BRAZILIAN PETROLEUM CORP
Form 424B2
December 03, 2003

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The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED DECEMBER 2, 2003

Prospectus Supplement, dated December [ ], 2003 to Prospectus dated August 14, 2002

U.S.$[ ]
[ ]% Global Notes due [ ]

Petrobras International Finance Company

Payments supported by a standby purchase agreement provided by

Petróleo Brasileiro S.A. PETROBRAS

(BRAZILIAN PETROLEUM CORPORATION PETROBRAS)

The notes are general, unsecured, unsubordinated obligations of Petrobras International Finance Company, or PIFCo, will mature on [ ], and will bear interest at the rate of [ ]% per annum. Interest on the notes is payable on June [ ] and December [ ] of each year, beginning on June [ ], 2004. 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. The notes will be redeemable without premium prior to maturity at PIFCo s option solely upon the imposition of certain withholding taxes.

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

See Risk Factors on page S-18 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)	[ ]%	$[ ]
Underwriting discount	[ ]%	$[ ]
Proceeds, before expenses, to PIFCo.	[ ]%	$[ ]

(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 December [ ], 2003.

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 December [ ], 2003.

Credit Suisse First Boston **Lehman Brothers**

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 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 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 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 Unites 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;
- 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;
- the costs and availability of adequate insurance coverage; and
- other factors discussed below under Risk Factors.

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.

S-2

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 unaudited consolidated interim financial statements of PIFCo as of September 30, 2003 and for the nine months ended September 30, 2003 and 2002, which are included in PIFCo s Report on Form 6-K furnished to the Securities and Exchange Commission, or SEC , on November 26, 2003, the unaudited consolidated interim financial statements of PIFCo as of June 30, 2003 and for the six months ended June 30, 2003 and 2002, which are included in PIFCo s Report on Form 6-K furnished to the SEC on September 10, 2003, the unaudited consolidated interim financial statements of PIFCo as of March 31, 2003 and for the three months ended March 31, 2003 and 2002, which are included in PIFCo s Report on Form 6-K furnished to the SEC on June 19, 2003 and 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 Annual Report on Form 20-F furnished to the SEC on June 19, 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 PIFCo financial statements.

The unaudited consolidated interim financial statements of Petrobras as of September 30, 2003 and for the nine months ended September 30, 2003 and 2002, which are included in Petrobras Report on Form 6-K furnished to the SEC on November 28, 2003, the unaudited consolidated interim financial statements of Petrobras as of June 30, 2003 and for the six months ended June 30, 2003 and 2002, which are included in Petrobras Report on Form 6-K/A furnished to the SEC on September 10, 2003, the unaudited consolidated interim financial statements of Petrobras as of March 31, 2003 and for the three months ended March 31, 2003 and 2002, which are included in Petrobras Report on Form 6-K furnished to the SEC on June 11, 2003 and 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 Annual Report on Form 20-F furnished to the SEC on June 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 Petrobras financial statements. 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.

PricewaterhouseCoopers Auditores Independentes served as Petrobras and PIFCo s independent auditor for the five-year period from 1998 to 2002. Petrobras is required by Brazilian corporate law to change auditors every five years. Accordingly, after PricewaterhouseCoopers Auditores Independentes had served the legally prescribed maximum term of five years as Petrobras independent auditor, in June 2003, Petrobras and PIFCo engaged Ernst & Young Auditores Independentes to serve as their independent auditor. As a result of this change in auditor, certain of the financial information incorporated by reference in this prospectus supplement has been so incorporated in reliance on the reports of PricewaterhouseCoopers Auditores Independentes, while certain other financial information has been so incorporated in reliance on the reports of Ernst & Young Auditores Independentes. See Independent Accountants.

As described more fully in Note 2(a) to 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, 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 and legal and environmental contingent liabilities) have been translated from Reais at the rate of R$3.43=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, as permitted under Brazilian GAAP, our planned future contributions to investments funded through project finance are not included in estimated future capital expenditures and are, instead, presented separately.

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 the documents incorporated by reference into this prospectus supplement are only estimates, and Petrobras actual production, revenues and expenditures with respect to its reserves may differ materially from these estimates.

INFLATION AND EXCHANGE RATE VARIATION

Inflation

Since the introduction of the Real as the new Brazilian currency in July 1994, inflation in Brazil has remained relatively limited, although it has increased since the devaluation of the Real in January 1999. The 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% during 2001, to 14.7% in 2002 and to 9.4% in the first ten months of 2003.

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, during the last four years these price increases have been generally offset 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 *(Banco Central do Brasil)* 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 9.3% in 2000, 15.7% in 2001 and 52.3% in 2002 against the U.S. Dollar. As of December [ ], 2003, the exchange rate of the Real to the U.S. Dollar was R$[ ] per U.S.$1.00, representing an appreciation of approximately [ ]% 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.

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	1.955
2003				
January	3.662	3.275	3.442	3.525
February	3.658	3.493	3.590	3.563
March	3.564	3.353	3.493	3.353
April	3.336	2.890	3.115	2.890
May	3.028	2.865	2.947	2.966
June	2.978	2.849	2.883	2.872
July	2.966	2.821	2.889	2.966
August	3.074	2.953	2.998	2.967
September	2.984	2.890	2.921	2.923
October	2.903	2.827	2.862	2.856
November	2.955	2.856	2.912	2.949
December (through December [ ])	[ ]	[ ]	[ ]	[ ]

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 December [ ], 2003 represents the average of the exchange rates at the close of trading on each business day during such period.

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 Annual Report on Form 20-F for the year ended December 31, 2002, filed with the SEC on June 19, 2003;

(2) the PIFCo Report on Form 6-K, furnished to the SEC on November 26, 2003, which includes unaudited consolidated financial statements of PIFCo, prepared in accordance with U.S. GAAP, as of September 30, 2003, and an analysis of PIFCo s financial condition and results of operations for the nine months ended September 30, 2003 and 2002;

(3) the PIFCo Report on Form 6-K, furnished to the SEC on September 10, 2003, which includes unaudited consolidated financial statements of PIFCo, prepared in accordance with U.S. GAAP, as of June 30, 2003, and an analysis of PIFCo s financial condition and results of operations for the six months ended June 30, 2003 and 2002;

(4) the PIFCo Report on Form 6-K, furnished to the SEC on June 19, 2003, which includes unaudited consolidated financial statements of PIFCo, prepared in accordance with U.S. GAAP, as of March 31, 2003, and an analysis of PIFCo s financial condition and results of operations for the three months ended March 31, 2003 and 2002; and

(5) 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 Annual Report on Form 20-F for the year ended December 31, 2002, filed with the SEC on June 19, 2003;

(2) the Petrobras Report on Form 6-K, furnished to the SEC on November 28, 2003, which includes unaudited consolidated financial statements of Petrobras, prepared in accordance with U.S. GAAP, as of September 30, 2003, and an analysis of Petrobras financial condition and results of operations for the nine months ended September 30, 2003 and 2002;

(3) the Petrobras Report on Form 6-K/A, furnished to the SEC on September 10, 2003, which includes unaudited consolidated financial statements of Petrobras, prepared in accordance with U.S. GAAP, as of June 30, 2003, and an analysis of Petrobras results of operations for the six months ended June 30, 2003 and 2002;

(4) the Petrobras report on Form 6-K, furnished to the SEC on June 11, 2003, which includes unaudited consolidated financial statements of Petrobras, prepared in accordance with U.S. GAAP, as of March 31, 2003, and an analysis of Petrobras results of operations for the three months ended March 31, 2003 and 2002;

(5) the Petrobras report on Form 6-K furnished to the SEC on July 14, 2003, relating to a press release titled Petrobras Announces Important Discovery of Petroleum in the Espírito Santo Basin ;

(6) the Petrobras report on Form 6-K furnished to the SEC on August 28, 2003, relating to a press release titled Participation in Thermoelectric Power Plants ;

(7) the Petrobras report on Form 6-K furnished to the SEC on September 19, 2003, relating to a press release titled Petrobras Raises U.S.$250 Million in Record Time ;

(8) the Petrobras report on Form 6-K furnished to the SEC on September 30, 2003, relating to a press release titled Announcement that addressed doubts regarding possible losses arising from frauds in connection with securities issued by Petrobras during the 1950s;

(9) the Petrobras report on Form 6-K furnished to the SEC on October 2, 2003, relating to a press release titled Petroleum Discovery in the State of Espírito Santo ;

(10) the Petrobras report on Form 6-K furnished to the SEC on October 8, 2003, relating to a press release titled Refining Record ;

(11) the Petrobras report on Form 6-K furnished to the SEC on October 27, 2003, relating to a press release titled Petrobras Awarded a Services Contract for Development and Exploration of the Cuervito Block in Mexico ;

(12) the Petrobras report on Form 6-K furnished to the SEC on October 29, 2003, relating to a press release titled Petrobras Announces a Discovery in the Gulf of Mexico ;

(13) the Petrobras report on Form 6-K furnished to the SEC on October 30, 2003, relating to a press release titled Issue of Debentures Convertible into Preferred Shares ;

(14) the Petrobras report on Form 6-K furnished to the SEC on November 13, 2003, relating to a press release titled Distribution of Interest on Own Capital ;

(15) the Petrobras report on Form 6-K furnished to the SEC on November 21, 2003, relating to a press release titled Minutes of the Extraordinary General Meeting ;

(16) 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. or Petrobras Energia Participaciones S.A. PEPSA (formerly known as Perez Companc) 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., PEPSA or its affiliates (other than PIFCo, Petrobras and its subsidiaries), including the Annual Report on Form 20-F for the year ended December 31, 2002 filed by Perez Companc S.A. with the SEC on June 30, 2003.

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:

Luciana Bastos de Freitas Rachid
Executive Manager, Investor Relations
Petróleo Brasileiro S.A. Petrobras
Avenida República do Chile, 65
20031-912 Rio de Janeiro RJ, Brazil
Telephone: (55-21) 2534-1510/2534-9947
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 Section of the SEC, 450 Fifth Street, N.W., room 124, 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, 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 price which represents 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 non-core activities that are conducted by three wholly-owned subsidiaries:

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;

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

Bear Insurance Company Ltd. BEAR, a captive insurance company incorporated in Bermuda.

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, and for the nine months ended September 30, 2003, Petrobras had sales of products and services of U.S.$31.3 billion, net operating revenues of U.S.$22.6 billion and net income of U.S.$5.7 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;
- 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 ownership in 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 20031-912 Rio de Janeiro RJ, Brazil, and its telephone number is (55-21) 2534-4477.

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, 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 Annual Report on Form 20-F filed with the SEC on June 19, 2003. The data as of September 30, 2003 and for the nine months ended September 30, 2003 and 2002 have been derived from the unaudited consolidated financial statements of PIFCo as of September 30, 2003 and for the nine months ended September 30, 2003 and 2002, which are included in PIFCo s Report on Form 6-K furnished to the SEC on November 26, 2003. The information below should be read in conjunction with, and is qualified in its entirety by reference to, the PIFCo financial statements.

	For the Nine Months Ended September 30,		For the Year Ended December 31,		
	2003	2002	2002	2001	2000
	(in thousands of U.S. Dollars)				
Income Statement Data:					
Sales of crude oil, oil products and services	$ 5,453,967	$ 4,693,589	$ 6,390,226	$ 6,260,514	$ 7,937,003
Lease income		20,869	36,062	10,682	
Cost of sales	(5,408,764)	(4,681,245)	(6,371,465)	(6,253,009)	(7,912,615)
Lease expense		(12,704)	(24,004)	(10,542)	
Selling, general and administrative expenses	(7,491)	(1,007)	(1,178)	(114)	
Gross profit	37,712	19,502	29,641	7,531	24,388
Financial income(1)	317,225	136,255	219,580	158,804	221,578
Financial expense(1)	(347,582)	(219,523)	(314,683)	(187,101)	(219,637)
Gain on materials and equipment				435	
Net income (loss)	$ 7,355	$ (63,766)	$ (65,462)	$ (20,331)	$ 26,329

	As of September 30, 2003	As of December 31,		
		2002	2001	2000
	(in thousands of U.S. Dollars)			
Balance Sheet Data:				
Cash and cash equivalents	$ 520,592	$ 260,629	$ 48,593	$ 51,198
Total assets	8,867,547	8,697,302	4,277,769	3,244,465
Loans payable to related parties	1,781,914	3,688,249	334,564	1,716,565
Short-term debt and current portion of long-term debt	1,105,830	367,470	990,427	530,352
Capital lease		68,948		
Long-term debt	5,105,873	3,248,716	2,335,000	245,000
Capital lease long-term		601,733		
Total stockholder s equity	105,207	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 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 consolidated financial information, presented in U.S. Dollars and prepared in accordance with U.S. GAAP. The data as of December 31, 2002 and 2001 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, 2001 and 2000 and for the years ended December 31, 2002, 2001 and 2000, which are included in Petrobras Annual Report on Form 20-F, filed with the SEC on June 19, 2003. The data as of September 30, 2003 and for the nine months ended September 30, 2003 and 2002 have been derived from the unaudited consolidated financial statements of Petrobras as of September 30, 2003 and for the nine months ended September 30, 2003 and 2002, which are included in Petrobras Report on Form 6-K furnished to the SEC on November 28, 2003. The information below should be read in conjunction with, and is qualified in its entirety by reference to, the Petrobras financial statements.

	Nine Months Ended September 30,		For the Year Ended December 31,		
	2003	2002	2002	2001	2000
	(in millions of U.S. Dollars)				
Income Statement Data:					
Sales of products and services	$ 31,300	$ 24,693	$ 32,987	$ 34,145	$ 35,496
Net operating revenues	22,648	16,682	22,612	24,549	26,955
Cost of sales(1)	(11,058)	(8,131)	(11,506)	(12,807)	(13,449)
Depreciation, depletion and amortization	(1,322)	(1,528)	(1,930)	(1,729)	(2,022)
Exploration, including exploratory dry holes	(311)	(301)	(435)	(404)	(440)
Impairment of oil and gas properties	(27)		(75)	(145)	(37)
Selling, general and administrative expenses(2)	(1,422)	(1,376)	(1,741)	(1,751)	(1,450)
Research and development expenses	(137)	(103)	(147)	(132)	(152)
Total costs and expenses	(14,277)	(11,439)	(15,834)	(16,968)	(17,550)
Other expense, net(3)	(1,151)	$ (2,029)	(3,546)	(2,789)	(1,602)
Income before income taxes and minority interest and accounting change	$ 7,220	3,214	3,232	4,792	7,803
Cumulative effect of change in accounting principles, net of income tax	697				
Income tax (expense)	(2,014)	(1,350)	(1,153)	(1,389)	(2,523)
Minority interest	(238)	374	232	88	62
Net income	$ 5,665	$ 2,238	$ 2,311	$ 3,491	$ 5,342
Cash Flow Data:					
Cash provided by (used in):					
Operating activities	$ 6,241	$ 3,645	$ 6,287	$ 8,743	$ 7,714
Investing activities	(4,120)	(3,768)	(6,656)	(4,592)	(3,651)
Financing activities	921	(1,335)	(1,614)	(1,754)	(810)

	As of September 30, 2003	As of December 31,		
		2002	2001	2000
	(in millions of U.S. Dollars)			
Balance Sheet Data:				
Cash and cash equivalents	$ 7,124	$ 3,301	$ 7,360	$ 5,826
Total assets	48,360	32,018	36,864	39,136

Short-term debt and current portion of long-term debt	2,404	1,398	2,041	4,080
Current portion of project financings and capital lease obligations	880	588	978	801
Long-term debt	10,755	6,987	5,908	4,833
Project financings and capital lease obligations	5,620	5,707	5,083	3,426
Total stockholders equity	16,077	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.$(45) million and U.S.$(81) million for the years ended December 31, 2001 and 2000, respectively.

(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.

The Offering

Issuer	Petrobras International Finance Company, or PIFCo
The Notes	U.S.$[ ] aggregate principal amount of [ ]% Global Notes due [ ]. The notes will be payable in U.S. Dollars.
Closing Date	December [ ], 2003.
Maturity Date	[ ]
Interest	The notes will bear interest from [ ] at the rate of [ ]% per annum until [ ], payable semiannually in arrears on each interest payment date. Interest is payable in U.S. Dollars.
Interest Payment Dates	June [ ] and December [ ] of each year, commencing on June [ ], 2004.
Codes	
(a) Common Code	[ ]
(b) ISIN	[ ]
(c) CUSIP	[ ]
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 and inter-company loans. 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 hereby will be issued pursuant to an indenture between PIFCo and JPMorgan Chase Bank, as trustee, dated as of July 19, 2002, as supplemented by the third 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 third 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 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.
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; 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 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;
- 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 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.

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 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.
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, 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.
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.$1,000 and in integral multiples of U.S.$1,000 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-18 before purchasing any notes.

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 condition and results of operations are largely affected by decisions of Petrobras. 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 a number of factors, including:

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;

PIFCo s ability to access financing sources, including third-party credit facilities; and

PIFCo s ability to transfer its financing costs to Petrobras.

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 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 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 financial condition.

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 resale to Petrobras, as described above. At any time, PIFCo may incur indebtedness related to such purchases and/or obtain 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. Petrobras is in the process of changing its risk management processes, including those which may affect PIFCo, but neither Petrobras nor PIFCo have 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 and its ability to meet its debt obligations.

Risks Relating to 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 crude oil and oil 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 crude oil and oil products markets in Brazil were deregulated in their entirety.

Historically, international prices for crude oil and oil products have fluctuated widely as a result of 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 (OPEC) 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; and
- military action, such as the recent U.S. military action in Iraq.

The average prices of Brent crude, an international benchmark oil, were approximately U.S.$28.65 per barrel for the nine months ended September 30, 2003, U.S.$25.02 per barrel for the year ended December 31, 2002, U.S.$24.44 per barrel for the year ended December 31, 2001 and U.S.$28.50 per barrel for the year ended December 31, 2000.

Changes in crude oil prices typically result in changes to prices for oil products. Lower crude oil prices have various effects on Petrobras, including decreasing its net operating revenues, net income and cash flows. In comparison, higher crude oil prices generally lead to increases in our 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 international crude oil prices may adversely affect Petrobras financial condition and the value of its proved reserves.

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

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 eliminated all price controls on crude oil and oil products in early 2002. Prices remain regulated, 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 that competition in our downstream and upstream activities will increase further, as existing and new participants expand their activities as a result of these regulatory changes.

Although Petrobras prices for crude oil and oil products are based on international prices, in periods of high international prices or sharp devaluations of the Real, Petrobras may not be able to adjust its prices in Reais sufficiently to maintain parity with international prices.

Since the Brazilian government s elimination of all price controls on crude oil and oil products in January 2002, there have been periods of high international prices or sharp devaluations of the Real when Petrobras has been unable to increase prices in Reais sufficiently to maintain parity with international prices. While Petrobras does not have an obligation to supply the Brazilian market, during periods when the local prices of crude oil and oil products were below prevailing international prices, its competitors were unwilling to supply the local market. In order to ensure adequate supply of crude oil and oil products in Brazil, Petrobras sold crude oil and oil products below prevailing international prices.

As a result of deregulation of the Brazilian market, and the elimination of import tariffs in particular, our competitors can sell products in the Brazilian market at parity with international prices. In light of this increased competition, Petrobras has less flexibility to maintain local prices above international prices to compensate for revenues not realized in periods in which Petrobras sold crude oil and oil products below prevailing international market prices.

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

Petrobras presently owns 98.6% of the existing refining capacity in Brazil. Petrobras plans to upgrade its present refineries and it may build new refineries in Brazil, sell participation interests in its present refineries to new partners or engage in asset swaps, as it did through its business combination in 2001 involving assets of Repsol-YPF S.A. Although Petrobras is not presently subject to any requirement to divest any assets, and the Brazilian 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 divestiture could have a material adverse effect on Petrobras financial condition.

Petrobras ability to achieve growth is dependent upon its finding or acquiring additional reserves, as well as successfully developing current 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, as well as successfully developing current reserves. In general, the volume of production from crude 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 acquires properties containing proved reserves, or both, its 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 crude 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, could have a material adverse effect on Petrobras financial condition.

Petrobras crude oil and natural gas reserve estimates involve some degree of uncertainty and may prove to be incorrect over time.

The proved crude oil and natural gas reserves set forth in Petrobras annual report is 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 numerous uncertainties inherent in estimating quantities of proved reserves. The reliability of proved reserve estimates depends on:

- the quality and quantity of our geological, technical and economic data;
- the prevailing crude oil and natural gas prices applicable to Petrobras production (which in the past have been subject to Brazilian government regulation);
- the production performance of Petrobras reservoirs; and
- extensive engineering judgments.

Many of the factors, assumptions and variables involved in estimating reserves are beyond Petrobras control and may prove to be incorrect. The results of Petrobras future drilling, testing and production activity may lead it to make significant revisions to its reserve estimates.

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 Renováveis* (Brazilian Institute of the Environment and Renewable Natural Resources), or IBAMA, which is the governmental entity responsible for the environmental control of potentially polluting activities, has imposed a number of fines in connection with Petrobras oil platforms operating in the Campos Basin and may impose restrictions on the operations of such platforms or other sanctions.

Petrobras spent approximately U.S.$466 million in 2002, U.S.$473 million in 2001 and U.S.$356 million in 2000 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 its 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 could result in reductions in other strategic investments that Petrobras has planned, with a resulting decrease to its profits, and future environmental costs may have a material adverse effect on its 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 our operations. Since January 1, 2000, Petrobras has experienced 11 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 remains subject to several investigations and potential civil and criminal liabilities as a result of past oil spills. These or any future oil spills may have a material adverse effect on Petrobras financial condition.

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, such fine or liability could have a material adverse effect on Petrobras 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 filed against it. Petrobras is also pursuing discussions with various government authorities over Petrobras licenses, including its right to operate certain platforms as well as assets acquired 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.$50 million as of that date, for probable and reasonably estimable losses and expenses Petrobras may incur in connection with all of Petrobras pending litigation and a separate provision of U.S.$105 million related to various tax assessments received from the *Instituto Nacional de Seguridade Social* (National Security Institute, or INSS).

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 it, 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. Additionally, Petrobras management may be required to direct its 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 have a material adverse effect Petrobras financial condition.

The State of Rio de Janeiro enacted a law imposing ICMS on oil upstream activities that may have a material adverse effect on Petrobras results of operation and financial condition.

The State of Rio de Janeiro enacted a law imposing *Imposto sobre Circulação de Mercadorias e Serviços* (state sales tax, or ICMS) on upstream activities that is scheduled to become effective on January 1, 2004. If the law becomes effective, the amount of ICMS that Petrobras is required to pay to the State of Rio de Janeiro will increase by approximately R$5.4 billion (U.S.$1.9 billion) per year. The current ICMS legislation in effect in the State of Rio de Janeiro only imposes ICMS on oil sales made within the territory of the State of Rio de Janeiro. As a result of the new law, Petrobras will pay ICMS twice, once when Petrobras extracts oil in Rio de Janeiro and a second time when Petrobras sells such oil in any other State.

Petrobras believes that this law represents an unconstitutional form of taxation, and intends to institute a judicial challenge to the law whenever it becomes effective. Petrobras believes that ongoing discussions with the State of Rio de Janeiro may lead to the law being revoked before it becomes effective. If the law is not revoked or if Petrobras is not successful in its judicial challenge, the law would increase the amount of taxes Petrobras pays, and such increase will have a material adverse effect on its level of investments and, therefore, on its results of operation and financial condition.

A final judicial ruling upholding the view of the Internal Revenue Service of Rio de Janeiro that drilling and production platforms may no longer be classified as sea-going vessels will increase the amount of taxes Petrobras pays, and such an increase may have a material adverse effect on Petrobras results of operation and financial condition.

The Internal Revenue Service of Rio de Janeiro has recently asserted that, under Brazilian law, drilling and production platforms may not be classified as sea-going vessels and therefore should not be chartered but leased. Based on this interpretation of Brazilian law, overseas remittances for charter payments would be reclassified as lease payments, and would be subject to withholding tax at the rate of 15%.

The Internal Revenue Service has filed two tax assessments against Petrobras in connection with the withholding tax on foreign remittances (IRRF) of payments related to the charter of vessels of movable platform types. On February 17, 2003, the Internal Revenue Service served Petrobras with a tax assessment notice for R$93 million (U.S.$32 million) covering disputed taxes for 1998. On June 27, 2003, the Internal Revenue Service served Petrobras with a tax assessment notice for R$3,064 million (U.S.$1,066 million) covering disputed taxes for the period from 1999 to 2002.

Petrobras recently received an unfavorable ruling from the Internal Revenue Service with respect to the February 2003 tax assessment, and has appealed this ruling to a higher administrative court competent to adjudicate the matter. Petrobras has appealed the June 2003 tax assessment, but has not yet received a response from the Internal Revenue Service.

Petrobras believes that Brazilian law supports its view that drilling and production platforms may be classified as sea-going vessels. However, in the event that a final judicial ruling supports the Internal Revenue Service s position, the taxes Petrobras pays in connection with its drilling and production platforms would significantly increase, and such an increase could have a material adverse effect on its level of investments and, therefore, on its results of operation and financial condition.

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 November 4, 2003, retroactive to September 1, 2003. This collective bargaining agreement will expire on August 31, 2004. A separate collective bargaining agreement is being negotiated with the maritime employees union in order to replace the actual agreement signed on December 27, 2002, retroactive to November 1, 2002, which expired on October 31, 2003 and has been revalidated until December 30, 2003.

From time to time, Petrobras has been subject to strikes and work stoppages. In 2001, Petrobras oil workers staged a five-day strike before a settlement was reached. The work stoppage resulted in a decrease in crude oil production. If Petrobras workers were to strike, the resulting work stoppages could have an adverse effect on Petrobras, as it 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 could be adversely affected by future strikes, work stoppages, protests or similar activities.

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 former 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 15 of the 39 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 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. In addition, demand for thermoelectric power in Brazil has been lower than expected. In 2002, Congress 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 Lula administration remains uncertain.

During 2002, Petrobras experienced significant losses relating to its investments in thermoelectric power generation. As a result, in 2002 Petrobras created a U.S.$205 million provision for losses related to Petrobras commitments to off-take electricity from certain thermoelectric power plants. Petrobras increased this provision in the first quarter of 2003 by a further U.S.$205 million. After deducting the losses incurred in the first nine months of 2003, which amounted to U.S.$391 million, the balance of the provision totaled U.S.$71 million as of September 30, 2003. Petrobras has limited its investments in this area, but its participation in the domestic power market may never become profitable. As a result, Petrobras participation in this market may have a material adverse effect on its financial condition.

Petrobras has adopted a new Strategic Plan, which may have a material adverse effect on its competitive position or ability to expand its operations.

On April 17, 2003, Petrobras announced the adoption of revisions to its Strategic Plan for the period 2003-2007. The new Strategic Plan maintains Petrobras core strategies and objectives, but reduces its overall budgeted capital expenditures for the year 2003. The revisions for 2003 reflect an environment of decreased access to financial markets and increased volatility in foreign exchange rates and crude oil prices. The changes to Petrobras Strategic Plan, particularly the decrease in overall budgeted capital expenditures, could affect Petrobras ability to achieve certain of its strategic goals, and in particular, could adversely affect Petrobras competitive position or ability to expand its operations.

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 its 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, 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 Petrobras planned investments in Brazil could hurt its competitive position in the Brazilian oil and gas sector, particularly as other companies enter the market.

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

The principal market for Petrobras products is Brazil, and over the last three fiscal years over 86% of its revenues have been denominated in Reais. 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 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 downward pressure on the Real, on January 15, 1999, the Central Bank of Brazil allowed the Real to float freely. The Real depreciated 9.3% in 2000, 15.7% in 2001 and 52.3% in 2002 against the U.S. Dollar. As of December [ ], 2003, the exchange rate of the Real to the U.S. Dollar was R$[ ] per U.S.$1.00, representing an appreciation of approximately [ ]% in 2003 year-to-date. There is no assurance that this trend will continue, and the Real may depreciate further in the future. Petrobras cannot predict the impact on its operations of any future substantial devaluation of the Real, which could adversely affect Petrobras operating cash flows and its ability to meet its foreign currency-denominated obligations. You should consider this risk in light of past devaluations of the Real caused by inflationary and other pressures.

Petrobras is 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, it 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.

In the aftermath of the U.S. military action in Iraq there may be changes to the international oil markets, some of which could have an adverse effect on Petrobras.

Following the U.S. military action in Iraq, the United Nations eliminated sanctions that had limited Iraq s ability to participate in the international oil markets. As a result, it is expected that in the future, Iraq will substantially increase its production and export sales of crude oil and oil products. Given the uncertainty surrounding the circumstances under which Iraq s oil industry will be managed over the next few years, it is impossible to predict the economic or political goals which the United States government or any other party controlling such industry will seek to achieve. The changes to the international oil markets that could result from Iraq s re-entry into such markets could have a material adverse effect on Petrobras financial condition.

Petrobras ability to obtain affordable insurance coverage may be adversely affected by changes in the insurance markets, its recent history of claims under its insurance policies and changes in the insurance markets following the September 11, 2001 terrorist attacks.

The insurance premiums charged for some or all of the coverage historically maintained by Petrobras and its subsidiaries has increased significantly in the past as a result of changes in the insurance markets and claims under its insurance policies. Following the March 15, 2001 explosion that sank Platform P-36, Petrobras insurance costs increased substantially, from U.S.$36.0 million in 2001 to U.S.$46.4 million in 2002. For 2003, these costs have decreased to U.S.$29.3 million. Petrobras insurance costs may increase, or coverage may be unavailable, in the future. The premiums for war risk and terrorism insurance have also increased substantially in the past, and in some cases, such insurance is not available. Following the September 11, 2001 terrorist attacks, insurance underwriters 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 insurance 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. The failure to obtain insurance against risks inherent in Petrobras business may expose Petrobras to catastrophic losses that may have a material adverse effect on its financial condition.

Petrobras may not achieve the anticipated timing, efficiencies and benefits of integrating Petrobras Energia Participaciones S.A. PEPSA (formerly known as Perez Companc) into its business.

On October 17, 2002, Petrobras agreed to acquire 58.62% of the capital stock of PEPSA, an Argentine *sociedad anonima* and the second largest Argentine energy company, from the Perez Companc family and the Perez Companc Foundation for approximately U.S.$1.03 billion. The completion of the PEPSA acquisition was contingent upon antitrust approval from the Argentine government s *Comisión Nacional de Defensa de la Competencia* (the National Council for the Defense of Competition or the CNDC). The CNDC approved the transaction on May 13, 2003.

It is possible that Petrobras may not achieve the anticipated timing, efficiencies and benefits of integrating PEPSA 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 achieve the anticipated timing, efficiencies and benefits of integrating PEPSA into Petrobras business may negatively impact Petrobras and its ability to implement its strategic objectives in South America.

PEPSA is subject to substantial risks relating to its business and operations in Argentina and other South American countries.

PEPSA had approximately 59.6% 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, PEPSA s financial condition 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 PEPSA to service its non-Peso denominated debt;

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

the devaluation of the Argentine Peso, which could lead to significant losses in PEPSA 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 PEPSA 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 three of PEPSA s affiliated utility companies, TGS, CIESA (the parent of TGS), and Transener, and which could lead to defaults by other affiliated utility companies.

PEPSA is also active in Venezuela, Ecuador, Bolivia, Peru and Brazil. Production from Venezuela accounted for approximately 28.7% of PEPSA s total average production in barrels of oil equivalent in 2002, constituting the largest operation outside Argentina. Accordingly, PEPSA s operations may be negatively affected by:

political and economic instability in Venezuela;

any decisions by 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 PEPSA s operating agreements in Venezuela.

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 PEPSA acquisition, and that development might negatively impact Petrobras and its ability to implement its strategic objectives in South America.

The current Argentine economic, political and social crisis could adversely affect the financial condition and results of operation of PEPSA and Petrobras other Argentine operations.

Petrobras has acquired a majority interest in several entities with operations in Argentina, including PEPSA. The financial condition and results of operation of PEPSA and other acquisitions may be adversely affected by Argentine political instability, fluctuations in the Argentine economy and governmental actions concerning the economy, which could result in Petrobras failure to realize the benefits it currently expects to realize from those acquisitions.

Since 1999, the Argentine economy has been in a recession marked by reduced levels of consumption and investment, increased unemployment, declining gross domestic product and capital flight.

On December 20, 2001, President Fernando de la Rúa resigned, and since then, Argentina has had several presidents, including President Eduardo Duhalde, who held office from January 2002 to May 2003. During his term, President Duhalde and his government undertook a number of far-reaching initiatives, including:

- ratifying the suspension of payment of certain of Argentina s sovereign debt;
- amending Argentina s Convertibility Law to allow 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 66.4% decline in the value of the Peso against the U.S. Dollar from January 7, 2002 to March 31, 2003;
- converting certain U.S. dollar-denominated debts into peso-denominated debts at a one-to-one exchange rate and U.S. dollar-denominated bank deposits into peso-denominated bank deposits at an exchange rate of 1.4 Argentine Pesos per U.S.$1.00;
- restructuring bank deposits and maintaining restrictions on bank withdrawals;
- enacting an amendment to the Argentine Central Bank s charter to (i) allow it to print currency in excess of the amount of the foreign reserves it holds, (ii) make short-term advances to the Argentine federal government and (iii) provide financial assistance to financial institutions with liquidity constraints or solvency problems;
- imposing restrictions on transfers of funds abroad subject to certain exceptions; and
- requiring the deposit into the banking system of foreign currency earned from exports, subject to certain exceptions.

The rapid and radical nature of recent changes in the Argentine social, political, economic and legal environment created an atmosphere of great uncertainty in the banking system. As a result, commercial and financial activities were virtually paralyzed during 2002, further aggravating the economic recession which precipitated the current crisis. Moreover, due to the depth of the social and political crisis that affected Argentina in 2002, commercial enterprises in Argentina continue to face risks, including: (i) civil unrest, rioting, looting, nation-wide protests, widespread social unrest and strikes, (ii) expropriation, nationalization and forced renegotiation or modification of existing contracts and (iii) changes in taxation policies, including royalty and tax increases and retroactive tax claims.

On May 25, 2003, a new president, Néstor Kirchner, took office. There is uncertainty as to the nature and scope of the measures to be adopted by Mr. Kirchner s government to address many of the country s unresolved economic problems, including the renegotiation of its external debt. Petrobras cannot predict the policies the new Kirchner administration may adopt or the effect that those policies could have on Argentine economic conditions and Petrobras activities in Argentina.

Risks Relating to the Relationship between Petrobras and the Brazilian Government

The interests of the Brazilian government, as Petrobras controlling shareholder, may conflict with the interests of its other 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 us. These initiatives have not always been in Petrobras best interests or the best interests of its other shareholders and creditors. Brazilian law requires the Brazilian government to own a majority of Petrobras voting stock, and so long as it does, the Brazilian government will have the power to elect a majority of the members of its 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 may engage in activities that give preference to the Brazilian government s agenda rather than to its own economic and business objectives. 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 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 Petrobras shareholders and creditors.

Luiz Inácio Lula da Silva was elected President of Brazil in October 2002 and took office on January 1, 2003. As a result, there were significant changes in Petrobras board of directors and senior management in the first few months of 2003. 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 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 Petrobras financial condition and results of operations.

In the past, the Brazilian government set prices for crude oil and oil products in Brazil, often below prevailing prices on 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 us is recorded as an asset on Petrobras balance sheet under the line item Petroleum and Alcohol Account Receivable from the Brazilian government. The balance of the account at September 30, 2003 was U.S.$234 million. Effective January 2, 2002, all price controls for crude oil and oil products ended, and while no price controls were imposed in 2002 or in the first nine months of 2003, 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, it could have a material adverse effect on Petrobras financial condition.

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

The Brazilian economy has been characterized by significant involvement by the Brazilian government, which often changes monetary, credit and other policies to influence Brazil s economy. The Brazilian government s actions to control inflation and other economic policies have often involved wage and price controls, modifications to the Central Bank of Brazil s base interest rates, and other measures, such as the freezing of bank accounts, which occurred in 1990.

The Brazilian government s economic policies may have important effects on Brazilian corporations and other entities, including us, and on market conditions and prices of Brazilian securities. Petrobras financial condition 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 new Brazilian administration may have on Brazilian economic conditions or on its financial condition.

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

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 products. The Brazilian government also established freight subsidies to ensure uniform oil product prices throughout Brazil, but these subsidies have since been phased out. Beginning in July 1998, and until the institution of price deregulation on January 2, 2002, the Brazilian 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.

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. 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, but if the Brazilian government were to restrict or prevent it from exploiting these crude oil and natural gas reserves, Petrobras ability to generate income would be adversely affected.

The Brazilian government is no longer contingently liable for Petrobras liabilities in the event of its 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 any obligations under the notes.

Risks Relating to Brazil

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.

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*), 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% during 2001, to 14.7% in 2002 and to 9.4% in the first ten months of 2003.

Brazil may experience high levels of inflation in the future. The lower levels of inflation experienced since 1994 may not 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 86% of Petrobras revenues has 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 the U.S. Dollar 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 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 9.3% in 2000, 15.7% 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 have a material adverse effect on Petrobras financial condition.

The current crisis in Argentina could adversely affect the Brazilian economy, adversely affecting Petrobras ability to finance its operations and its investments in Argentina.

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.

Any deterioration of the Argentine economy and devaluation of the Argentine 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.

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.

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 restrictions on the conversion of Reais 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 under 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.

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

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 of Brazil. 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 agreement, Central Bank of Brazil approval will be required to make such payments. 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 noteholders receive payments in Reais corresponding to the equivalent U.S. Dollar amounts due under the 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.

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

Petrobras will enter into the standby purchase agreement described in this prospectus supplement 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 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 intends to incur, or believed or believes that Petrobras would incur, debts beyond its ability to pay such debts as they mature; and

in each case, received or receives 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 hel