERING**

Issuer	Petrobras International Finance Company, or PIFCo .
The Notes	U.S.\$400,000,000 aggregate principal amount of 9.00% Global Step-Up Notes due 2008. The notes will be payable in U.S. Dollars.
Closing Date	March 31, 2003.
Maturity Date	April 1, 2008.
Interest	The notes will bear interest from the closing date at the rate of 9.00% per annum until April 1, 2006 and at a rate of 12.375% per annum thereafter, payable semiannually in arrears on each interest payment date. Interest is payable in U.S. Dollars.
Interest Payment Dates	April 1 and October 1 of each year, commencing on October 1, 2003.
Use of Proceeds	PIFCo intends to use the net proceeds from the sale of the notes for general corporate purposes, which will include the financing of the purchase of oil product imports and may include the repayment of existing trade-related debt. PIFCo may lend some portion of the net proceeds to Petrobras, which Petrobras would use for general corporate purposes. See Use of Proceeds.
Indenture	The notes offered will be issued pursuant to an indenture between PIFCo, as the issuer, and JPMorgan Chase Bank, as trustee, dated as of July 19, 2002, as supplemented by the first supplemental indenture, dated as of the closing date, among PIFCo, Petrobras and the trustee. When we refer to the indenture in this prospectus supplement we are referring to the indenture as supplemented by the first supplemental indenture. See Description of the Notes.
Standby Purchase Agreement	The notes will have the benefit of credit support in the form of a standby purchase agreement under which Petrobras will be obligated to make certain payments to the trustee in the event PIFCo fails to make required payments of principal, interest and other amounts due under the notes and the indenture. Under the standby purchase agreement, Petrobras will be required to purchase from the holders of the notes and pay to the trustee amounts in respect of the noteholders' right to receive (i) the amount of any interest or other amounts not paid by PIFCo in accordance with the terms of the notes and the indenture, (ii) the entire principal amount of the notes in the event PIFCo fails to make any required payment of principal at the maturity of the notes or earlier upon any redemption, repurchase or acceleration thereof prior to the maturity date, (iii) the entire principal amount of the notes in the event that a holder of a note requires PIFCo to repurchase such note in accordance with the terms of the indenture and (iv) interest on all of the foregoing amounts at the rate of 1% above the note rate, which

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we refer to as the default rate, for payments beyond the date that PIFCo was required to make such payments under the indenture. See Description of the Standby Purchase Agreement.

Ranking

The notes constitute general senior unsecured and unsubordinated obligations of PIFCo which will at all times rank *pari passu* among themselves and with all other senior unsecured obligations of PIFCo that are not, by their terms, expressly subordinated in right of payment to the notes.

The obligations of Petrobras under the standby purchase agreement constitute general senior unsecured obligations of Petrobras which will at all times rank *pari passu* with all other senior unsecured obligations of Petrobras that are not, by their terms, expressly subordinated in right of payment to Petrobras obligations under the standby purchase agreement.

Repurchase of Notes at the Holder's Option Each holder of the notes will have the right to require PIFCo to repurchase, on April 1, 2006, the notes held by that holder for a price equal to the aggregate outstanding principal amount of that holder's notes plus accrued and unpaid interest, if any, and other amounts then due and owing on the notes through the date of repurchase. See Description of the Notes Put Option.

Early Redemption at PIFCo's Option Solely for Tax Reasons The notes will be redeemable in whole at their principal amount, plus accrued and unpaid interest, if any, to the date of redemption, at PIFCo's option at any time only in the event of certain changes affecting taxation. The notes will not otherwise be redeemable at PIFCo's option prior to maturity or otherwise. See Description of the Notes Optional Redemption.

Covenants

The terms of the indenture will require PIFCo, among other things, to:

pay all amounts owed by it under the indenture and the notes when such amounts are due;

perform all other obligations under the indenture;

comply with all applicable laws;

maintain all necessary governmental approvals;

pay all uncontested taxes;

preserve its existence;

maintain its properties;

maintain adequate insurance;

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maintain its books and records in accordance with U.S. GAAP;

maintain an office or agent in New York for the purpose of service of process and maintain a paying agent located in the United States;

ensure that the notes continue to be senior obligations of PIFCo;

use proceeds from the issuance of the notes for specified purposes;

give notice to the trustee of any default or event of default under the indenture;

provide certain financial statements to the trustee;

take actions to maintain the trustee's or the noteholders' rights under the relevant transaction documents; and

replace the trustee upon any resignation or removal thereof.

In addition, the terms of the indenture will restrict the ability of PIFCo and its subsidiaries, among other things, to:

undertake certain mergers, consolidations or similar transactions;

create certain liens on its assets or pledge its assets; and

enter into certain transactions with its affiliates.

Similar covenants and some additional covenants apply to Petrobras under the standby purchase agreement.

These covenants are subject to a number of important qualifications and exceptions. See Description of the Notes Covenants and Description of the Standby Purchase Agreement.

Events of Default

The indenture will contain certain events of default, including the following:

failure to pay principal within three calendar days of its due date;



failure to pay interest within 30 calendar days of any interest payment date;

specified representations or warranties made by Petrobras in the standby purchase agreement not being true when made;

breach of a covenant or agreement in the indenture or the standby purchase agreement by PIFCo and Petrobras, respectively if not remedied within 60 calendar days;

acceleration of or failure to make a payment on the indebtedness of PIFCo, Petrobras or a material subsidiary thereof that equals or exceeds U.S.\$100 million;

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a final judgment against PIFCo, Petrobras or a material subsidiary thereof that equals or exceeds U.S.\$100 million;

certain events of bankruptcy, liquidation or insolvency of PIFCo, Petrobras or any material subsidiary;

certain events relating to the unenforceability of the notes, the indenture or the standby purchase agreement against PIFCo or Petrobras;

Petrobras ceases to own at least 51% of PIFCo's outstanding voting shares.

The events of default are subject to a number of important qualifications and limitations. See Description of the Notes Events of Default.

Modification of Notes, Indenture and Standby Purchase Agreement

The terms of the indenture may be modified by PIFCo and the trustee, and the terms of the standby purchase agreement may be modified by Petrobras and the trustee, in some cases without the consent of the holders. See Description of the Standby Purchase Agreement in this prospectus supplement and Description of Debt Securities Special Situations Modification and Waiver in the accompanying prospectus.

Clearance and Settlement

The notes will be issued in book-entry form through the facilities of The Depository Trust Company ( DTC ) for the accounts of its participants, and will trade in DTC's Same-Day Funds Settlement System. Beneficial interests in notes held in book-entry form will not be entitled to receive physical delivery of certificated notes except in certain limited circumstances. For a description of certain factors relating to clearance and settlement, see Clearance and Settlement.

Withholding Taxes; Additional Amounts

Any and all payments of principal, premium, if any, and interest in respect of the notes will be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments, levies, imposts or charges whatsoever imposed, levied, collected, withheld or assessed by Brazil or the Cayman Islands, or any political subdivision or any taxing authority thereof or therein, unless such withholding or deduction is required by law. If PIFCo is required by law to make such withholding or deduction, it will pay such additional amounts as necessary to ensure that the noteholders receive the same amount as they would have received without such withholding or deduction, subject to certain exceptions. In the event Petrobras is obligated to make payments to the noteholders under the standby purchase agreement, Petrobras will pay such additional amounts necessary to ensure that the

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noteholders receive the same amount as they would have received without such withholding or deduction, subject to certain exceptions. See Description of the Notes Covenants Additional Amounts and Description of the Standby Purchase Agreement Additional Amounts.

Governing Law

The indenture, the notes and the standby purchase agreement will be governed by, and construed in accordance with, the laws of the State of New York.

Form and Denomination

The notes will be in global registered form without interest coupons attached only in denominations of U.S.\$10,000 and in integral multiples of U.S.\$10,000 in excess thereof and will be transferable in principal amounts of U.S.\$1,000 or any multiple thereof.

Listing

The notes have not been listed on any securities exchange. PIFCo may apply for a listing of the notes on the Luxembourg Stock Exchange at some time after the closing date, but there is no certainty that an application will be made or that the listing will be approved by the Luxembourg Stock Exchange.

Risk Factors

You should carefully consider the risk factors discussed beginning on page S-17 before purchasing any notes.

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**RISK FACTORS**

**Risks Relating to PIFCo**

***PIFCo may not earn enough money from its own operations to meet its debt obligations.***

PIFCo is a direct wholly-owned subsidiary of Petrobras incorporated in the Cayman Islands as an exempted company with limited liability. PIFCo has limited operations consisting principally of the purchase of crude oil and oil products from third parties and the resale of those products to Petrobras, with financing for such operations provided by Petrobras as well as third-party credit providers. PIFCo also resells crude oil and oil products to third parties on a limited basis. PIFCo's ability to pay interest, principal and other amounts due on its outstanding and future debt obligations will depend upon:

Petrobras' continued utilization of PIFCo's services for market purchases of crude oil and oil products;

Petrobras' willingness to continue to make inter-company loans to PIFCo and provide other financial support; and

PIFCo's ability to access financing sources, including third-party credit facilities.

In the event of a material adverse change in Petrobras' financial condition or results of operations or in Petrobras' financial support of it, PIFCo may not have sufficient funds to repay all amounts due on its indebtedness. See "Risks Relating to Petrobras" for a more detailed description of certain risks that may have a material adverse impact on Petrobras' financial condition or results of operations and therefore affect PIFCo's ability to meet PIFCo's debt obligations.

***If Brazilian law restricts Petrobras from paying PIFCo in U.S. Dollars, PIFCo may have insufficient U.S. Dollar funds to make payments on PIFCo's debt obligations.***

PIFCo obtains substantially all of its funds from Petrobras' payments in U.S. Dollars for crude oil that it purchases from PIFCo. In order to remit U.S. Dollars to PIFCo, Petrobras must comply with Brazilian foreign exchange control regulations, including preparing specified documentation to be able to obtain U.S. Dollar funds for payment to PIFCo. If Brazilian law were to impose additional restrictions, limitations or prohibitions on Petrobras' ability to convert Reais into U.S. Dollars, it could restrict the source of U.S. Dollar funds available for PIFCo to make payment on PIFCo's debt obligations. Such restrictions could also have a material adverse effect on the Brazilian economy or Petrobras' business, financial condition and results of operations.

***PIFCo may be limited in its ability to pass on its financing costs.***

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PIFCo is principally engaged in the purchase of crude oil and oil products for resale to Petrobras, as described above. At any time, PIFCo may incur indebtedness related to such purchases and/or financing from Petrobras or third-party credit providers. As of December 31, 2002, approximately 45% of PIFCo's indebtedness on a stand-alone basis was floating-rate debt denominated in U.S. Dollars. While Petrobras is in the process of changing its risk management processes, including those which may affect PIFCo, neither Petrobras nor PIFCo has yet entered into derivative contracts or made other arrangements to hedge against interest rate risk. PIFCo has historically passed on its financing costs to Petrobras by selling crude oil and oil products to Petrobras at a premium to compensate for PIFCo's financing costs. Although PIFCo and Petrobras are considering methods of continuing this practice in the future, PIFCo cannot assure you that this practice will continue. PIFCo's inability to transfer its financing costs to Petrobras could have a material adverse effect on PIFCo's business.

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**Risks Relating to Petrobras**

***The interests of the Brazilian government, as Petrobras' controlling shareholder, may conflict with the interests of Petrobras' shareholders and creditors.***

The Brazilian government, as Petrobras' controlling shareholder, has pursued, and could continue to pursue, certain of its macroeconomic and social objectives through Petrobras. These initiatives have not always been in the best interests of Petrobras and its shareholders and creditors. Brazilian law requires the government to own a majority of Petrobras' voting stock, and so long as it does, the government will have the power to elect a majority of the members of Petrobras' board of directors and, through them, a majority of the executive officers who are responsible for Petrobras' day-to-day management. As a result, Petrobras cannot assure its investors that it will not engage in activities that give preference to the Brazilian government's agenda rather than to Petrobras' own economic and business objectives. In particular, Petrobras continues to assist the government of Brazil to ensure that the supply of oil and oil products in Brazil meets Brazilian consumption requirements. Accordingly, Petrobras may continue to make investments, incur costs and engage in sales on terms that are not necessarily in its best interests or in the best interests of its shareholders and creditors.

Luiz Ignacio Lula da Silva was elected President of Brazil in October 2002 and took office on January 1, 2003. As a result, there have been significant changes in Petrobras' board of directors and senior management in recent months. The reconstituted board of directors and new senior management may pursue a strategy or conduct operations in a manner that diverges significantly from the strategy and operations pursued by Petrobras' previous management. Changes in government or government policy could have a material adverse effect on Petrobras and its business, results of operations, financial condition or prospects.

***Petrobras is in the process of developing a new Strategic Plan, which may vary from past strategic plans.***

Petrobras is in the process of developing a new Strategic Plan, which Petrobras expects will be finalized in the near future. This Strategic Plan is generally based on the business plans for each business segment and may reflect a strategy or proposed activities that diverge significantly from Petrobras' current strategy and operations. Changes in the Strategic Plan could affect Petrobras' ability to achieve certain of its strategic goals, and in particular, could negatively impact Petrobras' competitive position or ability to expand its operations.

***If the Brazilian government reinstates controls over the prices Petrobras can charge for oil and oil products, it could affect Petrobras' financial condition and results of operations.***

In the past, the Brazilian government set prices for oil and oil products in Brazil, often below prevailing prices on the world oil markets. These prices involved elements of cross-subsidy between different oil products sold in various regions in Brazil. The cumulative impact of this price regulation system on Petrobras is recorded as an asset on its balance sheet under the line item "Petroleum and Alcohol Account - Receivable from the Brazilian government." The balance of the account at December 31, 2002 was U.S.\$182 million. Effective January 2, 2002, all price controls for oil and oil products ended, and while no price controls were imposed in 2002, Petrobras cannot assure you that the Brazilian government will not reinstate price controls in the future as a result of current market instability or other conditions. If this were to occur, Petrobras' financial condition and results of operations could be

adversely affected.

***Brazilian political and economic conditions may have a material adverse effect on Petrobras.***

The Brazilian economy has been characterized by significant involvement on the part of the Brazilian government, which often changes monetary, credit and other policies to influence Brazil's

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economy. The Brazilian government's actions to control inflation and affect other policies have often involved wage and price controls, modifications to the Central Bank's base interest rates, and other measures, such as the freezing of bank accounts, which occurred in 1990.

Actions taken by the Brazilian government concerning the economy may have important effects on Brazilian corporations and other entities, including Petrobras, and on market conditions and prices of Brazilian securities, including the notes. Petrobras' financial condition and results of operations may be adversely affected by the following factors and the Brazilian government's response to these factors:

devaluations and other exchange rate movements;

inflation;

exchange control policies;

social instability;

price instability;

energy shortages;

interest rates;

liquidity of domestic capital and lending markets;

tax policy; and

other political, diplomatic, social and economic developments in or affecting Brazil.

In addition, Petrobras cannot predict the effect that the policies of the Lula administration, which took office in January 2003, may have on Brazilian economic conditions or on Petrobras' results of operations.

***The Brazilian government's actions to maintain economic stability, as well as public speculation about possible future actions, may contribute significantly to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets.***



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Petrobras' principal market is Brazil, which has periodically experienced extremely high rates of inflation. Inflation, along with recent governmental measures to combat inflation and public speculation about possible future measures, has had significant negative effects on the Brazilian economy. The annual rates of inflation, as measured by the National Consumer Price Index (*Índice Nacional de Preços ao Consumidor*), has decreased from 2,489.1% in 1993 to 929.3% in 1994, to 8.4% in 1999 and to 5.3% in 2000. The same index increased to 9.4% during 2001 and to 14.7% in 2002.

Brazil may experience high levels of inflation in the future. There can be no assurance that the lower levels of inflation experienced since 1994 will continue. Future governmental actions, including actions to adjust the value of the Real, could trigger increases in inflation.

Over the last three fiscal years, approximately 88% of Petrobras' revenues have been denominated in Reais, although prices for crude oil and oil products have been based on international prices. A substantial portion of Petrobras' indebtedness and some of its operating expenses and capital expenditures are, and are expected to continue to be, denominated in or indexed to U.S. Dollars and other foreign currencies. In addition, during the year ended December 31, 2002, Petrobras imported approximately U.S.\$5.2 billion of crude oil and oil products, the prices of which were all denominated in U.S. Dollars.

As a result of inflationary pressures, the Real and its predecessor currencies have been devalued periodically during the last four decades. Through this period, the Brazilian government has

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implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations during which the frequency of adjustments has ranged from daily to monthly, floating exchange rate systems, exchange controls and dual exchange rate markets. From time to time, there have been significant fluctuations in the exchange rates between the Real and the U.S. Dollar and other currencies. For example, the Real declined in value against the U.S. Dollar by 32.4% in 2000, 8.5% in 2001 and 52.3% in 2002.

Devaluation of the Real relative to the U.S. Dollar could create additional inflationary pressures in Brazil by generally increasing the price of imported products and requiring recessionary governmental policies to curb aggregate demand. On the other hand, appreciation of the Real against the U.S. Dollar may lead to a deterioration of the country's current account and the balance of payments, as well as dampen export-driven growth. The potential impact of the floating exchange rate and of measures by the Brazilian government aimed at stabilizing the Real is uncertain. In addition, a substantial increase in inflation may weaken investor confidence in Brazil. Future devaluation of the Real could adversely affect Petrobras' results of operations and financial condition.

***The current crisis in Argentina could adversely affect the Brazilian economy, adversely affecting Petrobras' ability to finance its operations, leading to a decrease in the market value of the notes.***

In the past, the Brazilian economy and the securities of Brazilian companies have been, to varying degrees, influenced by economic and market conditions in other emerging market countries, particularly in Latin America, as well as by investors' responses to those conditions.

Since 1999, the Argentine economy has been in a recession marked by reduced levels of consumption and investment, increasing unemployment and declining gross domestic product. Since late 2001, and thus far in 2003, Argentine depositors have withdrawn money from banks and sought to remit much of it abroad. During this period, Argentina has experienced continuing fiscal deficits. It has defaulted on its debt service obligations and has devalued its currency. In early December 2001, a withdrawal restriction was established that severely limited cash withdrawals.

The economic crisis has given rise to increasing political volatility in Argentina. On December 20, 2001, President Fernando de la Rúa resigned, and since then, Argentina has had four presidents, including the current President, Eduardo Duhalde, and various governments. With some limitations, President Duhalde's administration has allowed the exchange rate of the Argentine Peso to float, breaking the Peso's decade-old one-to-one relationship to the U.S. Dollar, and resulting in a 49.6% decline in value of the Argentine Peso against the U.S. Dollar from January 7 to April 4, 2002. Presidential elections are currently scheduled for May 2003. Although to date no clear candidate has emerged, several candidates are likely to seek the presidency. In addition, the various platforms of candidates are still being developed.

These recent events have added to the perception and reality of higher risk for investments in Argentina. If Argentina's economic environment does not improve, the economy in Brazil, as both a neighboring country and a significant trading partner, could be adversely affected and could experience slower growth than in recent years, which may negatively impact Petrobras' ability to finance its operations through the international capital markets. In addition, Petrobras has entered into agreements to acquire a majority interest in several entities with operations in Argentina, including Perez Companac S.A. The financial condition and results of operation of Perez Companac S.A. and other acquisitions may be adversely affected by Argentine political instability, fluctuations in the Argentine economy and governmental actions concerning the economy, which could cause Petrobras not to realize the benefits it currently expects to realize from those acquisitions.



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The continuation of the Argentine recession and the recent devaluation of the Peso could adversely affect the Brazilian economy, as Argentina is one of Brazil's principal trading partners, accounting for 26% of Brazil's exports in 2002. Adverse developments in the Brazilian economy could, in turn, negatively impact Petrobras' business and results of operations. Finally, the Argentine recession could adversely affect financial markets in emerging market countries, including the Brazilian securities markets, which in turn could harm the market value of the notes.

### ***Developments in other emerging market countries may affect the trading values of Petrobras' securities.***

Securities of Brazilian companies have been influenced by economic and market conditions in other emerging market countries to varying degrees. Although economic conditions are different in each country, investors' reactions to developments in one country may affect the securities of issuers in other countries, including Brazil. Between the fourth quarter of 1997 and the first quarter of 1999, the international financial markets experienced significant volatility, and a large number of market indices, including those in Brazil, declined significantly. The 1997 Asian economic crisis, the 1998 Russian debt moratorium and devaluation of the Russian currency, and the recent uncertainty caused by Argentina's economic crisis have resulted in increased volatility in securities markets in Latin America and in other emerging market countries.

### ***The Brazilian government is no longer contingently liable for Petrobras' liabilities in the event of Petrobras' insolvency.***

On March 1, 2002, an amended Brazilian corporate law became effective. Among other changes, the amended law provides for the termination of the contingent liability of the Brazilian government for the liabilities and obligations of mixed capital companies, such as Petrobras and, as a consequence, for the termination of mixed capital companies' immunity from bankruptcy legal proceedings. Accordingly, the Brazilian government will not be contingently liable, as it was in the past, for any of Petrobras' obligations incurred after the enactment of this law, including the notes.

### ***Petrobras may not be able to obtain financing for all of its planned investments.***

The Brazilian government maintains control over Petrobras' budget and establishes limits on Petrobras' investments and long-term debt. As a state-controlled entity, Petrobras must submit its proposed annual budgets to the Ministry of Planning, Budget and Management, the Ministry of Mines and Energy, and the Brazilian Congress for approval. Petrobras is endeavoring to obtain financing that does not require Brazilian government approval, such as structured financings and financings through PIFCo, but there can be no assurance that it will succeed. As a result, Petrobras may not be free to make all the investments it envisions, including those Petrobras has agreed to make to expand and develop its crude oil and natural gas fields. If Petrobras is unable to make these investments, its future operating results and financial condition may be adversely affected. In addition, failure to make its planned investments in Brazil could hurt Petrobras' competitive position in the Brazilian oil and gas sector, particularly as other companies enter the market.

### ***Historical government control of Petrobras' sales prices and regulation of Petrobras' operating revenues mean that Petrobras' results of operations cannot be easily compared from year to year.***

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One of the tools available to the Brazilian government to control inflation and pursue other economic and social objectives has been the regulation of oil product prices. The method by which the Brazilian government has controlled Petrobras' prices has varied from year to year. Until December 31, 2001, the Brazilian government regulated the prices at which Petrobras was permitted to sell its oil.

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products. The Brazilian government also established freight subsidies to ensure uniform oil product prices throughout Brazil. The government has now phased out freight subsidies. In July 1998, the government established a new methodology for calculating Petrobras' net operating revenues. Because of this government price control and the change in methodology:

the various line items in Petrobras' financial statements are not necessarily comparable from period to period; and

Petrobras' results of operations reflect not only its consolidated operations, but also the results of economic activity undertaken on behalf of the Brazilian government.

Additionally, from time to time, the Brazilian government may impose specific taxes or other special payment obligations on Petrobras' operations that may affect its results of operations.

### ***Because of changes in government regulations, Petrobras faces increased competition and may lose market share.***

Substantial changes have been occurring in the oil and gas industry in Brazil as a result of the continuing process of deregulation by the Brazilian government. As part of this deregulation, the Brazilian government in early 2002 eliminated all price controls on oil and oil related products and has initiated an auction process for new exploratory areas. Price controls remain in effect, however, for natural gas, electricity and certain petrochemicals. The changes in government regulation have enabled multi-national and regional oil companies to enter the Brazilian energy market. Petrobras expects competition in its downstream and upstream activities will increase further, as existing and new participants expand their activities as a result of these regulatory changes.

### ***Petrobras' expansion into the domestic power market is relatively recent and has generated losses, and the regulatory environment remains uncertain.***

Consistent with the global trend of other major oil and gas companies and to secure demand for its natural gas, Petrobras is currently expanding its business into the domestic power market. Despite a number of incentives introduced by the Brazilian government to promote the development of thermoelectric power plants, development of such plants by private investors has been slow to progress. Petrobras currently invests in 16 of the 38 gas-fired power generation plants being built or proposed to be built in Brazil under the program to promote the development of thermoelectric plants, known as the *Programa Prioritário de Termoelectricidade* (Thermoelectric Priority Program, or PPT). Petrobras invests in some of these plants with partners, many of whom may have power purchase agreements with the plants. Contractual disputes involving Petrobras have arisen in connection with these investments and may continue to arise, and, depending on their outcome, such disputes could have an adverse economic impact on Petrobras, including on the profitability of these investments. Petrobras has a limited history of investing in thermoelectric plants, and thermoelectric plants have not previously operated in a competitive environment in Brazil. Thermoelectric plants have faced difficulties passing on to electricity offtakers foreign currency financing costs of developing new generating capacity, and have had to contend with the reluctance of many distribution companies to sign long-term power purchase agreements due mainly to their existing initial contracts, which provide for a guaranteed price from 1998 to 2002, which is phased out over the following four years, and foreign exchange risk. In addition, demand for thermoelectric power in Brazil has been lower than expected. Congress has recently passed a law increasing government intervention in the market, and the current administration is studying the implementation of changes that could be material to the natural gas and power sector. It is not clear that thermoelectric power generation will remain a priority for the country. In addition, the energy policy of the new administration is uncertain.

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During 2002, Petrobras experienced significant losses relating to its investments in thermoelectric power generation. As a result, Petrobras created a U.S.\$205 million provision for losses related to Petrobras commitments to supply natural gas for the production of energy to certain thermoelectric

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power plants. Petrobras has limited its investments in this area but cannot assure you that its participation in the domestic power market will ever become profitable. As a result, Petrobras' participation in this market may adversely affect its operating results and financial condition.

### ***A Brazilian electrical energy crisis could adversely affect Petrobras' financial condition and results of operations.***

Brazil experienced a severe shortage of capacity to generate and transmit electrical power during 2001, primarily due to the prolonged and severe drought which negatively affected the hydroelectric generation of power as well as to a lack of investment in power generation prior to 2001. In May 2001, the Brazilian government announced measures aimed at an average reduction of 20% in electricity consumption in a number of regions of Brazil, including areas in which Petrobras operates. As a result of higher water levels in reservoirs, measures by the Brazilian government to increase the amount of available electrical power and increased consumer efficiency, the Brazilian government lifted all electricity consumption restrictions in March 2002.

A prolonged energy crisis may have adverse effects on the Brazilian economy, including a downturn in the level of economic activity and reduced demand for electricity. Because the consumption of oil has been historically linked to the level of economic activity, an energy crisis may adversely affect Petrobras' results of operations and economic condition. Petrobras cannot assure you that another energy crisis will not occur in the future.

### ***Petrobras may be required to sell some of its refining capacity in Brazil.***

Petrobras presently owns 98% of the existing refining capacity in Brazil. Although Petrobras plans to improve its present refineries, Petrobras has no plans to build new refineries in Brazil, and it may consider selling participation interests in its present refineries to new partners or engaging in asset swaps, as is the case in Petrobras' business combination in 2001 involving assets of Repsol-YPF S.A. The former director of the National Petroleum Agency (*Agência Nacional do Petróleo*), or ANP, has made public statements suggesting that the antitrust agency in Brazil could require Petrobras to divest part of its refining capacity. Although Petrobras is not presently subject to any requirement to divest any assets, and the government has not made any proposal in that respect, it is possible that Petrobras will be required to divest a portion of its refining capacity or other assets in the future. Any such divestment could have a material adverse effect on Petrobras' financial condition and results of operations.

### ***Labor disputes, strikes, work stoppages and protests could lead to increased operating costs.***

All of Petrobras' employees, except the maritime employees, are subject to a collective bargaining agreement with the Oil Workers Unified Federation, which was signed on December 4, 2002, retroactive to September 1, 2002. This collective bargaining agreement will expire on October 31, 2003. On December 27, 2002, Petrobras signed a separate collective bargaining agreement with the maritime employees' union retroactive to November 1, 2002, which will expire on October 31, 2003.

From time to time, Petrobras has been subject to strikes and work stoppages. In 2001, Petrobras' oil workers began a five-day strike. While this strike was settled, it did result in a decrease in oil production. If Petrobras' workers were to strike, the resulting work stoppages could have an adverse effect on Petrobras.



Petrobras does not carry insurance for losses incurred as a result of business interruptions of any nature, including business interruptions caused by labor action. As a result, Petrobras' financial condition and results of operations could be adversely affected by future strikes, work stoppages, protests or similar activities.

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***Petrobras may incur losses and spend time and money defending pending litigation and arbitration.***

Petrobras is currently a party to numerous legal proceedings relating to civil, administrative, environmental, labor and tax claims filed against it. Petrobras is also pursuing discussions with various government authorities and with Repsol-YPF over Petrobras licenses, including its right to operate certain platforms, in connection with the 2001 Repsol-YPF asset swap. These claims involve a wide range of issues and seek substantial amounts of money and other remedies. Several individual disputes account for a significant part of the total amount of claims against Petrobras. Petrobras' audited financial statements as of December 31, 2002 include reserves totaling U.S.\$368 million as of that date, for probable and reasonably estimable losses and expenses Petrobras may incur in connection with all of Petrobras' pending litigation. In the event that a number of the claims that Petrobras considers to represent remote or reasonably possible risks of loss were to be decided against Petrobras, or in the event that the losses estimated turn out to be higher than the reserves made, the aggregate cost of unfavorable decisions could have a material adverse effect on Petrobras' financial condition and results of operations. Additionally, Petrobras' management may be required to direct their time and attention to defending these claims, which could preclude them from focusing on Petrobras' core business. Depending on the outcome, certain litigation, including matters involving Petrobras' platforms and asset swaps, could result in restrictions on its operations and material adverse effects on certain of Petrobras' businesses.

***Currency fluctuations could have a material adverse effect on Petrobras' financial condition and results of operations, because most of Petrobras' revenues are in Reais and a large portion of Petrobras' liabilities are in foreign currencies.***

The principal market for Petrobras' products is Brazil, and over the last three fiscal years over 88% of Petrobras' revenues have been denominated in Reais. A substantial portion of Petrobras' indebtedness and some of Petrobras' operating expenses and capital expenditures are, and are expected to continue to be, denominated in or indexed to U.S. Dollars and other foreign currencies. In addition, during the year ended December 31, 2002, Petrobras imported U.S.\$5.2 billion of crude oil and oil products, the prices of which were all denominated in U.S. Dollars.

Following the significant devaluation of the Real in January 1999, Petrobras' cash flow was severely affected. Petrobras successfully managed to meet all of its obligations denominated in foreign currencies by limiting new borrowings and tightening cash management and, beginning February 1, 1999, by successfully negotiating with the Brazilian government to adjust Petrobras' prices to reflect the devaluation. Although Petrobras has recently started hedging a portion of its foreign currency exposures and is extending its maturity profile in order to control risk, Petrobras cannot predict the impact on its operations of any future substantial devaluation of the Real, and Petrobras' ability to meet its foreign currency-denominated obligations could be adversely affected. You should consider this risk in light of past devaluations of the Real as a result of inflationary and other pressures.

***Petrobras' equipment, facilities and operations are subject to numerous environmental and health regulations which may become more stringent in the future and may result in increased liabilities and increased capital expenditures.***

Petrobras' facilities are subject to a wide variety of federal, state and local laws, regulations and permit requirements relating to the protection of human health and the environment. Petrobras could be exposed to civil penalties, criminal sanctions and closure orders for non-compliance with these environmental regulations, which, among other things, limit or prohibit emissions or spills of toxic substances produced in connection with Petrobras' operations. Current and past waste disposal and emissions practices may require Petrobras to clean up or retrofit its facilities at substantial cost and could result in substantial liabilities. The *Instituto Brasileiro do Meio Ambiente dos Recursos Naturais*



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*Renovaveis* (Brazilian Institute of the Environment and Renewable Natural Resources), or IBAMA, has been investigating Petrobras oil platforms in the Campos Basin, and may impose fines, restrictions on operations or other sanctions in connection with its investigations.

Petrobras spent approximately U.S.\$466 million, U.S.\$473 million and U.S.\$356 million during the three years ended December 31, 2002, 2001 and 2000, respectively, to comply with environmental laws. However, since environmental laws are becoming more stringent in Brazil and in other jurisdictions where Petrobras operates, it is likely that Petrobras environmental capital expenditures and costs for environmental compliance will increase, perhaps substantially, in the future. In addition, due to the possibility of unanticipated regulatory or other developments, the amount and timing of future environmental expenditures may vary widely from those currently anticipated. The amount of investments Petrobras makes in any given year is subject to limitations by the Brazilian government. Accordingly, expenditures required for compliance with environmental regulation might result in reductions in other strategic investments that Petrobras has planned, with a resulting decrease to Petrobras profits, and future environmental costs may harm Petrobras results of operations or financial condition.

***In the past, significant oil spills have occurred and Petrobras has incurred, and may continue to incur, liabilities in connection with oil spills, including clean up costs, government fines, and potential lawsuits.***

From time to time, oil spills occur in connection with Petrobras operations. Over the past three years, there were six significant oil spills. In each of these, Petrobras undertook cleanup efforts as promptly as possible. Nevertheless, in some situations Petrobras was fined by various state and federal environmental agencies, became the defendant in several civil and criminal suits, and is subject to several investigations and potential civil and criminal liabilities as a result of past oil spills. Petrobras is unable to predict whether these or any future oil spills will have a material adverse effect on its business prospects or results of operations. Accordingly, if one or more of the potential liabilities resulting from these oil spills were to result in an actual fine or civil or criminal liability Petrobras operations and financial condition may be harmed.

***Petrobras is unusually exposed to increases in prevailing market interest rates.***

As of December 31, 2002, approximately 45% of Petrobras total indebtedness consisted of floating rate debt. Although Petrobras is changing its risk management practices, Petrobras has not yet entered into derivative contracts or made other arrangements to hedge against interest rate risk. Accordingly, if market interest rates (principally LIBOR) rise, Petrobras financing expenses will increase.

***The elimination of Brazilian import tariff rates for refined oil products may reduce Petrobras competitive price advantage over imported refined oil products.***

In early 2002, the Brazilian government eliminated all price controls on oil and oil related products, which has increased the competition Petrobras encounters for its oil products in Brazil. Changes tending to reduce Petrobras comparative price advantage over importers may adversely affect Petrobras competitive position in the Brazilian market. In particular, the elimination of import tariff rates is likely to affect the prices Petrobras can charge for its products.

***Military action in Iraq could adversely affect Petrobras financial condition and results of operation.***

Military action in Iraq could result in significant disruption of the crude oil markets, including supply disruptions, which could lead to significant increases in international crude oil prices. Since Petrobras is a net importer of crude oil, a crude oil supply disruption could prevent it from meeting

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consumption demands in Brazil. The price at which Petrobras sells oil products at any time is based on a formula that reflects changes in the Real/U.S. Dollar exchange rate and the prevailing international prices of Brent crude oil during the preceding quarter. If international crude oil prices were to increase significantly as a result of supply disruptions, Petrobras may not be able to immediately pass on the cost of its imports to Brazilian consumers. Additionally, if Petrobras were to attempt to raise crude oil prices further, there exists a possibility that the Brazilian government may intervene and establish limits on the price at which Petrobras may sell crude oil and oil products to the public, which could have an adverse effect on Petrobras' results of operations.

***The recent terrorist attacks and the United States military action in Iraq could adversely affect the demand for Petrobras products and services.***

Following the recent terrorist attacks in the United States and the subsequent United States military action, there has been a substantial increase in the volatility and unpredictability of the world's financial and insurance markets. At the same time, those events may increase political and economic instability in the geographic areas in which Petrobras currently operate. In addition, these developments may lead to increased volatility in prices for crude oil and natural gas.

***The recent terrorist attacks and the United States military action in Iraq could adversely affect Petrobras' ability to obtain affordable insurance coverage or render such coverage unavailable.***

The insurance premiums charged for some or all of the coverage historically maintained by Petrobras and its subsidiaries has increased significantly and could increase further, or the coverage could be unavailable in the future. The premiums for war risk and terrorism insurance have increased substantially, and in some cases such insurance is not available. In addition, insurance underwriters have issued general notices of cancellations to their customers for war risk and terrorism insurance in respect of a wide variety of insurance coverage, including, but not limited to, liability coverage. Petrobras does not know whether underwriters will offer to reinstate some or all of these types of coverage and, if reinstatement is offered, the extent to which premiums may be increased. Continued military action or other response by the United States or its allies, future terrorist attacks or the anticipation of any such actions or events may have a further adverse impact on the U.S. and world economies and thus demand for Petrobras products and services.

***Petrobras does not own any of the crude oil and natural gas reserves in Brazil.***

A guaranteed source of crude oil and natural gas reserves is essential to an oil and gas company's production and generation of income. As a result, many oil and gas companies own crude oil and natural gas reserves. Under Brazilian law, the Brazilian government owns all crude oil and natural gas reserves in Brazil. Petrobras possesses the exclusive right to develop its reserves pursuant to concession agreements awarded to it by the Brazilian government. If the Brazilian government were to restrict or prevent Petrobras from exploiting these crude oil and natural gas reserves, its ability to generate income would be adversely affected.

***Completion of Petrobras' acquisition of majority ownership of Perez Companc S.A. is contingent upon Argentine regulatory approval, and if such approval is not granted, Petrobras may agree to modify the terms of the acquisition or decide not to complete the transaction.***

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The completion of the Perez Companac S.A. acquisition remains contingent upon antitrust approval from the Argentine government's *Comision Nacional de Defensa de la Competencia* (the National Council for the Defense of Competition or the CNDC).

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Under the Perez Companac stock purchase agreement, Petrobras has the right to decide not to complete the transaction if the CNDC does not approve the transaction by October 17, 2003 or if the CNDC demands that Petrobras dispose of assets that Petrobras considers fundamental. Petrobras does not know what determination the CNDC will make with respect to Petrobras investment in Perez Companac, S.A. If for any reason Petrobras agrees to modify the terms of the acquisition or decides not to complete the transaction, Petrobras may not realize the intended benefits of its investment in Perez Companac S.A. Even if CNDC approval is granted, it is possible that Petrobras may not achieve the anticipated timing, efficiencies and benefits of integrating Perez Companac into its business. Differing corporate cultures, legal and regulatory environments, personalities, languages and other factors may pose challenges to the success of the acquisition. Failure to complete the acquisition of Perez Companac S.A. or to achieve the anticipated timing, efficiencies and benefits of integrating Perez Companac S.A. into Petrobras' business may negatively impact Petrobras and its ability to implement its strategic objectives in Latin America.

### ***Perez Companac S.A. is subject to substantial risks relating to its business and operations in Argentina and other South American countries.***

Perez Companac, S.A. is an Argentine sociedad anonima with approximately 59.4% of its total crude oil and natural gas production and 45.6% of its proved crude oil and natural gas reserves located in Argentina at December 31, 2002. As a result, Perez Companac S.A.'s financial condition and results of operation may be adversely affected by Argentine political instability, fluctuations in the Argentine economy and governmental actions concerning the economy, including:

the imposition of exchange controls, which could restrict the flow of capital out of Argentina and make it more difficult for Perez Companac S.A. to service its non-Peso denominated debt;

the imposition of restrictions on the export of crude oil and oil products, which could decrease Perez Companac S.A.'s U.S. Dollar cash receipts;

the devaluation of the Argentine Peso, which could lead to significant losses in Perez Companac S.A.'s net foreign currency position and, therefore, restrict its ability to make payment on its foreign-currency denominated debt;

increases in export tax rates for crude oil and oil products, which could lead to a reduction in Perez Companac S.A.'s export margins and cash flows; and

other measures enacted by the Argentine government to address Argentina's economic crisis, including the pesification of utility rates, which combined with the devaluation of the Argentine Peso, resulted in payment defaults by two of Perez Companac S.A.'s affiliated utility companies, CIESA, the parent of TGS, and Transener and which could lead to defaults by other affiliated utility companies.

Perez Companac S.A. is also active in Venezuela, Ecuador, Bolivia, Peru and Brazil. Production from Venezuela accounted for approximately 28.8% of Perez Companac S.A.'s total average production in barrels of oil equivalent in 2002, being the largest operation outside Argentina. Accordingly, Perez Companac S.A.'s operations may be negatively affected by:



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the continuing political and economic instability in Venezuela, particularly the labor strikes and other forms of political protest directed against the Hugo Chavez administration;

any decisions by the Organization of Petroleum Exporting Countries ( OPEC ) to decrease production volumes, as Venezuela is a member of OPEC; and

any decision by the Venezuelan government to modify the terms and conditions of Perez Companc S.A.'s operating agreements in Venezuela.

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If one or more of the risks described above were to materialize, Petrobras may not be able to realize the benefits that it currently intends to realize from the Perez Companc S.A. acquisition, and that development might negatively impact Petrobras.

***Petrobras operations are affected by the volatility of prices for crude oil and oil products.***

Until January 2, 2002 the prices Petrobras was allowed to charge for oil and oil related products (and, as a result, Petrobras recorded prices for the calculation of net operating revenues) were determined on the basis of a pricing formula established by the Brazilian government designed to reflect changes in the Real/U.S. Dollar exchange rate and international market prices for relevant benchmark products. However, as of January 2, 2002, the oil and oil products markets in Brazil were opened in their entirety.

Historically, international prices for crude oil and oil products have fluctuated widely in response to changes in many factors. Petrobras does not, and will not, have control over the factors affecting international prices for crude oil and oil products. These factors include:

global and regional economic and political developments in crude oil producing regions, particularly in the Middle East;

the ability of the Organization of Petroleum Exporting Countries and other crude oil producing nations to set and maintain crude oil production levels and prices;

other actions taken by major crude oil producing or consuming countries;

global and regional supply and demand for crude oil and oil products;

competition from other energy sources;

domestic and foreign government regulations;

weather conditions;

current and potential military action and ongoing tensions in Afghanistan, Iraq and elsewhere;

global economic conditions.

The average prices of Brent crude, an international benchmark oil, for the three years ended December 31, 2002, 2001 and 2000, were approximately U.S.\$25.02, U.S.\$24.44 and U.S.\$28.50 per barrel, respectively. A substantial decline in international crude oil

prices began in late 1997 and continued in 1998. Prices subsequently rose significantly.

This increase also affected prices for oil products. Higher crude oil prices in 2000 had various effects on Petrobras, including augmenting its net operating revenues, net income and cash flows.

Petrobras expects continued volatility and uncertainty in international prices for crude oil and oil products. Declines in crude oil prices may adversely affect Petrobras' business, results of operations and financial condition and the value of Petrobras' proved reserves. Petrobras expects there to be continued volatility and uncertainty in international prices for crude oil and oil products.

Price controls remain in effect for natural gas, electricity and certain petrochemicals. These controls could have an adverse effect on revenues from these business activities.

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***Achieving growth is dependent upon Petrobras finding or acquiring additional reserves, and risks associated with drilling may cause drilling operations to be delayed or cancelled.***

Petrobras' ability to achieve its growth objectives is highly dependent upon its level of success in finding, acquiring or gaining access to additional reserves. In general, the volume of production from oil and natural gas properties declines as reserves are depleted, with the rate of decline depending on reservoir characteristics. Unless Petrobras conducts successful exploration and development activities or acquire properties containing proved reserves, or both, Petrobras' proved reserves will decline as reserves are extracted. Petrobras' exploration and development activities expose it to the inherent risks of drilling, including the risk that no economically productive oil or natural gas reserves will be discovered. The costs of drilling, completing and operating wells are often uncertain and numerous factors beyond Petrobras' control may cause drilling operations to be curtailed, delayed or cancelled. Petrobras' future drilling, exploration and acquisition activities may not be successful and, if unsuccessful, would harm Petrobras' future results of operations and financial condition.

### **Risks Relating to the Notes and the Standby Purchase Agreement**

***The absence of an existing public market for these notes may affect the ability of noteholders to sell these notes in the future and may affect the price they would receive if such sale were to occur.***

The notes are new securities for which there is currently no existing public market, and there is no assurance that one will develop. The liquidity of and trading market for the notes also may be adversely affected by a general decline in the market for similar securities. Such a decline may adversely affect Petrobras' liquidity and trading markets independent of Petrobras' prospects or financial performance.

***Petrobras may not be able to pay its obligations under the standby purchase agreement in Dollars.***

In the past, the Brazilian economy has experienced balance of payment deficits and shortages in foreign exchange reserves, and the government has responded by restricting the ability of Brazilian or foreign persons or entities to convert Reais into foreign currencies generally, and U.S. Dollars in particular. The government may institute a restrictive exchange control policy in the future. Any restrictive exchange control policy could prevent or restrict Petrobras' access to U.S. Dollars to meet its U.S. Dollar obligations, including under the standby purchase agreement.

The notes will not require approval by or registration with the Central Bank, since the proceeds of the notes will be paid to PIFCo and will not be entering Brazil in connection with the issuance. Payment under the notes by PIFCo will be made from outside Brazil. Payments by Petrobras to PIFCo for the import of oil, the expected source of PIFCo's cash resources to pay its obligations under the notes, will not require approval by or registration with the Central Bank. There may be other regulatory requirements that Petrobras will need to comply with in order to make funds available to PIFCo. If Petrobras is required to make payments under the standby purchase agreements, specific Central Bank approval will be required. Any specific approval from the Central Bank may only be requested when such payment is to be remitted abroad by Petrobras, and will be granted by the Central Bank on a case-by-case basis. It is not certain that any such approvals will be obtainable at a future date. In the event that no approvals are obtained or obtainable for Petrobras' payment of amounts owed under the notes, the indenture and the standby purchase

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agreement through remittances from Brazil, Petrobras may lawfully pay the amounts due under the notes in Brazilian currency through international transfer of Reais. However, no assurance can be given that this financial mechanism for transfer of Reais will be available in the future.

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In the event that no approvals are obtained or obtainable for Petrobras' payment of amounts owed by PIFCo through remittances from Brazil, Petrobras may lawfully pay the amounts due under the notes in Brazilian currency through international transfer of Reais. Through the international transfer of Reais mechanism, payments made in Brazilian currency by Petrobras will be deposited in non-resident accounts held by foreign financial institutions, which would then purchase U.S. Dollars through the floating market for foreign exchange and remit U.S. Dollars to the relevant agent for payment of the notes. No assurance can be given that the international transfer of Reais or the floating market will remain legally or commercially available to Brazilian residents.

### ***Restrictions on the movement of capital out of Brazil may impair your ability to receive payments on the standby purchase agreement.***

The Brazilian government may impose temporary restrictions on the conversion of Brazilian currency into foreign currencies and on the remittance to foreign investors of proceeds from their investments in Brazil. Brazilian law permits the government to impose these restrictions whenever there is a serious imbalance in Brazil's balance of payments or there are reasons to foresee a serious imbalance.

The Brazilian government imposed remittance restrictions for approximately six months in 1990. Similar restrictions, if imposed, would impair or prevent the conversion of payments on the standby purchase agreement from Reais into U.S. Dollars and the remittance of the U.S. Dollars abroad. Petrobras cannot assure you that the Brazilian government will not take similar measures in the future.

### ***Judgments of Brazilian courts enforcing Petrobras' obligations under the standby purchase agreement would be payable only in Reais.***

If proceedings were brought in Brazil seeking to enforce Petrobras' obligations under the standby purchase agreement, Petrobras would not be required to discharge its obligations in a currency other than Reais. Under the Brazilian exchange control limitations, an obligation to pay amounts denominated in a currency other than Reais, which is payable in Brazil, may be satisfied in Reais at the rate of exchange, as determined by the Central Bank, in effect on the date of payment.

### ***Enforcement of Petrobras' obligations under the standby purchase agreement might take longer than expected.***

Petrobras will enter into the standby purchase agreement described herein in support of PIFCo's obligation under the notes and the indenture. Petrobras' obligation to purchase from the noteholders any unpaid amounts of principal, interest and other amounts due under the notes and the indenture applies, subject to the limitations described below under Description of the Standby Purchase Agreement Purchase Obligations, irrespective of whether any such amounts are due at maturity of the notes or otherwise.

Petrobras has been advised by its counsel that the enforcement of the standby purchase agreement in Brazil against Petrobras, if necessary, will occur under a form of judicial process that, while similar, has certain procedural differences from those applicable to enforcement of a guarantee and, as a result, the enforcement of the standby purchase agreement may take longer than would

otherwise be the case with a guarantee.

***A finding that Petrobras is subject to U.S. bankruptcy laws and that the standby purchase agreement executed by Petrobras was a fraudulent conveyance could result in noteholders losing their legal claim against Petrobras.***

PIFCo's obligation to make payments on the notes is supported by Petrobras' obligation under the standby purchase agreement to make payments on PIFCo's behalf. Petrobras has been advised

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by its external U.S. counsel that the standby purchase agreement is valid and enforceable in accordance with the laws of the State of New York and the United States. In addition, Petrobras has been advised by its general counsel, Mr. Nilton de Almeida Maia, that the laws of Brazil do not prevent the standby purchase agreement from being valid, binding and enforceable against Petrobras in accordance with its terms. In the event that U.S. federal fraudulent conveyance or similar laws are applied to the standby purchase agreement, and Petrobras, at the time it entered into the standby purchase agreement:

was or is insolvent or rendered insolvent by reason of its entry into the standby purchase agreement;

was or is engaged in business or transactions for which the assets remaining with Petrobras constituted unreasonably small capital; or

intended or intend to incur, or believed or believe that Petrobras would incur, debts beyond its ability to pay such debts as they mature; and

in each case, received or receive less than reasonably equivalent value or fair consideration therefor,

then Petrobras' obligations under the standby purchase agreement could be avoided, or claims in respect of the standby purchase agreement could be subordinated to the claims of other creditors. Among other things, a legal challenge to the standby purchase agreement on fraudulent conveyance grounds may focus on the benefits, if any, realized by Petrobras as a result of PIFCo's issuance of these notes. To the extent that the standby purchase agreement is held to be a fraudulent conveyance or unenforceable for any other reason, the holders of the notes would not have a claim against Petrobras under the standby purchase agreement and will solely have a claim against PIFCo. PIFCo cannot assure prospective investors that, after providing for all prior claims, there will be sufficient assets to satisfy the claims of the noteholders relating to any avoided portion of the standby purchase agreement.



**Table of Contents****USE OF PROCEEDS**

PIFCo intends to use the net proceeds of the issuance of the notes after deduction of commissions for general corporate purposes, which will include the financing of the purchase of oil product imports and may include the repayment of existing trade-related debt. PIFCo has not, however, identified specific issues of trade-related debt that will be retired in the short term. PIFCo may temporarily invest funds that it does not need immediately for these purposes in marketable securities, and may lend a part of the net proceeds of the issuance of the notes to Petrobras, which Petrobras would use for general corporate purposes.

**RATIO OF EARNINGS TO FIXED CHARGES****PIFCo**

The following table contains the consolidated ratios of earnings to fixed charges of PIFCo for the periods indicated:

	<b>Year Ended December 31,</b>				
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Ratio of earnings to fixed charges	1.02	1.14	1.29	0.89	0.77

For purposes of computing the ratio of earnings to fixed charges, earnings are divided by fixed charges. Earnings represent the sum of income from continuing operations before income taxes and minority interests for PIFCo and its consolidated subsidiaries plus fixed charges, minus interest capitalized, plus amortization of interest capitalized. Fixed charges represent interest accrued on indebtedness of PIFCo and its consolidated subsidiaries, including interest capitalized, plus one-third of rents, the proportion deemed representative of the interest factor.

**Petrobras**

The following table contains the consolidated ratios of earnings to fixed charges of Petrobras for the periods indicated:

	<b>Year Ended December 31,</b>				
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Ratio of earnings to fixed charges	0.38	1.57	4.97	4.17	3.49

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For purposes of computing the ratio of earnings to fixed charges, earnings are divided by fixed charges. Earnings represent the sum of income from continuing operations before income taxes and minority interests for Petrobras and its consolidated subsidiaries plus fixed charges, minus interest capitalized, plus amortization of interest capitalized. Fixed charges represent interest accrued on indebtedness of Petrobras and its consolidated subsidiaries, including interest capitalized, plus one-third of rents, the proportion deemed representative of the interest factor.

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Table of Contents**CAPITALIZATION****PIFCo**

The following table sets out the consolidated short-term debt and capitalization of PIFCo as of December 31, 2002 and as adjusted to give effect to the issue of the notes. There have been no material changes in the consolidated capitalization of PIFCo since December 31, 2002. This table should be read in conjunction with the audited PIFCo financial statements included in the PIFCo Report on Form 6-K that was furnished to the SEC on March 20, 2003 and is incorporated by reference into this prospectus supplement.

	<b>As of December 31, 2002</b>	
	<b>Actual</b>	<b>As adjusted for the offering</b>
	<b>(in millions of U.S. Dollars)</b>	
<b>Short-term debt:</b>		
Short-term debt	\$ 286	\$ 286
Current portion of long-term debt	82	82
Intercompany loans	3,688	3,688
Capital lease	69	69
<b>Total short-term obligations</b>	<b>4,125</b>	<b>4,125</b>
<b>Long-term debt:</b>		
Capital lease	602	602
Long-term debt	3,249	3,649
Total long-term debt	3,851	4,251
<b>Shareholder's equity</b>		
Capital stock <sup>(1)</sup>	0	0
Additional paid in capital	120	120
Retained earnings	(76)	(76)
Total shareholder's equity	44	44
<b>Total capitalization</b>	<b>\$ 8,020</b>	<b>\$ 8,420</b>

(1) Comprising 50,000 shares of common stock, par value U.S.\$1.00, which have been authorized and issued.

**Table of Contents****Petrobras**

The following table sets out the consolidated short-term debt and capitalization of Petrobras as of December 31, 2002 and as adjusted to give effect to the issue of the notes and Petrobras obligations in respect thereof under the standby purchase agreement. Petrobras did not consolidate Perez Companç S.A. at December 31, 2002, and accordingly the table does not include the debt of Perez Companç S.A., which totaled approximately U.S.\$2.2 billion at November 30, 2002, that will be added to Petrobras consolidated capitalization when Petrobras consolidates Perez Companç S.A. There have been no material changes in the consolidated capitalization of Petrobras since December 31, 2002. This table should be read in conjunction with the audited financial statements included in the Petrobras Report on Form 6-K that was furnished to the SEC on March 19, 2003 and is incorporated by reference into this prospectus supplement.

	<b>As of December 31, 2002</b>	
	<b>Actual</b>	<b>As adjusted for the offering</b>
<b>(in millions of U.S. Dollars)</b>		
Short-term debt:		
Short-term debt	\$ 671	\$ 671
Current portion of long-term debt	727	727
Current portion of project financings	239	239
Capital lease obligations	349	349
<b>Total short-term obligations</b>	<b>1,986</b>	<b>1,986</b>
Long-term debt:		
Foreign currency denominated	5,912	6,312
Local currency denominated	1,075	1,075
<b>Total long-term debt</b>	<b>6,987</b>	<b>7,387</b>
Project financings	3,800	3,800
Capital lease obligations	1,907	1,907
Stockholders equity <sup>(2)</sup>	9,301	9,301
<b>Total capitalization</b>	<b>\$ 23,981</b>	<b>\$ 24,381</b>

- (1) Comprising (a) 634,168,418 shares of common stock and (b) 451,935,669 shares of preferred stock, in each case with no par value and in each case which have been authorized and issued.
- (2) Stockholders equity includes a loss in the amount of U.S.\$1,361 million related to Amounts not recognized as net periodic pension cost. This item would decrease if the discount rate assumption for determining the expense and liability related to Petrobras pension plan were to be increased. See Analysis of Financial Condition and Results of Operations Pension Plan in the Petrobras Report on Form 6-K, furnished to the SEC on March 19, 2003.

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**DESCRIPTION OF THE NOTES**

*The following description of the terms of the notes supplements and modifies the description of the general terms and provisions of debt securities and the indenture set forth in the accompanying prospectus, which you should read in conjunction with this prospectus supplement. In addition, we urge you to read the indenture and the first supplemental indenture, because they, and not this description, will define your rights as holders of these notes. If the description of the terms of the notes in this summary differs in any way from that in the accompanying prospectus, you should rely on this summary. You may obtain copies of the indenture and the first supplemental indenture upon request to the trustee or with the SEC at the addresses set forth under Where You Can Find More Information.*

**First Supplemental Indenture**

PIFCo will issue the notes under an indenture dated as of July 19, 2002 between PIFCo and JPMorgan Chase Bank, as trustee, as supplemented by a first supplemental indenture among PIFCo, Petrobras and the trustee dated as of the closing date, which provides the specific terms of the notes offered by this prospectus supplement, including granting noteholders rights against Petrobras under the standby purchase agreement. Whenever we refer to the indenture in this prospectus supplement, we are referring to the indenture as supplemented by the first supplemental indenture.

**General**

The notes will be general, senior, unsecured and unsubordinated obligations of PIFCo having the following basic terms:

The title of the notes will be the 9.00% Global Step-Up Notes due 2008;

The notes will:

be issued in an aggregate principal amount of U.S.\$400,000,000;

mature on April 1, 2008;

bear interest at a rate of 9.00% per annum from the closing date until April 1, 2006 and at a rate of 12.375% per annum thereafter until all required amounts due in respect of the notes have been paid;

be issued in global registered form and in denominations that are even multiples of U.S.\$10,000; and

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have the benefit of the standby purchase agreement described below under Description of the Standby Purchase Agreement.

Interest on the notes will be paid semiannually on April 1 and October 1 of each year (each of which we refer to as an interest payment date ), commencing on October 1, 2003, and the regular record date for any interest payment date will be the tenth business day preceding that date; and

In the case of amounts not paid by PIFCo under the indenture and the notes, interest will continue to accrue on such amounts at a default rate equal to 1% in excess of the interest rate on the notes, from and including the date when such amounts were due and owing and through and including the date of payment of such amounts by PIFCo or Petrobras.

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**Put Option**

On April 1, 2006, each holder of a note will have the unilateral right, upon notice to PIFCo as provided in the indenture, to require PIFCo to repurchase that holder's note, in whole or in part (and, if it is in part, the note will be in an amount equal to U.S.\$10,000 or any integral multiple thereof), for a payment equal to the then outstanding principal amount, accrued interest and other amounts (including any additional amounts) due on or with respect to the notes, through the date of the repurchase.

**Place of Payment**

PIFCo will pay interest, principal, additional amounts and any other money due on the notes at the corporate trust office of the trustee in New York City (which is currently located at 4 New York Plaza, 15th Floor, New York, New York 10004, Attention: Institutional Trust Services) or such other paying agent office in the United States as PIFCo appoints. You must make arrangements to have your payments picked up at or wired from that office. PIFCo may also choose to pay interest by mailing checks. Interest on global notes will be paid to the holder thereof by wire transfer of same-day funds.

**Optional Redemption**

The notes are not redeemable prior to the stated maturity at PIFCo's option except in the circumstances described under Description of Debt Securities Optional Tax Redemption in the accompanying prospectus.

**Depository with Respect to Global Securities**

The notes will be issued in global registered form with The Depository Trust Company as depository. For further information in this regard, see Clearance and Settlement.

**Events of Default**

The following events will be events of default with respect to the notes:

PIFCo does not pay the principal or any premium on the notes within three calendar days of its due date and the trustee has not received such amounts from Petrobras under the standby purchase agreement by the end of that three-day period.

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PIFCo does not pay interest, including any additional amounts, on the notes within 30 calendar days of their due date and the trustee has not received such amounts from Petrobras under the standby purchase agreement by the end of that thirty-day period.

Any representation or warranty made by Petrobras relating to the enforceability and validity of the notes, indenture or standby purchase agreement was untrue when made and there would be a material adverse effect on the holders of the notes.

PIFCo or Petrobras remains in breach of any covenant or any other term of the notes, indenture or standby purchase agreement (other than any failure to make any payment under the standby purchase agreement, for which there is no cure) for 60 calendar days (inclusive of any cure period contained in any such covenant or other term for compliance thereunder) after receiving a notice of default stating that it is in breach. The notice must be sent by either the trustee or holders of 25% of the principal amount of the notes.

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If the total aggregate principal amount of all of the indebtedness of PIFCo or Petrobras or indebtedness of a material subsidiary which meets one of the following conditions equals or exceeds U.S.\$100,000,000 (or its equivalent in another currency):

the maturity of any indebtedness of PIFCo or Petrobras or the material subsidiary is accelerated in accordance with the terms of that indebtedness, it being understood that prepayment or redemption by us or the material subsidiary of any indebtedness is not acceleration for this purpose; and

we fail or the material subsidiary fails to pay any indebtedness when due or, as the case may be, beyond any applicable grace period specified in the relevant transaction document; and

we fail or the material subsidiary fails to pay when due any amount payable by us or the material subsidiary under any guarantee for, or indemnity in respect of, the indebtedness of any other person.

One or more final and non-appealable judgments or final decrees is entered against us or a material subsidiary involving in the aggregate a liability (not paid or fully covered by insurance) of U.S.\$100,000,000 (or its equivalent in another currency) or more, and all such judgments or decrees have not been vacated, discharged or stayed within 120 calendar days after rendering of that judgment.

We stop paying or we admit that we are generally unable to pay our debts as they become due, we are adjudicated or found bankrupt or insolvent or we are ordered by a court or pass a resolution to dissolve (or a similar event occurs with respect to a material subsidiary).

We commence or a material subsidiary commences voluntarily proceedings under any applicable liquidation, insolvency, composition, reorganization or any other similar laws, or we file or a material subsidiary files an application for the appointment of an administrative or other receiver, manager or administrator, or any such or other similar official, in relation to us or a material subsidiary or any events occur or action is taken that has effects similar to those events or actions described in this paragraph.

We enter or a material subsidiary enters into any composition or other similar arrangement with our or a material subsidiary's creditors (such as a *concordata*, which is a type of liquidation agreement), or proceedings are initiated against us or any material subsidiary under applicable bankruptcy, insolvency or intervention law or law with similar effect and is not discharged or removed within 90 calendar days, or a receiver, administrator or similar person is appointed in relation to, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against, the whole or a substantial part of our or a material subsidiary's undertakings or assets and is not discharged or removed within 90 calendar days or any events occur or action is taken that has effects similar to those events or actions described in this paragraph.

Any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorization, exemption, filing, license, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable PIFCo and Petrobras lawfully to enter into, exercise their rights and perform and comply with their obligations under the notes, the indenture or the standby purchase agreement, (ii) to ensure that those obligations are legally binding and enforceable or (iii) to make such documents admissible in evidence in the Courts of Brazil and the Cayman Islands that is not taken, fulfilled or done within ten calendar days after notice has been given to PIFCo or Petrobras, as applicable, by the trustee or once any authorization or consent has been given, is removed, withdrawn, modified, withheld or otherwise fails to remain valid and subsisting in full force and effect.

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Any of the indenture, the notes or the standby purchase agreement, or any part of those documents, ceases to be in full force and effect or binding and enforceable against PIFCo or Petrobras, it becomes unlawful for PIFCo or Petrobras to perform any material obligation

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under any of the foregoing documents to which it is a party, or PIFCo or Petrobras contests the enforceability of any of the foregoing documents or denies that it has liability under any of the foregoing documents to which it is a party.

Petrobras fails to retain at least 51% direct or indirect ownership of the outstanding voting and economic interests (equity or otherwise) of and in PIFCo.

For purposes of the events of default:

*indebtedness* means any obligation (whether present or future, actual or contingent and including any guarantee) for the payment or repayment of money which has been borrowed or raised (including money raised by acceptances and all leases which, under generally accepted accounting principles in the United States, would be a capital lease obligation); and

*material subsidiary* means a subsidiary of PIFCo or Petrobras which on any given date of determination accounts for more than 7.5% of Petrobras' total consolidated assets (as set forth on Petrobras' most recent balance sheet prepared in accordance with U.S. GAAP).

## **Covenants**

PIFCo will be subject to the following covenants with respect to the notes:

### ***Payment of Principal and Interest***

PIFCo will duly and punctually pay the principal of and any premium and interest and other amounts (including any additional amounts in the event withholding and other taxes are imposed in Brazil or the Cayman Islands) on the notes in accordance with the notes and the indenture.

### ***Performance Under the Indenture***

PIFCo will duly and punctually perform, comply with and observe all obligations and agreements to be performed by it under the terms of the indenture and the notes.

### ***Maintenance of Corporate Existence***

PIFCo will, and will cause each of its subsidiaries to, maintain their corporate existence and take all reasonable actions to maintain all rights, privileges and the like necessary or desirable in the normal conduct of business, activities or operations, unless PIFCo's board of directors determines that preserving PIFCo's or a subsidiary's corporate existence is no longer desirable in the conduct of PIFCo's or its subsidiaries' business and is not disadvantageous in any material respect to noteholders.

***Maintenance of Properties***

PIFCo will, and will cause each of its subsidiaries to, maintain and keep in good condition, repair and working order (normal wear and tear excepted) all properties used or useful in the conduct of PIFCo's or its subsidiaries' businesses and will cause, and will cause each of its subsidiaries to cause, to be made all necessary repairs, renewals, replacements and improvements to the property, all as in PIFCo's judgment is necessary to conduct the business carried on in connection with the property, but PIFCo will not be required to maintain or cause any subsidiary to maintain any of those properties if the failure to maintain such properties does not, and will not, have a material adverse effect on PIFCo and its subsidiaries taken as a whole or the rights of the noteholders.

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### ***Compliance with Laws***

PIFCo will comply, and will cause each of its subsidiaries to comply, at all times in all material respects with all applicable laws, rules, regulations, orders, and directives of any governmental authority having jurisdiction over it or its subsidiaries, its business or those of its subsidiaries or any of the transactions contemplated in the indenture, except where the failure to comply would not have a material adverse effect on PIFCo and its subsidiaries taken as a whole or the rights of the noteholders.

### ***Maintenance of Government Approvals***

PIFCo will, and will cause each of its subsidiaries to, duly obtain and maintain in full force and effect all approvals, consents or licenses of any governmental authority which are necessary under the laws of Brazil, the Cayman Islands or any other jurisdiction having jurisdiction over PIFCo or its business or PIFCo's subsidiaries and their businesses, or the transactions contemplated in the indenture in order for PIFCo to conduct its business or for it to perform its obligations under the indenture or the notes or the validity or enforceability of either such document except, in the case of such approval, consent or license relating to the conduct of its business, where the failure to comply would not have a material adverse effect on PIFCo and its subsidiaries taken as a whole or the rights of the noteholders.

### ***Payments of Taxes and Other Claims***

PIFCo will, and will cause each of its subsidiaries to, pay or discharge any present or future taxes or other governmental charges (or interest on any of those) and all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien upon the property of PIFCo or a subsidiary, but PIFCo will not be required to pay or discharge or cause to be paid or discharged any such charge or claim whose amount, applicability or validity is being contested in good faith and, if appropriate, by appropriate legal proceedings or where the failure to do so would not have a material adverse effect on PIFCo and its subsidiaries taken as a whole or the rights of the noteholders.

### ***Maintenance of Insurance***

PIFCo will, and will cause each of its subsidiaries to, maintain insurance with insurance companies that PIFCo reasonably believes to be financially sound in the amounts and covering the risks that are usually carried by companies engaged in similar businesses and owning or operating properties or facilities similar to PIFCo's or those of its subsidiaries, in the same general locations in which PIFCo or its subsidiaries owns or operates properties or facilities, except when the failure to do so would not have a material adverse effect on PIFCo and its subsidiaries taken as a whole or the rights of the noteholders.

### ***Maintenance of Books and Records***

PIFCo will, and will cause each of its subsidiaries to, maintain books, accounts and records in accordance with U.S. GAAP.

***Maintenance of Office or Agency***

So long as notes are outstanding, PIFCo will maintain in the Borough of Manhattan, the City of New York, an office or agency where notices to and demands upon it in respect of the indenture and the notes may be served. Initially, this office will be located at 570 Lexington Avenue, New York, New York 10022-6837. PIFCo will not change the designation of the office without prior notice to the trustee and designating a replacement office in the same general location.

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### ***Ranking***

PIFCo will ensure that the notes will at all times constitute its general senior, unsecured and unsubordinated obligations and will rank *pari passu*, without any preferences among themselves, with all of its other present and future unsecured and unsubordinated obligations (other than obligations preferred by statute or by operation of law).

### ***Use of Proceeds***

PIFCo will use the proceeds from the offer and sale of the notes after the deduction of any commissions principally for general corporate purposes, including the financing of the purchase of oil product imports and the repayment of existing trade-related debt.

### ***Statement by Officers as to Default and Notices of Events of Default***

PIFCo (and each other obligor on the notes) will deliver to the trustee, within 90 calendar days after the end of its fiscal year, an officer's certificate, stating whether or not to the best knowledge of its signers PIFCo is in default on any of the terms, provisions and conditions of the indenture or the notes (without regard to any period of grace or requirement of notice provided under the indenture) and, if PIFCo (or any obligor) are in default, specifying all the defaults and their nature and status of which the signers may have knowledge. Within 10 calendar days (or promptly with respect to certain events of default relating to PIFCo's insolvency and in any event no later than 10 calendar days) after PIFCo becomes aware or should reasonably become aware of the occurrence of any default or event of default under the indenture or the notes, it will notify the trustee of the occurrence of such default or event of default.

### ***Provision of Financial Statements and Reports***

In the event that PIFCo files any financial statements or reports with the SEC or publishes or otherwise makes such statements or reports publicly available in Brazil, the United States or elsewhere, PIFCo will furnish a copy of the statements or reports to the trustee within 15 calendar days of the date of filing or the date the information is published or otherwise made publicly available.

PIFCo will provide, together with each of the financial statements delivered as described in the preceding paragraph, an officer's certificate stating (i) that a review of PIFCo's activities has been made during the period covered by such financial statements with a view to determining whether PIFCo has kept, observed, performed and fulfilled its covenants and agreements under this indenture; and (ii) that no event of default, or event which with the giving of notice or passage of time or both would become an event of default, has occurred during that period or, if one or more have actually occurred, specifying all those events and what actions have been taken and will be taken with respect to that event of default or other event.

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Delivery of these reports, information and documents to the trustee is for informational purposes only and the trustee's receipt of any of those will not constitute constructive notice of any information contained in them or determinable from information contained in them, including PIFCo's compliance with any of its covenants under the indenture (as to which the trustee is entitled to rely exclusively on officer's certificates).

### ***Further Actions***

PIFCo will, at its own cost and expense, and will cause its subsidiaries to, at their own cost and expense, take any action, satisfy any condition or take any action to be taken, fulfilled or done in order to (i) enable it to lawfully enter into, exercise its rights and perform and comply with its obligations under the notes and the indenture, (ii) to ensure that its obligations under the notes and the indenture

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are legally binding and enforceable, (iii) to make the notes and the indenture admissible in evidence in the courts of the State of New York, Brazil or the Cayman Islands, (iv) enable the trustee to exercise and enforce its rights under and carry out the terms of the notes and the indenture, (v) to take any and all action necessary to preserve the enforceability of, and maintain the trustee's rights under the notes and the indenture, and (vi) assist the trustee in its performance of obligations under the notes and the indenture but PIFCo will not be required to meet this requirement if it promptly (and in no event later than two business days after any request by the trustee) provides to the trustee a written opinion of counsel reasonably acceptable to the trustee specifying that the failure to take an action or satisfy a condition described above would not have an adverse effect on the rights of noteholders.

### ***Appointment to Fill a Vacancy in Office of Trustee***

PIFCo, whenever necessary to avoid or fill a vacancy in the office of trustee, will appoint a successor trustee in the manner provided in the indenture so that there will at all times be a trustee with respect to the notes.

### ***Payments and Paying Agents***

PIFCo will, prior to 3:00 p.m., New York City time, on the business day preceding any payment date of the principal of or interest on the notes or other amounts (including additional amounts), deposit with the trustee a sum sufficient to pay such principal, interest or other amounts (including additional amounts) so becoming due.

### ***Additional Amounts***

Except as provided below, PIFCo will make all payments of amounts due under the notes and the indenture through the paying agent for the note in the United States and each other document entered into in connection with the notes and the indenture without withholding or deducting any present or future taxes, levies, deductions or other governmental charges of any nature imposed by Brazil, the Cayman Islands, or any political subdivision of such jurisdictions (the "taxing jurisdictions"). If PIFCo is required by law to withhold or deduct any taxes, levies, deductions or other governmental charges, PIFCo will pay the noteholders any additional amounts necessary to ensure that they receive the same amount as they would have received without such withholding or deduction.

PIFCo will not, however, pay any additional amounts in connection with any tax, levy, deduction or other governmental charge that is imposed due to any of the following ( "excluded additional amounts" ):

the noteholder or trustee has a connection with the taxing jurisdiction other than merely holding the notes or receiving principal or interest payments on the notes (such as citizenship, nationality, residence, domicile, or existence of a business, a permanent establishment, a dependent agent, a place of business or a place of management present or deemed present within the taxing jurisdiction);

any tax imposed on, or measured by, net income;

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the noteholder or trustee fails to comply with any certification, identification or other reporting requirements concerning its nationality, residence, identity or connection with the taxing jurisdiction, if (x) such compliance is required by applicable law, regulation, administrative practice or treaty as a precondition to exemption from all or a part of the tax, levy, deduction or other governmental charge, (y) the noteholder or trustee is able to comply with such requirements without undue hardship and (z) at least 30 calendar days prior to the first payment date with respect to which such requirements under the applicable law, regulation, administrative practice or treaty will apply, PIFCo has notified all noteholders or the trustee that they will be required to comply with such requirements;

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the noteholder or trustee fails to present (where presentation is required) its note within 30 calendar days after PIFCo has made available to the noteholder or trustee a payment under the standby purchase agreement, provided that PIFCo will pay additional amounts which a noteholder or trustee would have been entitled to had the note owned by such noteholder or trustee been presented on any day (including the last day) within such 30 calendar day period;

any estate, inheritance, gift, value added, use or sales taxes or any similar taxes, assessments or other governmental charges; or

where any additional amounts are imposed on a payment on the notes to an individual and are required to be made pursuant to any European Union Directive on the taxation of savings income relating to the proposal for a directive published by the European Commission on July 18, 2001 or otherwise implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 or any law implementing or complying with, or introduced in order to conform to, such directive;

where the noteholder could avoid any additional amounts by requesting that a payment on the notes be made by, or presenting the relevant notes for payment to, another paying agent located in a member state of the European Union; or

where the noteholder or trustee would have been able to avoid the tax, levy, deduction or other governmental charge by taking reasonable measures available to such noteholder or trustee.

PIFCo will pay any stamp, administrative, excise or property taxes arising in a taxing jurisdiction in connection with the notes and will indemnify the noteholders for any such stamp, administrative, excise or property taxes paid by noteholders.

***Negative Pledge***

So long as any note remains outstanding, PIFCo will not create or permit any lien, other than a PIFCo permitted lien, on any of its assets to secure (i) any of its indebtedness or (ii) the indebtedness of any other person, unless PIFCo contemporaneously creates or permits such lien to secure equally and ratably its obligations under the notes and the indenture or PIFCo provides such other security for the notes as is duly approved by a resolution of the noteholders in accordance with the indenture. In addition, PIFCo will not allow any of its subsidiaries to create or permit any lien, other than a PIFCo permitted lien, on any of its assets to secure (i) any of its indebtedness, (ii) any of the subsidiary's indebtedness or (iii) the indebtedness of any other person, unless it contemporaneously creates or permits the lien to secure equally and ratably its obligations under the notes and the indenture or PIFCo provides such other security for the notes as is duly approved by a resolution of the noteholders in accordance with the indenture.

This covenant is subject to a number of important exceptions, including an exception that permits PIFCo to grant liens in respect to indebtedness the principal amount of which, in the aggregate, together with all other liens not otherwise described in a specific exception, does not exceed 7.5% of PIFCo's consolidated total assets (as determined in accordance with U.S. GAAP) at any time as at which PIFCo's balance sheet is prepared and published in accordance with applicable law.

***Transactions with Affiliates***

PIFCo will not, and will not permit any of its subsidiaries to, enter into or carry out (or agree to enter into or carry out) any transaction or arrangement with any affiliate (which means any entity which controls, is controlled by or under common control with PIFCo), except for any transaction or arrangement entered into or carried out on terms no less favorable to PIFCo or the subsidiary than those which could have been obtained on an arm's-length basis with a person that is not an affiliate.

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However, this requirement will not apply to transactions (i) between Petrobras and PIFCo or any of PIFCo's subsidiaries or (ii) except as otherwise permitted under clause (i), between or among PIFCo, Petrobras and any of their respective subsidiaries not involving any other person so long as consummation of any transaction described in this clause (ii) will not have a material adverse effect on PIFCo and its subsidiaries taken as a whole or have a material adverse effect on the rights of the noteholders.

### ***Limitation on Consolidation, Merger, Sale or Conveyance***

PIFCo will not, in one or a series of transactions, consolidate or amalgamate with or merge into any corporation or convey, lease or transfer substantially all of its properties, assets or revenues to any person or entity (other than a direct or indirect subsidiary of Petrobras) or permit any person (other than a direct or indirect subsidiary of PIFCo) to merge with or into it unless:

either PIFCo is the continuing entity or the person (the successor company) formed by the consolidation or into which PIFCo is merged or that acquired or leased the property or assets of PIFCo will be a corporation organized and validly existing under the laws of the Cayman Islands and will assume (jointly and severally with PIFCo unless PIFCo will have ceased to exist as a result of that merger, consolidation or amalgamation), by a supplemental indenture (the form and substance of which will be previously approved by the trustee), all of PIFCo's obligations under the indenture and the notes;

the successor company (jointly and severally with PIFCo unless PIFCo will have ceased to exist as part of the merger, consolidation or amalgamation) agrees to indemnify each noteholder against any tax, assessment or governmental charge thereafter imposed on the noteholder solely as a consequence of the consolidation, merger, conveyance, transfer or lease with respect to the payment of principal of, or interest, the notes;

immediately after giving effect to the transaction, no event of default, and no default has occurred and is continuing;

PIFCo has delivered to the trustee an officers' certificate and an opinion of counsel, each stating that the transaction and the supplemental indenture comply with the terms of the indenture and that all conditions precedent provided for in the indenture and relating to the transaction have been complied with; and

PIFCo must deliver a notice describing that transaction to Moody's to the extent that Moody's is at that time rating the notes.

Notwithstanding anything to the contrary in the foregoing, so long as no default or event of default under the indenture or the notes will have occurred and be continuing at the time of the proposed transaction or would result from the transaction:

PIFCo may merge, amalgamate or consolidate with or into, or convey, transfer, lease or otherwise dispose of all or substantially all of its properties, assets or revenues to a direct or indirect subsidiary of PIFCo or Petrobras in cases when PIFCo is the surviving entity in the transaction and the transaction would not have a material adverse effect on PIFCo and its subsidiaries taken as a whole, it being understood that if PIFCo is not the surviving entity, PIFCo will be required to comply with the requirements set forth in the previous paragraph; or

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any direct or indirect subsidiary of PIFCo may merge or consolidate with or into, or convey, transfer, lease or otherwise dispose of assets to, any person (other than PIFCo or any of its subsidiaries or affiliates) in cases when the transaction would not have a material adverse effect on PIFCo and its subsidiaries taken as a whole; or

any direct or indirect subsidiary of PIFCo may merge or consolidate with or into, or convey, transfer, lease or otherwise dispose of assets to, any other direct or indirect subsidiary of PIFCo or Petrobras; or

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any direct or indirect subsidiary of PIFCo may liquidate or dissolve if PIFCo determines in good faith that the liquidation or dissolution is in the best interests of Petrobras, and would not result in a material adverse effect on PIFCo and its subsidiaries taken as a whole and if the liquidation or dissolution is part of a corporate reorganization of PIFCo or Petrobras.

PIFCo may omit to comply with any term, provision or condition set forth in certain covenants or any term, provision or condition of the indenture, if before the time for the compliance the holders of at least a majority in principal amount of the outstanding notes waive the compliance, but no waiver can operate except to the extent expressly waived, and, until a waiver becomes effective, PIFCo's obligations and the duties of the trustee in respect of any such term, provision or condition will remain in full force and effect.

As used above, the following terms have the meanings set forth below:

*indebtedness* means any obligation (whether present or future, actual or contingent and including any guarantee) for the payment or repayment of money which has been borrowed or raised (including money raised by acceptances and all leases which, under generally accepted accounting principles in the United States, would be a capital lease obligation).

A *guarantee* means an obligation of a person to pay the indebtedness of another person including, without limitation:

an obligation to pay or purchase such indebtedness;

an obligation to lend money or to purchase or subscribe for shares or other securities or to purchase assets or services in order to provide funds for the payment of such indebtedness;

an indemnity against the consequences of a default in the payment of such indebtedness; or

any other agreement to be responsible for such indebtedness.

A *lien* means any mortgage, pledge, lien, hypothecation, security interest or other charge or encumbrance on any property or asset including, without limitation, any equivalent created or arising under applicable law.

A *PIFCo permitted lien* means a:

(a) lien arising by operation of law, such as merchants', maritime or other similar liens arising in PIFCo's ordinary course of business or that of any subsidiary or lien in respect of taxes, assessments or other governmental charges that are not yet delinquent or that are being contested in good faith by appropriate proceedings;

(b) lien arising from PIFCo's obligations under performance bonds or surety bonds and appeal bonds or similar obligations incurred in the ordinary course of business and consistent with PIFCo's past practice;

(c) lien arising in the ordinary course of business in connection with indebtedness maturing not more than one year after the date on which that indebtedness was originally incurred and which is related to the financing of export, import or other trade transactions;

(d) lien granted upon or with respect to any assets hereafter acquired by PIFCo or any subsidiary to secure the acquisition costs of those assets or to secure indebtedness incurred solely for the purpose of financing the acquisition of those assets, including any lien existing at the time of the acquisition of those assets, so long as the maximum amount so secured does not exceed the aggregate acquisition costs of all such assets or the aggregate indebtedness incurred solely for the acquisition of those assets;

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(e) lien granted in connection with indebtedness of a wholly-owned subsidiary owing to PIFCo or another wholly-owned subsidiary;

(f) lien existing on any asset or on any stock of any subsidiary prior to the acquisition thereof by PIFCo or any subsidiary the lien is not created in anticipation of that acquisition;

(g) lien existing as of the date of the indenture;

(h) lien resulting from the indenture or the standby purchase agreement, if any;

(i) lien incurred in connection with the issuance of debt or similar securities of a type comparable to those already issued by PIFCo, on amounts of cash or cash equivalents on deposit in any reserve or similar account to pay interest on those securities for a period of up to 24 months as required by any rating agency as a condition to the rating agency rating those securities as investment grade;

(j) lien granted or incurred to secure any extension, renewal, refinancing, refunding or exchange (or successive extensions, renewals, refinancings, refundings or exchanges), in whole or in part, of or for any indebtedness secured by lien referred to in paragraphs (a) through (i) above (but not paragraph (c)), so long as the lien does not extend to any other property, the principal amount of the indebtedness secured by the lien is not increased, and in the case of paragraphs (a), (b) and (e), the obligees meet the requirements of the applicable paragraph; and

(k) lien in respect of indebtedness the principal amount of which in the aggregate, together with all other liens not otherwise qualifying as PIFCo permitted liens pursuant to another part of this definition of PIFCo permitted liens, does not exceed 7.5% of PIFCo's consolidated total assets (as determined in accordance with U.S. GAAP) at any date as at which PIFCo's balance sheet is prepared and published in accordance with applicable law.

A *wholly-owned subsidiary* means, with respect to any corporate entity, any person of which 100% of the outstanding capital stock (other than qualifying shares, if any) having by its terms ordinary voting power (not dependent on the happening of a contingency) to elect the board of directors (or equivalent controlling governing body) of that person, is at the time owned or controlled directly or indirectly by that corporate entity, by one or more wholly-owned subsidiaries of that corporate entity or by that corporate entity and one or more wholly-owned subsidiaries.

**Further Issuances**

The indenture by its terms does not limit the aggregate principal amount of notes that may be issued under it and permits the issuance, from time to time, of additional notes (also referred as add-on notes) of the same series as is being offered under this

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prospectus supplement. The ability to issue add-on notes is subject to several requirements, however, including that (i) no event of default under the indenture or event that with the passage of time or other action may become an event of default (such event being a default ) will have occurred and then be continuing or will occur as a result of that additional issuance and (ii) the add-on notes will rank *pari passu* and have equivalent terms and benefits as the notes offered under this prospectus supplement. Any add-on notes will be part of the same series as the notes that PIFCo is currently offering and the noteholders will vote on all matters in relation to the notes as a single series.

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**Covenant Defeasance**

Any restrictive covenants of the indenture may be defeased as described in the accompanying prospectus.

**Conversion**

The notes will not be convertible into, or exchangeable for, any other securities.

**Listing**

PIFCo may apply for a listing of the notes on the Luxembourg Stock Exchange at some time after the closing date, but there is no certainty that an application will be made or that the listing will be approved by the Luxembourg Stock Exchange.

**Rating**

Notwithstanding the section titled "Additional Terms of the PIFCo Securities" in the accompanying prospectus, the notes will not have an investment-grade rating from a nationally recognized statistical rating organization upon initial issuance.

**Currency Rate Indemnity**

PIFCo has agreed that, if a judgment or order made by any court for the payment of any amount in respect of any notes is expressed in a currency (the "judgment currency") other than U.S. Dollars (the "denomination currency"), PIFCo will indemnify the relevant noteholder against any deficiency arising from any variation in rates of exchange between the date as of which the denomination currency is notionally converted into the judgment currency for the purposes of the judgment or order and the date of actual payment. This indemnity will constitute a separate and independent obligation from PIFCo's other obligations under the indenture, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted from time to time and will continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due in respect of the relevant note or under any judgment or order described above.

**The Trustee and the Paying Agent**

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JPMorgan Chase Bank is the trustee under the indenture and has been appointed by PIFCo as registrar and paying agent with respect to the notes. JPMorgan Chase Bank is a lender to PIFCo and certain of PIFCo's affiliates. PIFCo may have normal banking relationships with JPMorgan Chase Bank in the ordinary course of business. The address of the trustee is 4 New York Plaza, 15th Floor, New York, New York, 10004. PIFCo will at all times maintain a paying agent in New York City until the notes are paid.

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**CLEARANCE AND SETTLEMENT**

**Book-Entry Issuance**

Except under the limited circumstances described below, all notes will be book-entry notes. This means that the actual purchasers of the notes will not be entitled to have the notes registered in their names and will not be entitled to receive physical delivery of the notes in definitive (paper) form. Instead, upon issuance, all the notes will be represented by one or more fully registered global notes.

Each global note will be deposited with The Depository Trust Company ( DTC ), a securities depository, and will be registered in the name of DTC 's nominee. For background information regarding DTC, see Depository Trust Company, below. No global note representing book-entry notes may be transferred except as a whole by DTC to a nominee of DTC, or by a nominee of DTC to another nominee of DTC. Thus, DTC will be the only registered holder of the notes and will be considered the sole representative of the beneficial owners of the notes for purposes of the indenture. For an explanation of the situations in which a global note will terminate and interests in it will be exchanged for physical certificates representing the notes, see Legal Ownership Global Securities in the accompanying prospectus.

The registration of the global notes in the name of DTC 's nominee will not affect beneficial ownership and is performed merely to facilitate subsequent transfers. The book-entry system, which is also the system through which most publicly traded common stock is held in the United States, is used because it eliminates the need for physical movement of securities certificates. The laws of some jurisdictions, however, may require some purchasers to take physical delivery of their notes in definitive form. These laws may impair the ability of holders to transfer the notes.

In this prospectus supplement, unless and until definitive (paper) notes are issued to the beneficial owners as described below, all references to holders of notes or noteholders shall mean DTC. PIFCo, Petrobras, the trustee and any paying agent, transfer agent or registrar may treat DTC as the absolute owner of the notes for all purposes.

**Primary Distribution**

***Payment Procedures***

Payment for the notes will be made on a delivery versus payment basis.

***Clearance and Settlement Procedures***

DTC participants that hold securities through DTC on behalf of investors will follow the settlement practices applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement System. Securities will be credited to the securities custody accounts of these DTC participants against payment in the same-day funds, for payments in U.S. Dollars, on the settlement date.

### **Secondary Market Trading**

We understand that secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC's rules. Secondary market trading will be settled using procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement System. If payment is made in U.S. Dollars, settlement will be free of payment. If payment is made in other than U.S. Dollars, separate payment arrangements outside of the DTC system must be made between the DTC participants involved.

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**The Depository Trust Company**

The policies of DTC will govern payments, transfers, exchange and other matters relating to the beneficial owner's interest in notes held by that owner. We have no responsibility for any aspect of the actions of DTC or any of their direct or indirect participants. We have no responsibility for any aspect of the records kept by DTC or any of their direct or indirect participants. We also do not supervise DTC in any way. DTC and their participants perform these clearance and settlement functions under agreements they have made with one another or with their customers. Investors should be aware that DTC and its participants are not obligated to perform these procedures and may modify them or discontinue them at any time.

The description of the clearing systems in this section reflects our understanding of the rules and procedures of DTC as they are currently in effect. DTC could change its rules and procedures at any time.

DTC has advised us as follows:

DTC is:

- a limited purpose trust company organized under the laws of the State of New York;
- a member of the Federal Reserve System;
- a clearing corporation within the meaning of the Uniform Commercial Code; and
- a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes to accounts of its participants. This eliminates the need for physical movement of certificates.

Participants in DTC include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. DTC is partially owned by some of these participants or their representatives.

Indirect access to the DTC system is also available to banks, brokers, dealer and trust companies that have relationships with participants.

The rules applicable to DTC and DTC participants are on file with the SEC.

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**DESCRIPTION OF THE STANDBY PURCHASE AGREEMENT**

*The following summary describes the material provisions of the standby purchase agreement. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the standby purchase agreement. For information on how you may obtain copies of the standby purchase agreement, see *Where You Can Find More Information*.*

**General**

In connection with the execution and delivery of the indenture and the notes offered by this prospectus supplement, Petrobras will enter into a standby purchase agreement with the trustee for the benefit of the noteholders. The standby purchase agreement will provide that, in the event of a non-payment of principal, interest and other amounts on the notes, Petrobras will be required to purchase the noteholders' rights to receive those payments on the terms and conditions described below. The first supplemental indenture to the indenture provides that the standby purchase agreement will be considered part of the indenture. As a result, the holders of the notes will have the benefit of the standby purchase agreement. The standby purchase agreement is designed to function in a manner similar to a guarantee and obligates Petrobras to make the payments discussed in this prospectus supplement. The standby purchase agreement entails certain risks described in *Risk Factors* *Risks Relating to the Notes and the Standby Purchase Agreement*.

**Ranking**

The obligations of Petrobras under the standby purchase agreement constitute general unsecured obligations of Petrobras which at all times will rank *pari passu* with all other senior unsecured obligations of Petrobras that are not, by their terms, expressly subordinated in right of payment to the obligations of Petrobras under the standby purchase agreement.

**Purchase Obligations**

***Partial Purchase Payment***

In the event that, prior to the maturity date of the notes, PIFCo fails to make any payment on the notes on the date that payment is due under the terms of the notes and the indenture (which we refer to as the *partial non-payment due date*), other than in the case of an acceleration of that payment in accordance with the indenture:

Petrobras will be obligated to pay immediately to the trustee, for the benefit of the noteholders under the indenture, the amount that PIFCo was required to pay but failed to pay on that date (which we refer to as the *partial non-payment amount*); and



the trustee will provide notice to Petrobras of the failure of PIFCo to make that payment.

To the extent that Petrobras fails to pay the partial non-payment amount immediately when required, Petrobras will be obligated to pay, in addition to that amount, interest on that amount at the default rate from the partial non-payment due date to and including the actual date of payment by Petrobras. We refer to this interest as the partial non-payment overdue interest and, together with the partial non-payment amount, as the partial non-payment amount with interest.

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Payment of the partial non-payment amount with interest will be in exchange for the purchase by Petrobras of the rights of the noteholders to receive that amount from PIFCo. The noteholders will have no right to retain those rights, and, following the purchase and sale described above, the notes will remain outstanding with all amounts due in respect of the notes adjusted to reflect the purchase, sale and payment described above. Upon any such payment, Petrobras will be subrogated to the noteholders to the extent of any such payment.

The obligation of Petrobras to pay the partial non-payment amount with interest will be absolute and unconditional upon failure of PIFCo to make, prior to the maturity date of the notes, any payment on the notes on the date any such payment is due. All amounts payable by Petrobras under the standby purchase agreement in respect of any partial non-payment amount with interest will be payable in U.S. Dollars and in immediately available funds to the trustee. Petrobras will not be relieved of its obligations under the standby purchase agreement unless and until the trustee indefeasibly receives all amounts required to be paid by Petrobras under the standby purchase agreement (and any related event of default under the indenture has been cured), including payment of the partial non-payment overdue interest as described in this prospectus supplement.

***Total Purchase Payment***

In the event that, at the maturity date of the notes (including upon any acceleration of the maturity date in accordance with the terms of the indenture), PIFCo fails to make any payment on the notes on the date that payment is due (which we refer to as the total non-payment due date ),

Petrobras will be obligated to pay immediately to the trustee, for the benefit of the noteholders under the indenture, the amount that PIFCo was required to pay but failed to pay on that date (which we refer to as the total non-payment amount ); and

The trustee will provide notice to Petrobras of the failure of PIFCo to make that payment.

To the extent that Petrobras fails to pay the total non-payment amount immediately when required, Petrobras will be obligated to pay, in addition to that amount, interest on that amount at the default rate from the total non-payment due date to and including the actual date of payment by Petrobras. We refer to this interest as the total non-payment overdue interest and, together with the total non-payment amount, as the total non-payment amount with interest.

Payment of the total non-payment amount with interest by Petrobras will be in exchange for the purchase by Petrobras of the rights of the noteholders to receive that amount from PIFCo. The noteholders will have no right to retain those rights, and, following the purchase and sale described above, Petrobras will be subrogated to the noteholders to the extent of any such payment.

The obligation of Petrobras to pay the total non-payment amount with interest will be absolute and unconditional upon failure of PIFCo to make, at the maturity date of the notes, or earlier upon any acceleration thereof in accordance with the terms of the indenture, any payment in respect of principal, interest or other amounts due under the indenture and the notes on the date any such payment is due. All amounts payable by Petrobras under the standby purchase agreement in respect of any total non-payment amount with interest will be payable in U.S. Dollars and in immediately available funds to the trustee. Petrobras will

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not be relieved of its obligations under the standby purchase agreement unless and until the trustee receives all amounts required to be paid by Petrobras under the standby purchase agreement (and any related event of default under the indenture has been cured), including payment of the total non-payment overdue interest.

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**Covenants**

For so long as any of the notes are outstanding and Petrobras has obligations under the standby purchase agreement, Petrobras will, and will cause each of its subsidiaries to, comply with the terms of the covenants set forth below:

***Performance Obligations Under the Standby Purchase Agreement and Indenture***

Petrobras will pay all amounts owed by it and comply with all its other obligations under the terms of the standby purchase agreement and the indenture in accordance with the terms of those agreements.

***Maintenance of Corporate Existence***

Petrobras will, and will cause each of its subsidiaries to, maintain in effect its corporate existence and all necessary registrations and take all actions to maintain all rights, privileges, titles to property, franchises, concessions and the like necessary or desirable in the normal conduct of its business, activities or operations. However, this covenant will not require Petrobras or any of its subsidiaries to maintain any such right, privilege, title to property or franchise or require Petrobras to preserve the corporate existence of any subsidiary, if the failure to do so does not, and will not, have a material adverse effect on Petrobras and its subsidiaries taken as a whole or have a materially adverse effect on the rights of the holders of the notes.

***Maintenance of Properties***

Petrobras will, and will cause each of its subsidiaries to, keep all its property used or useful in the conduct of its business in good working order and condition. However, this covenant will not require Petrobras to maintain any such property if the failure to do so does not, and will not, have a material adverse effect on Petrobras and its subsidiaries taken as a whole or have a materially adverse effect on the rights of the holders of the notes.

***Compliance with Laws and Agreements***

Petrobras will comply, and will cause its subsidiaries to comply, at all times in all material respects with all applicable laws (including, without limitation, environmental laws), rules, regulations, orders and directives of any government or governmental authority, agency or instrumentality having jurisdiction over Petrobras and each of Petrobras subsidiaries, Petrobras business or any of the transactions contemplated in the standby purchase agreement; and Petrobras will comply, and will cause its subsidiaries to comply, with all covenants and other obligations contained in any agreements to which they are a party, except in either case where the failure so to comply would not have a material adverse effect on Petrobras and its subsidiaries taken as a whole or have a material adverse effect on the rights of the holders of the notes.

***Maintenance of Governmental Approvals***

Petrobras will, and will cause its subsidiaries to, duly obtain and maintain in full force and effect all governmental and third-party approvals, consents or licenses which are necessary under the laws of Brazil, the Cayman Islands or any other relevant jurisdiction, for it to perform its obligations under the standby purchase agreement transactions contemplated therewith or for the validity or enforceability of the standby purchase agreement.

***Payments of Taxes and Other Claims***

Petrobras will, and will cause each of its subsidiaries to, pay or discharge or cause to be paid or discharged, before the same becomes delinquent, (i) all taxes, assessments and governmental

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charges levied or imposed upon Petrobras or that subsidiary, as the case may be, and (ii) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien upon the property of Petrobras or such subsidiary, as the case may be. However, neither Petrobras nor any subsidiary will be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith and, if appropriate, by appropriate legal proceedings or where the failure to do so would not have a material adverse effect on Petrobras and its subsidiaries taken as a whole or have a material adverse effect on the rights of holders of the notes.

### ***Maintenance of Ownership of PIFCo***

For so long as any notes are outstanding, Petrobras will retain no less than 51% direct or indirect ownership of the outstanding voting and economic interests (equity or otherwise) of and in PIFCo. Failure to maintain such ownership will constitute an event of default under the indenture.

### ***Maintenance of Insurance***

Petrobras will, and will cause each of its subsidiaries to, maintain insurance with insurance companies that Petrobras reasonably believes to be financially sound in such amounts and covering such risks as are usually carried by companies engaged in similar businesses and owning or operating properties or facilities similar to those owned or operated by Petrobras or its subsidiaries, as the case may be, in the same general areas in which Petrobras and its subsidiaries own or operate their properties or facilities, except where the failure to do so would not have a material adverse effect on Petrobras and its subsidiaries taken as a whole or have a material adverse effect on the rights of holders of the notes.

### ***Maintenance of Books and Records***

Petrobras will, and will cause each of its material subsidiaries to, maintain books, accounts and records in accordance with U.S. GAAP (in the case of Petrobras and PIFCo) and in the case of its subsidiaries, generally accepted accounting principles in the jurisdictions where each such person is organized.

### ***Maintenance of Office or Agency***

So long as any of the notes are outstanding, Petrobras will maintain in the Borough of Manhattan, The City of New York, an office or agency where notices to and demands upon Petrobras in respect of the standby purchase agreement may be served. Initially this office will be located at Petrobras' existing principal U.S. office at 570 Lexington Avenue, 43rd Floor, New York, New York 10022-6837. Petrobras will agree not to change the designation of their office without prior notice to the trustee and designation of a replacement office in the same general location.

### ***Ranking***

Petrobras will ensure at all times that its obligations under the standby purchase agreement will be its general senior unsecured and unsubordinated obligations and will rank *pari passu*, without any preferences among themselves, with all other present and future senior unsecured and unsubordinated obligations of Petrobras (other than obligations preferred by statute or by operation of law) that are not, by their terms, expressly subordinated in right of payment to the obligations of Petrobras under the standby purchase agreement.

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***Notice of Certain Events***

Petrobras will give notice to the trustee, as soon as is practicable and in any event within ten calendar days after Petrobras becomes aware, or should reasonably become aware, of the occurrence of any event of default or a default under the indenture, accompanied by a certificate of Petrobras setting forth the details of that event of default or default and stating what action Petrobras proposes to take with respect to it.

***Limitation on Consolidation, Merger, Sale or Conveyance***

Petrobras will not, in one or a series of transactions, consolidate or amalgamate with or merge into any corporation or convey, lease or transfer substantially all of its properties, assets or revenues to any person or entity (other than a direct or indirect subsidiary of Petrobras) or permit any person (other than a direct or indirect subsidiary of Petrobras) to merge with or into it unless:

either Petrobras is the continuing entity or the person (the successor company ) formed by such consolidation or into which Petrobras is merged or that acquired or leased such property or assets of Petrobras will be a corporation organized and validly existing under the laws of Brazil and will assume (jointly and severally with Petrobras unless Petrobras will have ceased to exist as a result of such merger, consolidation or amalgamation), by an amendment to the standby purchase agreement (the form and substance of which will be previously approved by the trustee), all of Petrobras' obligations under the standby purchase agreement;

the successor company (jointly and severally with Petrobras unless Petrobras will have ceased to exist as part of such merger, consolidation or amalgamation) agrees to indemnify each noteholder against any tax, assessment or governmental charge thereafter imposed on such noteholder solely as a consequence of such consolidation, merger, conveyance, transfer or lease with respect to the payment of principal of, or interest on, the notes;

immediately after giving effect to the transaction, no event of default, and no default has occurred and is continuing;

Petrobras has delivered to the trustee an officers' certificate and an opinion of counsel, each stating that the transaction and the amendment to the standby purchase agreement comply with the terms of the standby purchase agreement and that all conditions precedent provided for in the standby purchase agreement and relating to such transaction have been complied with; and

Petrobras has delivered notice of any such transaction to Moody's describing that transaction to Moody's to the extent that Moody's is at that time rating the notes.

Notwithstanding anything to the contrary in the foregoing, so long as no default or event of default under the indenture or the notes has occurred and is continuing at the time of such proposed transaction or would result from it:



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Petrobras may merge, amalgamate or consolidate with or into, or convey, transfer, lease or otherwise dispose of all or substantially all of its properties, assets or revenues to a direct or indirect subsidiary of Petrobras in cases when Petrobras is the surviving entity in such transaction and such transaction would not have a material adverse effect on Petrobras and its subsidiaries taken as whole, it being understood that if Petrobras is not the surviving entity, Petrobras will be required to comply with the requirements set forth in the previous paragraph; or

any direct or indirect subsidiary of Petrobras may merge or consolidate with or into, or convey, transfer, lease or otherwise dispose of assets to, any person (other than Petrobras or any of its subsidiaries or affiliates) in cases when such transaction would not have a material adverse effect on Petrobras and its subsidiaries taken as a whole; or

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any direct or indirect subsidiary of Petrobras may merge or consolidate with or into, or convey, transfer, lease or otherwise dispose of assets to, any other direct or indirect subsidiary of Petrobras; or

any direct or indirect subsidiary of Petrobras may liquidate or dissolve if Petrobras determines in good faith that such liquidation or dissolution is in the best interests of Petrobras, and would not result in a material adverse effect on Petrobras and its subsidiaries taken as a whole and if such liquidation or dissolution is part of a corporate reorganization of Petrobras.

***Negative Pledge***

So long as any note remains outstanding, Petrobras will not create or permit any lien, other than a Petrobras permitted lien, on any of its assets to secure (i) any of its indebtedness or (ii) the indebtedness of any other person, unless Petrobras contemporaneously creates or permits the lien to secure equally and ratably its obligations under the standby purchase agreement or Petrobras provides other security for its obligations under the standby purchase agreement as is duly approved by a resolution of the noteholders in accordance with the indenture. In addition, Petrobras will not allow any of its subsidiaries to create or permit any lien, other than a Petrobras permitted lien, on any of Petrobras' assets to secure (i) any of Petrobras' indebtedness, (ii) any of its own indebtedness or (iii) the indebtedness of any other person, unless Petrobras contemporaneously creates or permits the lien to secure equally and ratably Petrobras' obligations under the standby purchase agreement or Petrobras provides such other security for its obligations under the standby purchase agreement as is duly approved by a resolution of the noteholders in accordance with the indenture.

As used in the Description of the Notes, the following terms have the respective meanings set forth below:

A *guarantee* means an obligation of a person to pay the indebtedness of another person including without limitation:

an obligation to pay or purchase such indebtedness;

an obligation to lend money, to purchase or subscribe for shares or other securities or to purchase assets or services in order to provide funds for the payment of such indebtedness;

an indemnity against the consequences of a default in the payment of such indebtedness; or

any other agreement to be responsible for such indebtedness.

*Indebtedness* means any obligation (whether present or future, actual or contingent and including, without limitation, any guarantee) for the payment or repayment of money which has been borrowed or raised (including money raised by acceptances and all leases which, under generally accepted accounting principles in the country of incorporation of the relevant obligor, would constitute a capital lease obligation).

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A *lien* means any mortgage, pledge, lien, hypothecation, security interest or other charge or encumbrance on any property or asset including, without limitation, any equivalent created or arising under applicable law.

A *project financing* of any project means the incurrence of indebtedness relating to the exploration, development, expansion, renovation, upgrade or other modification or construction of such project pursuant to which the providers of such indebtedness or any trustee or other intermediary on their behalf or beneficiaries designated by any such provider, trustee or other intermediary are granted security over one or more qualifying assets relating to such project for repayment of principal, premium and interest or any other amount in respect of such indebtedness.

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A *qualifying asset* in relation to any project means:

any concession, authorization or other legal right granted by any governmental authority to Petrobras or any of Petrobras subsidiaries, or any consortium or other venture in which Petrobras or any subsidiary has any ownership or other similar interest;

any drilling or other rig, any drilling or production platform, pipeline, marine vessel, vehicle or other equipment or any refinery, oil or gas field, processing plant, real property (whether leased or owned), right of way or plant or other fixtures or equipment;

any revenues or claims which arise from the operation, failure to meet specifications, failure to complete, exploitation, sale, loss or damage to, such concession, authorization or other legal right or such drilling or other rig, drilling or production platform, pipeline, marine vessel, vehicle or other equipment or refinery, oil or gas field, processing plant, real property, right of way, plant or other fixtures or equipment or any contract or agreement relating to any of the foregoing or the project financing of any of the foregoing (including insurance policies, credit support arrangements and other similar contracts) or any rights under any performance bond, letter of credit or similar instrument issued in connection therewith;

any oil, gas, petrochemical or other hydrocarbon-based products produced or processed by such project, including any receivables or contract rights arising therefrom or relating thereto and any such product (and such receivables or contract rights) produced or processed by other projects, fields or assets to which the lenders providing the project financing required, as a condition therefor, recourse as security in addition to that produced or processed by such project; and

shares or other ownership interest in, and any subordinated debt rights owing to Petrobras by, a special purpose company formed solely for the development of a project, and whose principal assets and business are constituted by such project and whose liabilities solely relate to such project.

A *Petrobras permitted lien* means a:

(a) lien granted in respect of indebtedness owed to the Brazilian government, Banco Nacional de Desenvolvimento Econômico e Social or any official government agency or department of Brazil or of any state or region thereof;

(b) lien arising by operation of law, such as merchants', maritime or other similar liens arising in Petrobras' ordinary course of business or that of any subsidiary or lien in respect of taxes, assessments or other governmental charges that are not yet delinquent or that are being contested in good faith by appropriate proceedings;

(c) lien arising from Petrobras' obligations under performance bonds or surety bonds and appeal bonds or similar obligations incurred in the ordinary course of business and consistent with Petrobras' past practice;

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(d) lien arising in the ordinary course of business in connection with indebtedness maturing not more than one year after the date on which that indebtedness was originally incurred and which is related to the financing of export, import or other trade transactions;

(e) lien granted upon or with respect to any assets hereafter acquired by Petrobras or any subsidiary to secure the acquisition costs of those assets or to secure indebtedness incurred solely for the purpose of financing the acquisition of those assets, including any lien existing at the time of the acquisition of those assets, so long as the maximum amount so secured will not exceed the aggregate acquisition costs of all such assets or the aggregate indebtedness incurred solely for the acquisition of those assets;

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(f) lien granted in connection with the indebtedness of a wholly-owned subsidiary owing to Petrobras or another wholly-owned subsidiary;

(g) lien existing on any asset or on any stock of any subsidiary prior to its acquisition by Petrobras or any subsidiary so long as that lien is not created in anticipation of that acquisition;

(h) lien over any qualifying asset relating to a project financed by, and securing indebtedness incurred in connection with, the project financing of that project by Petrobras, any of Petrobras subsidiaries or any consortium or other venture in which Petrobras or any subsidiary has any ownership or other similar interest;

(i) lien existing as of the date of the indenture;

(j) lien resulting from the transaction documents;

(k) lien, incurred in connection with the issuance of debt or similar securities of a type comparable to those already issued by PIFCo, on amounts of cash or cash equivalents on deposit in any reserve or similar account to pay interest on such securities for a period of up to 24 months as required by any rating agency as a condition to such rating agency rating such securities investment grade, or as is otherwise consistent with market conditions at such time, as such conditions are satisfactorily demonstrated to the trustee;

(l) lien granted or incurred to secure any extension, renewal, refinancing, refunding or exchange (or