

BRAZILIAN PETROLEUM CORP
Form 424B2
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PROSPECTUS SUPPLEMENT

(To Prospectus dated July 28, 2005)

U.S.\$500,000,000

Petrobras International Finance Company

Payments supported by a standby purchase agreement provided by

Petróleo Brasileiro S.A. PETROBRAS

(BRAZILIAN PETROLEUM CORPORATION PETROBRAS)

6.125% Global Notes due 2016

The notes are general, unsecured, unsubordinated obligations of Petrobras International Finance Company, or PIFCo, will mature on October 6, 2016, and will bear interest at the rate of 6.125% per annum. Interest on the notes is payable on April and October of each year, beginning on April 6, 2007. PIFCo will pay additional amounts related to the deduction of certain withholding taxes in respect of certain payments on the notes. 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. PIFCo may redeem, in whole or in part, the notes at any time by paying the greater of the principal amount of the notes and the applicable make-whole amount, plus, in each case, accrued interest. The notes will also be redeemable without premium prior to maturity at PIFCo's option solely upon the imposition of certain withholding taxes. See Description of the Notes—Optional Redemption.

PIFCo may apply for a listing of the notes on the New York Stock Exchange at some time after October 6, 2006, but there is no certainty that an application will be made or that the listing will be approved by the New York Stock Exchange.

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See Risk Factors on page S-15 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.

	Per Note	Total
Initial price to the public(1)	99.557%	U.S.\$497,785,000
Underwriting discount	0.300%	U.S.\$1,500,000
Proceeds, before expenses, to PIFCo	99.257%	U.S.\$496,285,000

(1) 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 October 6, 2006.

The underwriters expect 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 October 6, 2006.

MORGAN STANLEY UBS INVESTMENT BANK

September 29, 2006

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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 prospectus, gives more general information about securities 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 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.

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

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;
- our ability to find, acquire or gain access to additional reserves and to successfully develop our current ones;
- uncertainties inherent in making estimates of our reserves;
- 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;
- international and Brazilian 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. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or future events or for any other reason.

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.

We have incorporated by reference in this prospectus supplement the following financial statements of PIFCo, which we refer to as the PIFCo financial statements : (a) the audited consolidated financial statements of PIFCo as of December 31, 2005 and 2004 and for each of the three years ended December 31, 2005, which are included in PIFCo's Annual Report on Form 20-F filed with the Securities and Exchange Commission, or SEC, on June 28, 2006 and (b) the unaudited consolidated financial statements of PIFCo as of and for the six-month period ended June 30, 2006, which are included in PIFCo's Report on Form 6-K furnished to the SEC on September 7, 2006. The PIFCo financial statements 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 have also incorporated for reference in the prospectus supplement the following financial statements of Petrobras, which we refer to as the Petrobras financial statements : (a) the audited consolidated financial statements of Petrobras as of December 31, 2005 and 2004 and for each of the three years ended December 31, 2005, which are included in Petrobras' Annual Report on Form 20-F filed with the SEC on June 28, 2006 and (b) the unaudited consolidated financial statements of Petrobras as of and for the six-month period ended June 30, 2006, which are included in Petrobras' Report on Form 6-K furnished to the SEC on September 6, 2006. The Petrobras financial statements have been presented in U.S. Dollars and prepared in accordance with U.S. GAAP. Petrobras also publishes financial statements in Brazil in Reais in accordance with the accounting principles required by Brazilian corporate law and the regulations promulgated by the Comissão de Valores Mobiliários (Brazilian Securities Commission, or the CVM) (which we refer to as Brazilian GAAP). Brazilian GAAP differs in significant respects from U.S. GAAP.

Ernst & Young Auditores Independentes S/S audited Petrobras' and PIFCo's audited consolidated financial statements as of December 31, 2005 and 2004 and for each of the three years ended December 31, 2005. As of April 7, 2006, KPMG Auditores Independentes became Petrobras' and PIFCo's independent auditors. KPMG Auditores Independentes reviewed Petrobras' and PIFCo's unaudited consolidated financial statements as of and for the six-month period ended June 30, 2006. See Experts.

As described more fully in Note 2(a) to the audited consolidated financial statements of Petrobras, the U.S. Dollar amounts as of the dates and for the periods presented in the 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 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, have all been based on Petrobras 2005-2015 Strategic Plan and 2006-2010 Business Plan and have been projected on a constant basis and have been translated from *reais* in 2006 at an estimated average exchange rate of R\$3.01 to U.S.\$1.00; 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.

EXCHANGE RATES

The Central Bank of Brazil allows the *real*/U.S. dollar exchange rate to float freely, and has intervened occasionally to control unstable fluctuations in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to let the *real* float freely or will intervene in the exchange rate market through a currency band system or otherwise. The *real* may depreciate or appreciate against the U.S. dollar substantially in the future. For more information on these risks, see the information appearing under the heading "Risk Factors" in this prospectus supplement.

The following table provides information on the selling exchange rate, expressed in *reais* per U.S. dollar (R\$/US\$), for the periods indicated. Prior to March 14, 2005, under Brazilian regulations, foreign exchange transactions were carried out on either the commercial rate exchange market or the floating rate exchange market. Rates in the two markets were generally the same. On March 14, 2005, the Brazilian National Monetary Council unified the two markets.

The tables below set forth the exchange selling rates expressed in *reais* per U.S. dollar for the periods indicated. For periods prior to March 14, 2005, the table below shows the commercial selling rate.

For the Year Ended December 31,

	(R\$/U.S.\$)			
	High	Low	Average(1)	Period End
2005	2.762	2.163	2.435	2.341
2004	3.205	2.654	2.926	2.654
2003	3.662	2.822	3.075	2.889
2002	3.955	2.271	2.924	3.533
2001	2.835	1.935	2.352	2.320
2006				
January	2.346	2.212	2.273	2.216
February	2.222	2.118	2.159	2.136
March	2.224	2.107	2.148	2.172
April	2.172	2.089	2.131	2.089
May	2.371	2.059	2.170	2.301
June	2.302	2.164	2.251	2.164
July	2.213	2.164	2.188	2.176
August	2.191	2.133	2.157	2.139
September (through September 29, 2006)	2.218	2.127	2.168	2.173

Source: Central Bank of Brazil

(1) Figures for each year represent the average of the month-end exchange rates during the year.

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 combined Petrobras and PIFCo Annual Report on Form 20-F for the year ended December 31, 2005, filed with the SEC on June 28, 2006.
- (2) The PIFCo Report on Form 6-K containing financial information for the six-month period ended June 30, 2006, prepared in accordance with US GAAP, furnished to the SEC on September 7, 2006.
- (3) Any future filings of PIFCo on Form 20-F made with the SEC 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 combined Petrobras and PIFCo Annual Report on Form 20-F for the year ended December 31, 2005, filed with the SEC on June 28, 2006.
- (2) The Petrobras Report on Form 6-K relating to Petrobras 2007-2011 Business Plan, furnished to the SEC on July 5, 2006.
- (3) The Petrobras Reports on Form 6-K relating to PIFCo's tender offer, furnished to the SEC on July 19 and 26, 2006.
- (4) The Petrobras Report on Form 6-K relating to the acquisition of the Pasadena Refinery, furnished to the SEC on September 5, 2006.
- (5) The Petrobras Reports on Form 6-K containing financial information for the six-month period ended June 30, 2006, prepared in accordance with US GAAP, furnished to the SEC on September 6, 2006.
- (6) The Petrobras Report on Form 6-K relating to the rejection of the proposed complementary pension plan, furnished to the SEC on September 13, 2006.
- (7) The Petrobras Report on Form 6-K relating to measures taken by the Bolivian government affecting its oil and gas industry, furnished to the SEC on September 14, 2006.
- (8) Any future filings of Petrobras on Form 20-F made with the SEC 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.

WHERE YOU CAN FIND MORE INFORMATION

Information that we file with the SEC after the date of this prospectus supplement, and that is incorporated by reference, will automatically update and supersede the information in this prospectus supplement. 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. 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:

Raul Adalberto de Campos

Executive Manager, Investor Relations

Petróleo Brasileiro S.A. Petrobras

Avenida República do Chile, 65

20031-912 Rio de Janeiro RJ, Brazil

Telephone: (55-21) 3224-1510/3224-9947

Email: 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 Room at 100 F Street, N.E., 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>.

SUMMARY OF THE OFFERING

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, 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."

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 by Petrobras 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 reselling crude oil and oil products in U.S. Dollars to Petrobras on a deferred payment basis, at a price which 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.

As part of Petrobras' strategy to expand its international operations and facilitate its access to international capital markets, PIFCo engages in borrowings in international capital markets supported by Petrobras, primarily through standby purchase agreements.

In addition, PIFCo engages in a number of activities that are conducted by four wholly-owned subsidiaries:

Petrobras Europe Limited, or PEL, a United Kingdom company that acts as an agent and advisor in connection with Petrobras activities in Europe, the Middle East, the Far East and North Africa;

Petrobras Finance Limited, or PFL, a Cayman Islands company that facilitates an exports prepayment program linked to the resale of fuel oil and bunker fuel bought from Petrobras;

Bear Insurance Company Limited, or BEAR, a Bermuda company that contracts insurance for Petrobras and its subsidiaries; and

Petrobras Singapore Private Limited, or PSPL, a company incorporated in Singapore to trade crude oil and oil products in connection with our trading activities in Asia. This company initiated its operations in July 2006.

Since 2004, as part of Petrobras' restructuring of its offshore subsidiaries in order to centralize trading operations, PIFCo has engaged in limited exports of oil and oil products and has begun to store oil and oil products in Asia.

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) 3224-1410.

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, 2005 and the six-month period ended June 30, 2006, Petrobras had sales of products and services of U.S.\$74.1 billion and U.S.\$43.8 billion, net operating revenues of U.S.\$56.3

billion and U.S.\$33.5 billion and net income of U.S.\$10.3 billion and U.S.\$6.5 billion, respectively. Petrobras engages in a broad range of activities, which cover the following segments of its operations:

Exploration and Production This segment encompasses exploration, development and production activities in Brazil.

Supply This segment encompasses refining, logistics, transportation and the purchase of crude oil, as well as the purchase and sale of oil products and fuel alcohol. Additionally, this segment includes Petrobras' petrochemical and fertilizers division, which includes investments in domestic petrochemical companies and Petrobras' two domestic fertilizer plants.

Distribution This segment encompasses oil product and fuel alcohol distribution activities conducted by Petrobras' majority owned subsidiary, Petrobras Distribuidora S.A.-BR in Brazil.

Natural Gas and Power This segment encompasses the purchase, sale and transportation of natural gas produced in or imported into Brazil. This segment includes Petrobras' domestic electric energy commercialization activities as well as investments in domestic natural gas transportation companies, state owned natural gas distributors and thermal electric companies.

International This segment encompasses international activities conducted in 15 countries, which include Exploration and Production, Supply, Distribution and Gas and Energy.

Corporate This segment includes those activities not attributable to other segments, including corporate financial management, overhead related with central administration and other expenses, including pension and health care expenses.

Petrobras' principal executive office is located at Avenida República do Chile, 65 20031-912 Rio de Janeiro RJ, Brazil, and its telephone number is (55-21) 3224-4477.

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, 2005 and 2004 and for each of the three years in the period ended December 31, 2005 have been derived from the audited consolidated financial statements of PIFCo, which are included in PIFCo's Annual Report on Form 20-F filed with the SEC on June 28, 2006. The data as of June 30, 2006 and for the six-months periods ended June 30, 2006 and 2005 have been derived from the unaudited consolidated financial statements of PIFCo, which are included in PIFCo's Report on Form 6-K furnished to the SEC on September 7, 2006. The information below should be read in conjunction with, and is qualified in its entirety by reference to, the PIFCo financial statements.

	For the Six-Month Period		For the Year Ended December 31,		
	Ended June 30, 2006	2005	2005	2004	2003
	(in millions of U.S. Dollars)				
Income Statement Data:					
Sales of crude oil, oil products and services	\$ 9,850.7	\$ 7,386.8	\$ 17,136.1	\$ 12,355.6	\$ 6,975.5
Lease income					
Cost of sales	(9,736.5)	(7,305.6)	(16,983.3)	(12,236.0)	(6,920.1)
Lease expense					
Selling, general and administrative expenses	(95.5)	(59.5)	(165.7)	(99.8)	(18.6)
Operating income (loss)	18.7	21.7	(12.9)	19.8	36.8
Financial income (1)	570.4	477.4	984.0	678.8	442.9
Financial expense (1)	(598.5)	(473.2)	(998.9)	(761.2)	(482.7)
Other income, net	0.3	(0.1)		3.5	
Net income (loss)	\$ (9.1)	\$ 25.8	\$ (27.8)	\$ (59.1)	\$ (3.0)

	As of June 30,	As of December 31,	2004	2003
	2006	2005		
	(in millions of U.S. Dollars)			
Balance Sheet Data:				
Cash and cash equivalents	\$ 417.9	\$ 230.7	\$ 1,107.3	\$ 664.2
Total assets	18,882.4	16,748.9	14,670.6	10,196.6
Short-term loans payable to related parties	6,371.3	4,346.1	2,881.5	2,442.8
Short-term debt and current portion of long-term debt	1,036.1	891.1	680.9	1,076.4
Capital lease				
Long-term debt	5,314.3	5,908.4	6,151.8	5,825.3
Capital lease long-term				
Total stockholder's equity	(1.1)	8.0	35.7	94.8

(1) Financial income represents primarily the imputed interest realized from PIFCo's sales of crude oil and oil products to Petrobras. Financial expense consists primarily of costs incurred by PIFCo in financing its activities in connection with the importation by Petrobras of oil and oil products.

Summary Financial Information for Petrobras

The following table sets forth Petrobras' summary financial information, presented in U.S. Dollars and prepared in accordance with U.S. GAAP. The data as of December 31, 2005 and 2004 and for each of the three years in the period ended December 31, 2005 have been derived from the audited consolidated financial statements of Petrobras, which are included in Petrobras' Annual Report on Form 20-F filed with the SEC on June 28, 2006. The data as of June 30, 2006 and for the six-months periods ended June 30, 2006 and 2005 have been derived from the unaudited consolidated financial statements of Petrobras, which are included in Petrobras' Report on Form 6-K furnished to the SEC on September 6, 2006. The information below should be read in conjunction with, and is qualified in its entirety by reference to, the Petrobras financial statements.

Income Statement Data:	For the Six-Month Period Ended June 30,		For the Year Ended December 31,		
	2006	2005	2005	2004	2003
	(in millions of U.S. Dollars)				
Sales of products and services	\$ 43,775	32,292	\$ 74,065	\$ 51,954	\$ 42,690
Net operating revenues	33,521	24,428	56,324	38,428	30,914
Cost of sales	(17,169)	(12,614)	(29,828)	(21,279)	(15,533)
Depreciation, depletion and amortization	(1,633)	(1,401)	(2,926)	(2,481)	(1,785)
Exploration, including exploratory dry holes	(301)	(276)	(1,009)	(613)	(512)
Impairment of oil and gas properties			(156)	(65)	(70)
Selling, general and administrative expenses	(2,361)	(1,887)	(4,474)	(2,901)	(2,091)
Research and development expenses	(339)	(166)	(399)	(248)	(201)
Other operating expenses	(278)	(657)	(582)	(259)	(326)
Total costs and expenses	(22,081)	(17,001)	(39,374)	(27,846)	(20,518)
Equity in results of non-consolidated companies	57	74	139	172	141
Financial income	401	113	710	956	634
Financial expenses	(896)	(744)	(1,189)	(1,733)	(1,247)
Monetary and exchange variation on monetary assets and liabilities, net					
	159	453	248	450	509
Employee benefit expense for non-active participants	(508)	(458)	(994)	(650)	(595)
Other taxes	(287)	(167)	(373)	(440)	(333)
Other expenses, net	(32)	(84)	(899)	(402)	(732)
	(1,106)	(813)	(2,358)	(1,647)	(1,623)
Income before income taxes and minority interest and accounting change	10,334	6,614	14,592	8,935	8,773
Extraordinary gain, net of tax			158		
Cumulative effect of change in accounting principles, net of income tax					697
Income tax (expense)	(3,490)	(2,083)	(4,441)	(2,231)	(2,663)
Minority interest	(330)	(366)	35	(514)	(248)
Net income	\$ 6,514	\$ 4,165	\$ 10,344	\$ 6,190	\$ 6,559
Cash Flow Data:					
Cash provided by (used in)					
Operating activities	9,182	6,877	\$ 15,115	\$ 8,155	\$ 8,569
Investing activities	(5,778)	(4,516)	(10,207)	(7,743)	(6,785)
Financing activities	(3,553)	(2,588)	(2,625)	(2,204)	2,376
Balance Sheet Data:					
	As of June 30,		As of December 31,		
	2006	2005	2004	2003	
	(in millions of U.S. Dollars)				
Cash and cash equivalents	\$ 10,385	\$ 9,871	\$ 6,856	\$ 8,344	
Total assets	87,018	78,625	63,082	53,612	
Short-term debt and current portion of long-term debt	2,876	2,378	1,746	2,474	
Current portion of project financings and capital lease obligations	2,352	2,652	1,579	1,220	

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	As of June 30, 2006	As of December 31, 2005	2004	2003
	(in millions of U.S. Dollars)			
Balance Sheet Data:				
Long-term debt	10,400	11,503	12,145	11,888
Project financings and capital lease obligations	4,254	4,644	5,468	6,308
Total stockholders' equity	41,879	32,917	22,506	16,336

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The Offering

Issuer	Petrobras International Finance Company, or PIFCo.
The Notes	U.S.\$ 500,000,000 aggregate principal amount of 6.125% Global Notes due October 6, 2016.
Closing Date	October 6, 2006
Maturity Date	October 6, 2016
Interest	The notes will bear interest from the closing date at the rate of 6.125% per annum, payable semiannually in arrears on each interest payment date.
Interest Payment Dates	April 6 and October 6 of each year, commencing on April 6, 2007.
Codes	
(a) Common Code	027057390
(b) ISIN	US71645WAL54
(c) CUSIP	71645WAL5
Use of Proceeds	PIFCo intends to use the net proceeds from the sale of the notes for general corporate purposes, which may include the financing of the purchase of oil product imports and the repayment of existing trade-related debt and inter-company loans. PIFCo may also lend some portion of the net proceeds to Petrobras, which Petrobras would use for general corporate purposes. See Use of Proceeds.
Reopening	PIFCo currently plans to refinance certain series of its outstanding securities in the near future through an exchange offer, but it cannot assure you that any such refinancings will occur. In connection with such refinancings, PIFCo plans to issue notes fungible with the notes offered in this prospectus supplement in a principal amount not to exceed \$500,000,000 and exchange these notes for certain series of its outstanding securities. The foregoing statements do not constitute any offer of these notes.
Indenture	The notes offered hereby will be issued pursuant to an indenture between PIFCo and JPMorgan Chase Bank, N.A., a national banking association organized and existing under the laws of the United States of America, as trustee, dated as of July 19, 2002, as supplemented by the fifth 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 fifth supplemental indenture. See Description of the Notes.

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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 in consideration 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 of the notes 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 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.

Optional Redemption

PIFCo may redeem any of the notes at any time in whole or in part by paying the greater of the principal amount of the notes and a make-whole amount, plus, in each case, accrued interest, as described under Description of the Notes^{3/4}Optional Redemption.

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. 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;

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 of the trustee.

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; and

create certain liens on its assets or pledge its assets.

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

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;

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

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

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

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.

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	<p>The events of default are subject to a number of important qualifications and limitations. See Description of the Notes Events of Default.</p>
Modification of Notes, Indenture and Standby Purchase Agreement	<p>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 of the notes. 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.</p>
Clearance and Settlement	<p>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.</p>
Withholding Taxes; Additional Amounts	<p>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, the Cayman Islands, Luxembourg or any other jurisdiction in which PIFCo appoints a paying agent under the indenture, 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 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.</p>
Governing Law	<p>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.</p>
Form and denomination	<p>The notes will be in global registered form without interest coupons attached. The notes will be issued and may be transferred only in principal amounts of U.S.\$2,000 and in integral multiples of U.S.\$1,000 in excess thereof.</p>
Listing	<p>The notes have not been listed on any securities exchange. PIFCo may apply for a listing of the notes on the New York 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 New York Stock Exchange.</p>
Risk Factors	<p>You should carefully consider the risk factors discussed beginning on page S-15 before purchasing any notes.</p>

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. Accordingly, PIFCo's financial position and results of operations are largely affected by the decisions of Petrobras, its parent company. 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 buys and sells crude oil and oil products from and to Petrobras, third parties and affiliates 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 a number of factors, including:

- the financial condition and results of operations of Petrobras;
- the extent to which Petrobras continues to use PIFCo's services for market purchases of crude oil and oil products;
- Petrobras' willingness to continue to make loans to PIFCo and provide PIFCo with other types of financial support;
- PIFCo's ability to access financing sources, including the international capital markets and third-party credit facilities; and
- PIFCo's ability to transfer its financing costs to Petrobras.

In the event of a material adverse change in the financial condition or results of operations of Petrobras or in Petrobras' financial support of PIFCo, 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 the financial condition or results of operations of Petrobras and therefore affect PIFCo's ability to meet its 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 its debt obligations.

PIFCo obtains substantially all of its funds from Petrobras' payments in U.S. dollars for crude oil that Petrobras 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, PIFCo may not have sufficient U.S. dollar funds available to make payment on its 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.

PIFCo is principally engaged in the purchase of crude oil and oil products for sale to Petrobras, as described above. PIFCo regularly incurs indebtedness related to such purchases and/or obtain financing from Petrobras or third-party creditors. At December 31, 2005, approximately 20% of PIFCo's indebtedness was floating-rate debt denominated in U.S. dollars. All such indebtedness has the benefit of Petrobras' standby purchase obligation or other support. 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 its financing costs. Although Petrobras intends to continue this practice in the future, it cannot assure you that it will. PIFCo's inability to transfer its financing costs to

Petrobras could have a material adverse effect on PIFCo's business and on its ability to meet its debt obligations in the long term.

Risks Relating to Petrobras

Substantial or extended declines in the prices of crude oil and oil products may have a material adverse effect on the income of Petrobras.

The major part of Petrobras' revenue is derived from sales of crude oil and oil products. Petrobras does not, and will not, have control over the factors affecting international prices for crude oil and oil products. The average prices of Brent crude, an international benchmark oil, were approximately U.S.\$ 54.38 per barrel for 2005, U.S.\$38.21 per barrel for 2004 and U.S.\$28.84 per barrel for 2003. Changes in crude oil prices typically result in changes in prices for oil products.

Historically, international prices for crude oil and oil products have fluctuated widely as a result of many factors. 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 (OPEC) and other crude oil producing nations to set and maintain crude oil production levels and prices;
- global and regional supply and demand for crude oil and oil products;
- competition from other energy sources;
- domestic and foreign government regulations;
- weather conditions; and
- global conflicts and acts of terrorism.

Volatility and uncertainty in international prices for crude oil and oil products may continue. Substantial or extended declines in international crude oil prices may have a material adverse effect on Petrobras, results of operations and financial condition, and the value of Petrobras' proved reserves. In addition, significant decreases in the price of crude oil may cause Petrobras to reduce or alter the timing of the company's capital expenditures, and this could adversely affect the company's production forecasts in the medium term and its future reserve estimates.

The ability of Petrobras to achieve its growth objectives depends on discovering additional reserves and successfully developing them, and failure to do so could prevent Petrobras from achieving its long-term goals for growth in production.

Petrobras' ability to achieve its growth objectives is highly dependent upon discovering additional reserves, as well as successfully developing its current reserves. In addition, the company's exploration activities expose it to the inherent risks of drilling, including the risk that Petrobras will not discover commercially productive crude oil or natural gas reserves. The costs of drilling wells are often uncertain, and numerous factors beyond the control of Petrobras (such as unexpected drilling conditions, equipment failures or accidents and shortages or delays in the availability of drilling rigs and the delivery of equipment) may cause drilling operations to be curtailed, delayed or cancelled. These risks are heightened when drilling in deep water (between 300 and 1,500 meters water depth) and ultra deep water (more than 1,500 meters). Deep water drilling represented approximately 36% of the exploratory wells drilled by Petrobras in 2005, a higher proportion than for many other oil and gas producers.

Unless Petrobras conducts successful exploration and development activities or acquires properties containing proved reserves, or both, the company's proved reserves will decline as reserves are extracted. If

Petrobras fails to gain access to additional reserves it may not achieve its long-term goals for production growth and the company's results of operations and financial condition may be adversely affected.

Petrobras' crude oil and natural gas reserve estimates involve some degree of uncertainty, which could adversely affect the company's ability to generate income.

The proved crude oil and natural gas reserves set forth in this prospectus supplement are Petrobras' estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable from known reservoirs under existing economic and operating conditions (i.e., prices and costs as of the date the estimate is made). Petrobras' proved developed crude oil and natural gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. There are uncertainties in estimating quantities of proved reserves related to prevailing crude oil and natural gas prices applicable to Petrobras' production, which may lead to revisions to the company's reserve estimates. Downward revisions in the reserve estimates of Petrobras could lead to lower future production, which could have an adverse effect on the company's results of operations and financial condition.

Petrobras is subject to numerous environmental and health regulations that have become more stringent in the recent past and may result in increased liabilities and increased capital expenditures.

The activities of Petrobras 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, both in Brazil and in other jurisdictions in which Petrobras operates. In Brazil, the company could be exposed to administrative and criminal sanctions, including warnings, fines 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. In 2005, Petrobras experienced spills totaling 71,141 gallons of crude oil, as compared to 140,000 gallons in 2004 and 73,000 gallons in 2003. As a result of certain of these spills, the company was fined by various state and federal environmental agencies, named the defendant in several civil and criminal suits and remain subject to several investigations and potential civil and criminal liabilities. Waste disposal and emissions regulations may require Petrobras to clean up or retrofit the company's facilities at substantial cost and could result in substantial liabilities. The *Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis* (Brazilian Institute of the Environment and Renewable Natural Resources, or IBAMA) routinely inspects Petrobras' oil platforms in the Campos Basin, and may impose fines, restrictions on operations or other sanctions in connection with its inspections. In addition, Petrobras is subject to environmental laws that require it to incur significant costs to remedy any damage that a project may cause to the environment (*environmental compensation*). These additional costs may have a negative impact on the profitability of the projects that Petrobras intends to implement or may make such projects economically unfeasible.

As environmental regulations become more stringent, it is probable that the capital expenditures of Petrobras for compliance with environmental regulations and to effect improvements in the company's health, safety and environmental practices will increase substantially in the future. Because Petrobras' capital expenditures are subject to approval by the Brazilian government, increased expenditures to comply with environmental regulations could result in reductions in other strategic investments. Any such reduction may have a material adverse effect on the company's results of operations or financial condition.

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. These claims involve substantial amounts of money and other remedies. Several individual disputes account for a significant part of the total amount of claims against Petrobras. For example, on the grounds that drilling and production platforms may not be classified as sea-going vessels, the Brazilian Revenue Service asserted that overseas remittances for charter payments should be reclassified as lease payment and subject to a withholding tax of 25%. They have filed two tax assessments against Petrobras in the aggregate amount of R\$3,157 million (approximately U.S.\$1,098 million).

Petrobras may also be subject to labor litigation in connection with recent changes in Brazilian laws relating to retirement benefits affecting the company's employees.

In the event that claims involving a material amount and for which Petrobras has no provisions were to be decided against the company, or in the event that the losses estimated turn out to be significantly higher than the provisions made, the aggregate cost of unfavorable decisions could have a material adverse effect on Petrobras' financial condition and results of operations. Additionally, the company's management may be required to direct its time and attention to defending these claims, which could preclude them from focusing on the core business of Petrobras. Depending on the outcome, certain litigation could result in restrictions on the company's operations and have a material adverse effect on certain of Petrobras' businesses.

If the State of Rio de Janeiro enforces a law imposing ICMS on oil upstream activities, Petrobras' results of operations and financial condition may be adversely affected.

In June 2003, the State of Rio de Janeiro enacted a law, referred to as Noel Law, imposing *Imposto sobre Circulação de Mercadorias e Serviços*, or ICMS, a state sales tax, on upstream activities. The constitutionality of the Noel Law is currently being challenged in the Brazilian Supreme Court (*Supremo Tribunal Federal*, or STF) and although the law is technically in force, the government of the State of Rio de Janeiro has not yet enforced it. Currently, the ICMS for fuels derived from oil is assessed at the point of sale but not at the wellhead level. If the State of Rio de Janeiro enforces the Noel Law, it is unlikely (depending on the grounds of the Supreme Court's decision) that the other states would allow Petrobras to use the tax imposed at the wellhead level in Rio de Janeiro as a credit to offset the tax imposed at the sale level. Therefore, Petrobras would have to pay ICMS at both levels. Petrobras estimates that the amount of ICMS that it would be required to pay to the State of Rio de Janeiro could increase by approximately R\$8.51 billion (U.S.\$3.52 billion) per year. This increase could have a material adverse effect on the results of operations and financial condition of Petrobras.

Petrobras' participation in the domestic power market has generated losses and may not become profitable.

Consistent with the global trend of other major oil and gas companies and to secure demand for Petrobras' natural gas, the company participates in the domestic power market. Despite a number of incentives introduced by the Brazilian government to promote the development of gas-fired power plants, development of such plants has been slow due to the market structure and regulation of the power industry, among other things. Petrobras has invested, alone or with other investors, in fourteen (twelve in operation and two under construction or development) of the 39 gas-fired power generation plants. Demand for energy produced by Petrobras' gas-fired power plants has been lower than expected mainly as a result of good hydrological conditions in the last years that increased the supply and lowered the prices of energy from hydroelectric power plants. The main risks associated with the gas-fired power business of Petrobras are:

Physical demand for Petrobras' installed capacity, which is influenced by the current and expected market prices of natural gas;

The potential mismatch between contracted price indexation for energy to be sold by gas-fired power companies and the cost of natural gas or other substitute fuel supply; and

The dependence on construction of pipelines and other infrastructure to transport and produce natural gas and the commitment to purchase firm quantities of natural gas to satisfy the requirement of the new regulatory model for power generation in order to sell under long term energy contracts.

As a result of the foregoing, Petrobras' participation in the domestic power market has generated losses and may not become profitable.

Petrobras may not be able to obtain financing for all of Petrobras' planned investments, and failure to do so could adversely affect the company's operating results and financial condition.

The Brazilian government maintains control over Petrobras' budget of and establishes limits on the company's investments and long-term debt. As a state-controlled entity, Petrobras must submit a proposed annual budget to the Ministry of Planning, Budget and Management, the Ministry of Mines and Energy, and the Brazilian

Congress for approval. If Petrobras cannot obtain financing that does not require Brazilian government approval, such as structured financings, the company may not be free to make all the investments it envisions, including those Petrobras had agreed to make to expand and develop Petrobras' crude oil and natural gas fields. If Petrobras is unable to make these investments, its operating results and financial condition may be adversely affected.

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

The principal market for Petrobras' products is Brazil, and over the last three fiscal years over 78% of Petrobras' revenues have been denominated in *reais*. A substantial portion of Petrobras' indebtedness and some of the company's 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 2005 Petrobras imported U.S.\$8.1 billion of crude oil and oil products, the prices of which were all denominated in U.S. dollars.

The *real* depreciated 52.3% in 2002 against the U.S. dollar before appreciating 18.2%, 8.1% and 11.8% against the U.S. dollar in 2003, 2004 and 2005, respectively. As of September 21, 2006, the exchange rate of the *real* to the U.S. dollar was R\$2.197 per U.S.\$1.00, representing an appreciation of approximately 6.1% in 2006 year-to-date. The value of the *real* in relation to the U.S. dollar may continue to fluctuate and may include a significant depreciation of the *real* against the U.S. dollar as occurred in 2002. Any future substantial depreciation of the *real* may adversely affect the operating cash flows of Petrobras and the company's ability to meet its foreign currency-denominated obligations.

Petrobras is exposed to increases in prevailing market interest rates, which leaves Petrobras vulnerable to increased financing expenses.

As of December 31, 2005, approximately 52.5% of the total indebtedness of Petrobras consisted of floating rate debt. The company has not 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, which could have an adverse effect on the results of operations and financial condition of Petrobras.

Petrobras is not insured against business interruption for its Brazilian operations and most of its assets are not insured against war and terrorism.

Petrobras does not maintain coverage for business interruption for its Brazilian operations. If, for instance, the company's workers were to strike, the resulting work stoppages could have an adverse effect on Petrobras, as the company does not carry insurance for losses incurred as a result of business interruptions of any nature, including business interruptions caused by labor action. In addition, Petrobras does not insure most of its assets against war and terrorism. A terrorist attack or an operational incident causing an interruption of business could therefore have a material adverse effect on Petrobras' financial condition or results of operations.

Petrobras is subject to substantial risks relating to Petrobras' international operations, in particular in Latin America and the Middle East.

Petrobras operates in a number of different countries, particularly in Latin America, West Africa and the Middle East that can be politically, economically and socially unstable. The results of operations and financial condition of the company's subsidiaries in these countries may be adversely affected by fluctuations in their local economies, political instability and governmental actions relating to the economy, including:

- the imposition of exchange or price controls;
- the imposition of restrictions on hydrocarbon exports;
- the depreciation of local currencies;

the nationalization of oil and gas reserves; or

increases in export tax / income tax rates for crude oil and oil products.

If one or more of the risks described above were to materialize Petrobras may not achieve its strategic objectives in these countries or in its international operations as a whole, which may result in a material adverse effect on the company's results of operations and financial condition.

Of the countries outside of Brazil in which Petrobras operates, Argentina is the most significant, representing approximately 40% of the company's total international crude oil and natural gas production and 28% of international proved crude oil and natural gas reserves at December 31, 2005. In response to the Argentine crisis, the Argentine government has made a number of changes in the regulatory structure of the electricity and gas sectors and has fixed export tax rates for crude oil, natural gas and oil products. Petrobras also has significant operations in Bolivia and Venezuela that represented, respectively, approximately 21% and 18% of its total international production in barrels of oil equivalent and 27% and 22% of its international proved crude oil and natural gas reserves at December 31, 2005. Both Bolivia and Venezuela have recently announced certain nationalization measures that may generate material losses to Petrobras. At present, there is much uncertainty in the political, economic and social situations, generally in these two countries. See Risks Relating to Petrobras(The recent nationalization measures taken by the Bolivian and Venezuelan governments may have an adverse effect on the results of operations and financial condition of Petrobras for a description of the risks associated with these nationalization measures. Deterioration of the situation in Argentina, Bolivia or Venezuela may have an adverse effect on Petrobras' results of operations and financial condition.

The recent nationalization measures taken by the Bolivian and Venezuelan governments may have an adverse effect on the results of operations and financial condition of Petrobras.

The Bolivian and Venezuelan governments have recently increased their participation in their respective domestic oil and gas industries, which may generate material losses to Petrobras.

Petrobras' consolidated interests related to Bolivia include two refineries, oil and gas reserves, which represented approximately 2.7% of the company's total reserves at December 31, 2005 and Petrobras' interest in the Bolivia-Brazil gas pipeline (GTB). Petrobras also holds a long-term gas supply agreement, or the GSA, for the purchase of natural gas from the Bolivian state oil company, Yacimientos Petrolíferos Fiscales Bolivianos (YPFB). Petrobras has been operating in Bolivia since 1996. As of December 31, 2005, the book value of Bolivia assets were U.S.\$ 990million. On May 1, 2006, the Bolivian government announced that it would nationalize several industries in the country, including the oil and gas industry. As a result, Petrobras' interest in the two refineries and the oil and gas reserves in Bolivia will be reduced. It is uncertain if and how the company will be compensated for these losses. In 2005, the natural gas that Petrobras imported from Bolivia represented approximately 53% of the company's total natural gas sales. Petrobras supplies this natural gas to the Brazilian market, including local distribution companies and gas-fired power plants in which the company has an interest.

Petrobras' interests in Venezuela include oil and gas reserves, which represented approximately 2.3% of the company's total reserves at December 31, 2005. In April 2005, the Venezuelan Energy and Oil Ministry instructed PDVSA to review thirty-two operating agreements signed by PDVSA with oil companies from 1992 through 1997. In addition, PDVSA was instructed to take measures in order to convert all effective operating agreements into state-controlled companies in order to grant the Venezuelan government, through PDVSA, more than 50% ownership of each field, including agreements with Petrobras' affiliates in connection with the areas of Oritupano Leona, La Concepcion, Acema and Mata. As a result, as of December 31, 2005, Petrobras recorded an impairment charge in order to adjust the book value of its Venezuelan assets in the amount of U.S.\$134 million. In March 31, 2006, Petrobras, Petróleos de Venezuela S.A. (PDVSA) and Corporación Venezolana del Petróleo S.A. (CVP), entered into memorandums of understanding (MOUs) in order to effect the migration of the operating agreements to partially state-owned companies (mixed companies), whereby the interest of PDVSA in each mixed company will be 60%. The economic effects of the migration are effective since April 1, 2006.

As a result of the foregoing, Petrobras currently cannot estimate the degree to which these nationalization measures will affect the company, and believes they may have a material adverse effect on its results of operations and financial condition.

Risks Relating to the Relationship between Petrobras and the Brazilian Government

The Brazilian government, as the controlling shareholder of Petrobras, may cause the company to pursue certain macroeconomic and social objectives that may have an adverse effect on its results of operations and financial condition.

The Brazilian government, as the controlling shareholder of Petrobras, has pursued, and may pursue in the future, certain of its macroeconomic and social objectives through Petrobras. Brazilian law requires the Brazilian government to own a majority of the company's voting stock, and so long as it does, the Brazilian 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 the day-to-day management of Petrobras. As a result, the company may engage in activities that give preference to the objectives of the Brazilian government rather than to the economic and business objectives of Petrobras. In particular, Petrobras continues to assist the Brazilian government to ensure that the supply of crude oil and oil products in Brazil meets Brazilian consumption requirements. Accordingly, Petrobras may make investments, incur costs and engage in sales on terms that may have an adverse effect on the company's results of operations and financial condition.

If the Brazilian government reinstates controls over the prices Petrobras can charge for crude oil and oil products, such price controls could affect the financial condition and results of operations of the company.

In the past, the Brazilian government set prices for crude oil and oil products in Brazil, often below prices prevailing in the world oil markets. These prices involved elements of cross-subsidy among 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 the balance sheet of Petrobras under the line item "Petroleum and Alcohol Account Receivable from the Brazilian government." The balance of the account at December 31, 2005 was U.S.\$329 million. All price controls for crude oil and oil products ended on January 2, 2002, however, the Brazilian government could decide to reinstate price controls in the future as a result of market instability or other conditions. If this were to occur, Petrobras' financial condition and results of operations could be adversely affected.

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 sustained production and generation of income. Under Brazilian law, the Brazilian government owns all crude oil and natural gas reserves in Brazil and the concessionaire owns the oil and gas it produces. Petrobras possesses the exclusive right to develop the company's reserves pursuant to concession agreements awarded to Petrobras by the Brazilian government and owns the goods produced under the concession agreements, but if the Brazilian government were to restrict or prevent Petrobras from exploiting these crude oil and natural gas reserves, Petrobras' ability to generate income would be adversely affected.

Risks Relating to Brazil

The Brazilian government has historically exercised, and continues to exercise, significant influence over the Brazilian economy. Brazilian political and economic conditions have a direct impact on the business of Petrobras and may have a material adverse effect on the company's results of operations and financial condition.

The Brazilian government's economic policies may have important effects on Brazilian companies, including Petrobras, and on market conditions and prices of Brazilian securities. 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.

Political instability may adversely affect the results of operations and the price of the securities of Petrobras.

The performance of the Brazilian economy has historically been influenced by the domestic political scenario. Political crises have, in the past, affected the confidence of investors and of the general public and resulted in economic slowdowns, adversely affecting the market price of the shares of publicly-listed companies.

The Brazilian Congress is currently conducting investigations on, among other matters, allegations related to contributions to political campaigns that were unaccounted for or not publicly disclosed, including contributions made to various important members of the current federal administration. Such allegations have resulted in the replacement of key ministers and occupied most of Congress' agenda. In addition, some allegations implicated other companies controlled by the Brazilian government. If these investigations were to impact the confidence of the general public and/or of investors, or result in an economic slowdown in Brazil, Petrobras' results of operations and the price of the company's shares could be adversely affected.

Additionally, presidential elections in Brazil will take place in October 2006 and Petrobras cannot assure you that the next administration will maintain the economic policies that were adopted by the current administration. The uncertainties relating to the election may impact the confidence of the general public and of investors and the price of Petrobras' securities may be adversely affected.

Inflation and government measures to curb inflation may contribute significantly to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and, consequently, may adversely affect the market value of Petrobras' securities and financial condition.

The principal market of Petrobras is Brazil, which has, in the past, periodically experienced extremely high rates of inflation. Inflation, along with 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 Wide Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*, or IPCA), have decreased from 2,477.15% in 1993 to 916.46% in 1994 and to 5.97% in 2000. The same index increased to 9.30% in 2003, before decreasing to 7.60% in 2004 and to 5.69% in 2005. Considering the historically high rates of inflation, Brazil may experience higher levels of inflation in the future. The lower levels of inflation experienced since 1995 may not continue. Future governmental actions, including actions to adjust the value of the *real*, could trigger increases in inflation, which may adversely affect the company's financial condition.

Access to international capital markets for Brazilian companies is influenced by the perception of risk in Brazil and other emerging economies, which may hurt Petrobras' ability to finance operations and the trading values of the company's securities.

International investors generally consider Brazil to be an emerging market. As a result, economic and market conditions in other emerging market countries, especially those in Latin America, influence the market for securities issued by Brazilian companies. As a result of economic problems in various emerging market countries in recent years (such as the Asian financial crisis of 1997, the Russian financial crisis in 1998 and the Argentine financial crisis that began in 2001), investors have viewed investments in emerging markets with heightened caution. These crises produced a significant outflow of U.S. dollars from Brazil, causing Brazilian companies to face higher costs for raising funds, both domestically and abroad, and impeding access to international capital markets. Increased volatility in securities markets in Latin American and in other emerging market countries may have a negative impact on the trading value of the company's securities. Petrobras cannot assure you that international capital markets will remain open to Brazilian companies or that prevailing interest rates in these markets will be advantageous to the company.

Risks Relating to PIFCo's Debt Securities

The market for PIFCo's notes may not be liquid.

PIFCo's notes are not listed on any securities exchange and are not quoted through an automated quotation system. PIFCo may apply for a listing of the notes on the New York 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 New York Stock Exchange. We can make no assurance as to the liquidity of or trading markets for PIFCo's notes. We cannot guarantee that the holders of PIFCo's notes will be able to sell their notes in the future. If a market for PIFCo's notes does not develop, holders of PIFCo's notes may not be able to resell the notes for an extended period of time, if at all.

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 Brazilian 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, could impair or prevent the conversion of payments under the standby purchase agreement from *reais* into U.S. dollars and the remittance of the U.S. dollars abroad. The Brazilian government could decide to take similar measures in the future. We cannot assure you that the Brazilian government will not take similar measures in the future.

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

Petrobras will enter into a standby purchase agreements in support of PIFCo's obligations under its notes and indentures. Petrobras' obligation to purchase from the PIFCo noteholders any unpaid amounts of principal, interest and other amounts due under the PIFCo notes and the indenture applies, subject to certain limitations, irrespective of whether any such amounts are due at maturity of the PIFCo notes or otherwise.

Petrobras has been advised by its counsel that the enforcement of the standby purchase agreement in Brazil against it, 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.

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

If Petrobras is required to make payments under the standby purchase agreement, Central Bank of Brazil approval will be necessary. Any approval from the Central Bank of Brazil may only be requested when such payment is to be remitted abroad by Petrobras, and will be granted by the Central Bank of Brazil on a case-by-case basis. It is not certain that any such approvals will be obtainable at a future date. In case the PIFCo noteholders receive payments in *reais* corresponding to the equivalent U.S. Dollar amounts due under PIFCo's notes, it may not be possible to convert these amounts into U.S. Dollars. Petrobras will not need any prior or subsequent approval from the Central Bank of Brazil to use funds it holds abroad to comply with its obligations under the standby purchase agreement.

Petrobras would be required to pay judgments of Brazilian courts enforcing its obligations under the standby purchase agreement only in reais.

If proceedings were brought in Brazil seeking to enforce Petrobras' obligations in respect of the standby purchase agreement, Petrobras would be required to discharge its obligations only in *reais*. Under the Brazilian exchange control limitations, an obligation to pay amounts denominated in a currency other than *reais*, which is

payable in Brazil pursuant to a decision of a Brazilian court, may be satisfied in *reais* at the rate of exchange, as determined by the Central Bank of Brazil, in effect on the date of payment.

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

PIFCo's obligation to make payments on the PIFCo notes is supported by Petrobras' obligation under the standby purchase agreement to make payments on PIFCo's behalf. Petrobras has been advised 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 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 it constituted unreasonably small capital; or

intended to incur or incurred, or believed or believes that it would incur, debts beyond its ability to pay such debts as they mature; and

in each case, intended to receive or received less than reasonably equivalent value or fair consideration therefore,

then Petrobras' obligations under the standby purchase agreement could be avoided, or claims with respect to 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 PIFCo notes would not have a claim against Petrobras under the standby purchase agreement and will solely have a claim against PIFCo. Petrobras cannot assure you that, after providing for all prior claims, there will be sufficient assets to satisfy the claims of the PIFCo noteholders relating to any avoided portion of the standby purchase agreement.

USE OF PROCEEDS

PIFCo intends to use the net proceeds from the sale of the notes for general corporate purposes, which may include the financing of the purchase of oil product imports and the repayment of existing trade-related debt and inter-company loans. PIFCo may also lend some portion of the net proceeds to Petrobras, which Petrobras would use for general corporate purposes.

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CAPITALIZATION**PIFCo**

The following table sets out the consolidated debt and capitalization of PIFCo as of June 30, 2006, excluding accrued interest, 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 June 30, 2006.

	As of June 30, 2006			
	Actual		As Adjusted for	
	(in millions of U.S. Dollars)		the Offering	
Short-term debt:				
Short-term debt	\$	343.0	\$	343.0
Current portion of long-term debt	693.0		693.0	
Notes payable – related parties	6,371.3		6,371.3	
Total	7,407.3		7,407.3	
Long-term debt (less current portion)(1):				
Total long-term debt	5,314.3		5,814.3	
Notes payable – related parties	3,823.7		3,823.7	
	9,138.0		9,638.0	
Shareholder's equity:				
Capital stock (2)	0.05		0.05	
Additional paid in capital	173.9		173.9	
Accumulated deficit	(175.1)		(175.1)	
Total shareholder's equity	(1.1)		(1.1)	
Total capitalization	\$	16,544.2	\$	17,044.2

(1) On July 24, 2006, PIFCo concluded a debt tender offer for five series of its notes. The total amount of notes tendered, including notes previously repurchased by Petrobras and its affiliates, was \$1,215,661,000.

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

Petrobras

The following table sets out the consolidated debt and capitalization of Petrobras as of June 30, 2006, excluding accrued interest, and as adjusted to give effect to the issue of the notes and Petrobras' obligations in respect of the notes under the standby purchase agreement. There have been no material changes in the consolidated capitalization of Petrobras since June 30, 2006.

	As of June 30, 2006		As Adjusted for the Offering	
	Actual			
	(in millions of U.S. Dollars)			
Short-term debt:				
Short-term debt	\$	1,124	\$	1,124
Current portion of long-term debt		1,752		1,752
Current portion of project financings		2,126		2,126
Current capital lease obligations		226		226
Total		5,228		5,228
Long-term debt(1):				
Foreign currency denominated		10,098		10,598
Local currency denominated		2,054		2,054
Total long-term debt		12,152		12,552
Total long-term debt (less current portion)		10,400		10,400
Project financings		3,324		3,324
Capital lease obligations		930		930
Minority interest		1,631		1,631
Stockholders' equity (2)(3)		41,879		41,879
Total capitalization	\$	63,392	\$	63,892

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- (1) On July 24, 2006, PIFCo concluded a debt tender offer for five series of its notes. The total amount of notes tendered, including notes previously repurchased by Petrobras and its affiliates, was \$1,215,661,000.
- (2) Comprising (a) 2,536,673,672 shares of common stock and (b) 1,849,478,028 shares of preferred stock, in each case with no par value and in each case which have been authorized and issued.
- (3) Stockholders' equity includes an unrecognized loss in the amount of U.S.\$2,089 million related to amounts not recognized as net periodic pension cost.

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 fifth 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 fifth supplemental indenture upon request to the trustee or with the SEC at the addresses set forth under [Where You Can Find More Information](#).

Fifth Supplemental Indenture

PIFCo will issue the notes under an indenture dated as of July 19, 2002 between PIFCo and JPMorgan Chase Bank, N.A., as successor to JPMorgan Chase Bank, a national banking association organized and existing under the laws of the United States of America, as trustee, as supplemented by a fifth supplemental indenture 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 fifth 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 6.125% Global Notes due October 6, 2016;

The notes will:

be issued in an aggregate principal amount of U.S.\$500,000,000;

mature on October 6, 2016;

bear interest at a rate of 6.125% per annum from the closing date until maturity, until all required amounts due in respect of the notes have been paid;

be issued in global registered form without interest coupons attached;

be issued and may be transferred only in principal amounts of U.S.\$2,000 and in integral multiples of U.S.\$1,000 in excess thereof; and

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 6 and October 6 of each year (each of which we refer to as an interest payment date), commencing on April 6, 2007, and the regular record date for any interest payment date will be the tenth business day preceding that date; and

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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.

Despite the Brazilian government's ownership interest in Petrobras, the Brazilian government is not responsible in any manner for PIFCO's obligations under the notes and Petrobras' obligations under the standby purchase agreement.

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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: Worldwide Securities 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 of such notes by wire transfer of same-day funds.

Optional Redemption

PIFCo may redeem, in whole or in part, the notes at any time by paying the greater of the principal amount of the notes and the applicable make-whole amount, plus, in each case, accrued interest. The notes will also be redeemable without premium prior to maturity at PIFCo's option solely upon the imposition of certain withholding taxes. See (Optional Redemption)(Optional Redemption With Make-Whole Amount and (Optional Redemption)(Redemption for Taxation Reasons.

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.

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.

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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The maturity of any indebtedness of PIFCo or Petrobras or a material subsidiary in a total aggregate principal amount of U.S.\$100,000,000 (or its equivalent in another currency) or more is accelerated in ac