

## RISK FACTORS

### Risks Relating to Our Operations

***Substantial or extended declines and volatility in the international prices of crude oil, oil products and natural gas may have a material adverse effect on our income***

The majority of our revenue is derived primarily from sales of crude oil and oil products and, to a lesser extent, natural gas. We do not, and will not, have control over the factors affecting international prices for crude oil, oil products and natural gas. The average price of Brent crude, an international benchmark oil, was approximately U.S.\$96.99 per barrel for 2008, U.S.\$72.52 per barrel for 2007 and U.S.\$65.14 per barrel for 2006, and the price of Brent crude was U.S.\$41.76 per barrel on April 30, 2009. Changes in crude oil prices typically result in changes in prices for oil products and natural gas.

Historically, international prices for crude oil, oil products and natural gas have fluctuated widely as a result of many factors. These factors include:

- global and regional economic and geopolitical developments in crude oil producing regions, particularly in the Middle East;
- the ability of the Organization of Petroleum Exporting Countries (OPEC) to set and maintain crude oil production levels and defend prices;
- global and regional supply and demand for crude oil, oil products and natural gas;
- competition from other energy sources;
- domestic and foreign government regulations; and
- weather conditions.

Volatility and uncertainty in international prices for crude oil, oil products and natural gas may continue. Substantial or extended declines in international crude oil prices may have a material adverse effect on our business, results of operations and financial condition, and the value of our proved reserves. Significant decreases in the price of crude

oil may cause us to reduce or alter the timing of our capital expenditures, and this could adversely affect our production forecasts in the medium term and our reserve estimates in the future. In addition, our pricing policy in Brazil is intended to be at parity with international product prices over the long term. In general we do not adjust our prices for diesel, gasoline and LPG during periods of volatility in the international markets. As a result, material rapid or sustained increases in the international price of crude oil and oil products may result in reduced downstream margins for us, and we may not realize all the gains that our competitors realize in periods of higher international prices.

***Our ability to achieve our long-term growth objectives depends on our ability to discover additional reserves and successfully develop them, and failure to do so could prevent us from achieving our long-term goals for growth in production.***

Our ability to achieve our long-term growth objectives, including those defined in our 2009-2013 Business Plan, is highly dependent upon our ability to obtain new concessions through new bidding rounds and discover additional reserves, as well as to successfully develop our existing reserves. We will need to make substantial investments to achieve the growth targets set forth in our 2009-2013 Business Plan and we cannot assure you we will be able to raise the required capital.

Further, our competitive advantage in bidding rounds for new concessions in Brazil has diminished over the years as a result of the increased competition in the oil and gas sector in Brazil. In addition, our exploration activities expose us to the inherent risks of drilling, including the risk that we will not discover commercially productive crude oil or natural gas reserves. The costs of drilling wells are often uncertain, and numerous factors beyond our control (such as unexpected drilling conditions, equipment failures or accidents, and shortages or delays in the availability of drilling rigs and the delivery of equipment) may cause drilling operations to be curtailed, delayed or cancelled. These risks are heightened when we drill in deep and ultra-deep water. Deep and ultra-deepwater drilling represented approximately 35% of the exploratory wells we drilled in 2008.

Unless we conduct successful exploration and development activities or acquire properties containing proved reserves, or both, and are able to raise the necessary capital to fund these activities, our proved reserves will decline as reserves are extracted. If we fail to gain access to additional reserves we may not achieve our goals for production growth for 2009 through 2013 and our results of operations and financial condition may be adversely affected.

***The current global financial crisis and uncertain economic environment have led to lower oil prices that, if sustained, may reduce our cash flow and make it difficult for us to achieve our growth objectives as defined in our 2009-2013 Business Plan.***

The current global financial crisis and uncertain economic environment that worsened in the second half of 2008 have led to a worldwide decrease in demand for oil products. As a result, prices for oil products have fallen and our cash flows have been reduced. If oil prices remain low, we may be required to revise our growth objectives, particularly in light of substantial decreases in the availability of credit in the capital markets. The global financial and economic situation may also have a negative impact on third parties with whom we do, or may do, business. Any of these factors may affect our results of operations, financial condition and liquidity.

***We do not own any of the crude oil and natural gas reserves in Brazil.***

A guaranteed source of crude oil and natural gas reserves is essential to an oil and gas company's sustained production and generation of income. Under Brazilian law, the Brazilian government owns all crude oil and natural gas reserves in Brazil and the concessionaire owns the oil and gas it produces. We possess the exclusive right to develop our reserves pursuant to concession agreements awarded to us by the Brazilian government and we own the hydrocarbons we produce under the concession agreements, but if the Brazilian government were to restrict or prevent us from exploiting these crude oil and natural gas reserves, our ability to generate income would be adversely affected.

***Our crude oil and natural gas reserve estimates involve some degree of uncertainty, which could adversely affect our ability to generate income.***

The proved crude oil and natural gas reserves set forth in this annual report are our 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). Our proved developed crude oil and natural gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. There are uncertainties in estimating quantities of proved reserves related to prevailing crude oil and natural gas prices applicable to our production, which may lead us to make revisions to our reserve estimates. Downward revisions in our reserve estimates could lead to lower future production, which could have an adverse effect on our results of operations and financial condition.

***We may not have sufficient resources to support future exploration, production and development activities in our newly discovered pre-salt reservoirs.***

Exploiting our oil and gas discoveries in the pre-salt reservoirs will require substantial additional amounts of capital, human resources and a broad range of offshore oil services. A primary operational challenge will be increasing our drilling rig fleet. The availability of existing rigs is limited, as is shipyard capacity to build new drilling units. We are continually forced to prioritize between development wells and exploration wells, and we may not be able to secure as many drilling rigs as we will require to meet our exploration, production and development goals with respect to our pre-salt reservoirs.

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

Our activities are subject to a wide variety of federal, state and local laws, regulations and permit requirements relating to the protection of human health and the environment, both in Brazil

and in other jurisdictions in which we operate. In Brazil, we could be exposed to administrative and criminal sanctions, including warnings, fines and closure orders for non-compliance with these environmental regulations, which, among other things, limit or prohibit emissions or spills of toxic substances produced in connection with our operations. We have experienced oil spills in the past that resulted in fines by various state and federal environmental agencies, and several civil and criminal proceedings and investigations. See Item 8. "Financial Information—Legal Proceedings." Waste disposal and emissions regulations may also require us to clean up or retrofit our facilities at substantial cost and could result in substantial liabilities. The *Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis* (Brazilian Institute of the Environment and Renewable Natural Resources, or IBAMA) routinely inspects our oil platforms in the Campos Basin, and may impose fines, restrictions on operations or other sanctions in connection with its inspections. In addition, we are subject to environmental laws that require us to incur significant costs to cover damage that a project may cause to the environment. These additional costs may have a negative impact on the profitability of the projects we intend to implement or may make such projects economically unfeasible.

As environmental regulations become more stringent, and as new laws and regulations relating to climate change, including carbon controls, become applicable to us, it is probable that our capital expenditures for compliance with environmental regulations and to effect improvements in our health, safety and environmental practices will increase substantially in the future. In addition, because our capital expenditures are subject to approval by the Brazilian government, increased expenditures to comply with environmental regulations could result in reductions in other strategic investments. Any substantial increase in expenditures for compliance with environmental regulations or reduction in strategic investments may have a material adverse effect on our results of operations or financial condition.

***We may incur losses and spend time and money defending pending litigations and arbitrations.***

We are currently a party to numerous legal proceedings relating to civil, administrative, environmental, labor and tax claims filed against us. These claims involve substantial amounts of money and other remedies. Several individual disputes account for a significant part of the total amount of claims against us. For example, on the grounds that drilling and production platforms may not be classified as sea-going vessels, the Brazilian Revenue Service asserted that overseas remittances for charter payments should be reclassified as lease payment and subject to a withholding tax of 25%. The Revenue Service has filed two tax assessments against us that in the aggregate, on December 31, 2008, amounted to R\$4,372 million (approximately U.S.\$1,871 million). See Item 8. "Financial Information—Legal Proceedings."

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

***Our investment in the natural gas and domestic power markets may not generate the returns we expect.***

Over the past five years, we have invested, alone or with other investors, in a number of gas-fired power plants in Brazil. These gas-fired power plants provide non-base-load capacity to the grid and tend to operate at low average utilization rates. This low utilization rate has a negative effect on our ability to provide a return on these investments.

Natural gas demand is also influenced by general economic conditions and oil prices. In the first quarter of 2009, non-thermoelectric demand for natural gas in Brazil declined 22% compared to average demand in 2008, due primarily to a downturn in the industrial sector and lower

international prices for crude oil and oil products, the primary alternatives to natural gas. Our natural gas prices do not immediately adjust to fluctuations in the international price of crude oil and oil products, which can make natural gas less competitive until it adjusts to lower international prices. Sustained declines in the Brazilian natural gas market may have a material adverse effect on our results of operations and financial condition.

We are also subject to fines and may lose our license to sell electricity if we are unable to fulfill our energy delivery commitments to the *Agência Nacional de Energia Elétrica-ANEEL*, the Brazilian energy regulator, due to gas supply constraints. There are several factors that may affect our ability to deliver gas to our gas-fired power plants including our inability to secure supply of natural gas, problems affecting our natural gas infrastructure and increasing demand in the non-thermoelectric market. See Item 4. "Information on the Company-Gas and Energy-Power-Electricity Sales" for a more detailed description of these risks.

As a result of the foregoing, our investment in the natural gas and domestic power markets has generated losses in the past and may not generate the returns we expect in the future.

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

The impacts of fluctuations in exchange rates, especially the *real*/U.S. dollar rate, on our operations are varied and may be material. The principal market for our products is Brazil, as over the last three fiscal years over 73% of our revenues have been denominated in *reais*, while some of our operating expenses and capital expenditures and a substantial portion of our indebtedness are, and are expected to continue to be, denominated in or indexed to U.S. dollars and other foreign currencies. In addition, during 2008 we imported U.S.\$22.2 billion of crude oil and oil products, the prices of which were all denominated and paid in U.S. dollars. Conversely, a substantial share of our liquid assets are held in U.S. dollar denominated assets, or indexed to the U.S. dollar, but we do not use forwards, swaps and futures contracts to mitigate the impact of changes in currency values

on our operations and financial statements because of their limited liquidity and cost.

Our recent financial statements reflect the appreciation of the *real* by 11.8%, 8.7% and 17.2% against the U.S. dollar in 2005, 2006 and 2007, respectively, and the depreciation of the *real* by 31.9% against the U.S. dollar in 2008. The weakness of the U.S. dollar against other currencies in general has also affected our results. As of May 20, 2009, the exchange rate of the *real* to the U.S. dollar was R\$2.020 per U.S.\$1.00, representing an appreciation of approximately 13.6% in 2009, year-to-date.

***We are exposed to increases in prevailing market interest rates, which leaves us vulnerable to increased financing expenses.***

As of December 31, 2008, approximately 66%-U.S.\$17,956 million of our total indebtedness-consisted of floating rate debt. In light of cost considerations and market analysis, we decided not to enter into derivative contracts or make other arrangements to hedge against the risk of an increase in interest rates. Accordingly, if market interest rates (principally LIBOR) rise, our financing expenses will increase, which could have an adverse effect on our results of operations and financial condition.

***We are not insured against business interruption for our Brazilian operations and most of our assets are not insured against war or sabotage.***

We do not maintain coverage for business interruptions of any nature for our Brazilian operations, including business interruptions caused by labor action. If, for instance, our workers were to strike, the resulting work stoppages could have an adverse effect on us. In addition, we do not insure most of our assets against war or sabotage. Therefore, an attack or an operational incident causing an interruption of our business could have a material adverse effect on our financial condition or results of operations.

***We are subject to substantial risks relating to our international operations, in particular in Latin America, West Africa and the Middle East.***

We operate in a number of different countries, particularly in Latin America, West Africa and the Middle East, that can be politically, economically and socially unstable. The results of operations and financial condition of our

subsidiaries in these countries may be adversely affected by fluctuations in their local economies, political instability and governmental actions relating to the economy, including:

- the imposition of exchange or price controls;
- the imposition of restrictions on hydrocarbon exports;
- the fluctuation of local currencies;
- the nationalization of oil and gas reserves, as experienced in recent years in Venezuela, Ecuador and Bolivia;
- increases in export tax and income tax rates for crude oil and oil products, as experienced in recent years in Argentina, Venezuela, Ecuador and Bolivia; and
- unilateral (governmental) institutional and contractual changes, including controls on investments and limitations on new projects, as experienced in recent years in Venezuela, Ecuador and Bolivia.

If one or more of the risks described above were to materialize we may lose part or all of our reserves in the affected country and we may not achieve our strategic objectives in these countries or in our international operations as a whole, which may result in a material adverse effect on our results of operations and financial condition.

Of the countries outside of Brazil in which we operate, Argentina is the most significant, representing 44.65% of our total international crude oil and natural gas production and 31.71% of our international proved crude oil and natural gas reserves as of December 31, 2008. The Argentine government has established export tax rates for crude oil, natural gas and oil products that have negatively affected our results of operations and financial condition. We also have significant operations in Bolivia and Venezuela that represented, respectively, 24.32% and 6.29% of our total international production in barrels of oil equivalent at December 31, 2008. Bolivia accounted for 31.02% of our international proved crude oil and natural gas reserves at December 31, 2008. On

January 25, 2009, Bolivia adopted a new constitution that prohibits private ownership of the country's oil and gas resources. In light of the new constitution, we may be required to write off some or all of our proved reserves in Bolivia at the end of 2009. For more information about our operations outside Brazil, see Item 4, "Information on the Company-International."

#### Risks Relating to PifCo

##### ***PifCo's operations and debt servicing capabilities are dependent on us.***

PifCo's financial position and results of operations are directly affected by our decisions. PifCo is a direct wholly owned subsidiary of Petrobras incorporated in the Cayman Islands as an exempted company with limited liability. PifCo purchases crude oil and oil products from third parties and sells them at a premium to us on a deferred payment basis. PifCo also purchases crude oil and oil products from us and sells them outside Brazil. Accordingly, intercompany activities and transactions, and therefore PifCo's financial position and results of operations, are affected by decisions made by us. Additionally, PifCo sells and purchases crude oil and oil products to and from third parties and related parties mainly outside Brazil. Commercial operations are carried out under market conditions and at market prices. PifCo's ability to service and repay its indebtedness is consequently dependent on our own operations.

Financing for PifCo's operations is provided by us, as well as third-party credit providers in favor of whom we provide credit support. Our support to PifCo's debt obligations is made through guarantees and standby purchase agreements whereby we agree to repurchase from the holders of PifCo's notes their right to receive payment from PifCo in the event PifCo defaults on its payment obligations.

Our own financial condition and results of operations, as well as our financial support of PifCo, directly affect PifCo's operational results and debt servicing capabilities. For a more detailed description of certain risks that may have a material adverse impact on our financial condition or results of operations and therefore affect PifCo's ability to meet its debt obligations, see "Risks Relating to Our Operations."

***PifCo depends on its ability to pass on its financing costs to us.***

PifCo is principally engaged in the purchase of crude oil and oil products for sale to us, as described above. PifCo regularly incurs indebtedness related to such purchases and/or in obtaining financing from us or third-party creditors. All such indebtedness has the benefit of a guaranty, a standby purchase obligation or other support from us, and PifCo has historically passed on its financing costs to us by selling crude oil and oil products to us at a premium to compensate for its financing costs. If for any reason we are not permitted to continue these practices, this would have a materially adverse effect on PifCo's business and on its ability to meet its debt obligations in the long term.

**Risks Relating to Our Relationship with the Brazilian Government**

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

The Brazilian government, as our controlling shareholder, has pursued, and may pursue in the future, certain of its macroeconomic and social objectives through us. Brazilian law requires the Brazilian government to own a majority of our voting stock, and so long as it does, the Brazilian government will have the power to elect a majority of the members of our board of directors and, through them, a majority of the executive officers who are responsible for our day-to-day management. As a result, we may engage in activities that give preference to the objectives of the Brazilian government rather than to our own economic and business objectives.

In particular, we continue to assist the Brazilian government to ensure that the supply and pricing of crude oil and oil products in Brazil meets Brazilian consumption requirements. Accordingly, we may make investments, incur costs and engage in sales on terms that may have an adverse effect on our results of operations and financial condition. Prior to January 2002, prices for crude oil and oil products were regulated by the Brazilian government, occasionally set below prices prevailing in the world oil markets. We cannot assure you that future governments in Brazil will not reinstate price controls.

***We may not be able to obtain financing for some of our planned investments, and failure to do so could adversely affect our operating results and financial condition.***

The Brazilian government maintains control over our investment budget and establishes limits on our investments and long-term debt. As a state-controlled entity, we must submit our proposed annual budgets to the Ministry of Planning, Budget and Management, the Ministry of Mines and Energy, and the Brazilian Congress for approval. If our approved budget reduces our proposed investments and incurrence of new debt and we cannot obtain financing that does not require Brazilian government approval, we may not be able to make all the investments we envision, including those we have agreed to make to expand and develop our crude oil and natural gas fields. If we are unable to make these investments, our operating results and financial condition may be adversely affected.

**Risks Relating to Brazil**

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

The Brazilian government's economic policies may have important effects on Brazilian companies, including us, and on market conditions and prices of Brazilian securities. Our financial condition and results of operations may be adversely affected by the following factors and the Brazilian government's response to these factors:

- devaluations and other exchange rate movements;
- inflation;
- exchange control policies;
- social instability;
- price instability;
- interest rates;
- liquidity of domestic capital and lending markets;

- tax policy;
- regulatory policy for the oil and gas industry, including pricing policy; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

We may specifically be affected by certain initiatives to increase taxation on our upstream activities. In June 2003, the State of Rio de Janeiro enacted a new tax law that imposed a Domestic State Tax (ICMS) on our upstream activities, including on import of oil and gas exploratory equipment. The State of Rio de Janeiro has never enforced this law, and its constitutionality is being challenged in the Brazilian Supreme Court (*Supremo Tribunal Federal*, or STF). In the event that the state government attempts to enforce this law and the courts uphold that enforcement, we estimate that the amount of ICMS that we would be required to pay to the State of Rio de Janeiro could increase approximately R\$10.7 billion (U.S.\$6.2 billion) per year. In addition, there have been recent initiatives in the Brazilian Congress to reform the Brazilian tax laws and there is a risk that the proposed reforms would increase taxation on our upstream activities. Due to the uncertainties related to these initiatives, we cannot quantify what our tax burden would be if the new laws or reforms were approved.

In addition, the recent discovery of large petroleum and natural gas reserves in the pre-salt geological layer of the Campos and Santos basins has prompted discussions on possible changes to the existing Oil Law. The Brazilian government has created an inter-ministerial committee to consider substantial changes in the regulation of exploration and production activities in areas of the pre-salt geological layer not subject to existing concessions. The committee has not yet made a formal recommendation to the Brazilian government, and we cannot estimate the impact that any change to the Oil Law would have on Petrobras, or when any new regulations may become effective. See Item 4. "Information on the Company—Regulation of the Oil and Gas Industry in Brazil—Discussions on Possible Changes to the Oil Law."

Uncertainty over whether the Brazilian government will implement these or other changes in policy or regulations that may affect any of the factors mentioned above or other

factors in the future may lead to economic uncertainty in Brazil and increase the volatility of the Brazilian securities market and securities issued abroad by Brazilian companies. Such changes in policies and regulations may have a material adverse effect on our results of operations and financial condition.

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

Our principal market is Brazil, which has, in the past, periodically experienced extremely high rates of inflation. Inflation, along with governmental measures to combat inflation and public speculation about possible future measures, has had significant negative effects on the Brazilian economy. The annual rates of inflation have been historically high in Brazil prior to 1995 and Brazil experienced hyperinflation in the past. As measured by the National Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*, or IPCA), Brazil had annual rates of inflation of 3.14% in 2006, 4.46% in 2007 and 5.90% in 2008. Considering the historically high rates of inflation, Brazil may experience higher levels of inflation in the future. The lower levels of inflation experienced since 1995 may not continue. Future governmental actions, including actions to adjust the value of the *real*, could trigger increases in inflation, which may adversely affect our financial condition.

***Developments and the perception of risk in other countries, especially in the United States and in emerging market countries, may adversely affect the market price of Brazilian securities, including our shares and ADSs, and limit our ability to finance our operations.***

The market value of securities of Brazilian companies is affected to varying degrees by economic and market conditions in other countries, including the United States and other Latin American and emerging market countries. Although economic conditions in these countries may differ significantly from economic conditions in Brazil, investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of Brazilian issuers. Crises in other countries or economic policies of other

countries may diminish investor interest in securities of Brazilian issuers, including ours. This could adversely affect the market price of our shares and ADSs, and could limit our ability to finance our operations.

The recent global financial crisis has had significant consequences worldwide, including in Brazil, such as stock and credit market volatility, unavailability of credit, higher interest rates, a general slowdown of the world economy, volatile exchange rates and inflationary pressure, among others, which have and may continue to, directly or indirectly, adversely affect our operating results, financial position and the price of securities issued by Brazilian companies.

#### **Risks Relating to Our Equity and Debt Securities**

***The size, volatility, liquidity and/or regulation of the Brazilian securities markets may curb the ability of holders of ADSs to sell the common or preferred shares underlying our ADSs.***

Petrobras shares are some of the most liquid in the São Paulo Stock Exchange (Bovespa), but overall, the Brazilian securities markets are smaller, more volatile and less liquid than the major securities markets in the United States and other jurisdictions, and may be regulated differently from the way in which U.S. investors are accustomed. Factors that may specifically affect the Brazilian equity markets may limit the ability of holders of ADSs to sell the common or preferred shares underlying our ADSs at the price and time they desire.

***The market for PifCo's notes may not be liquid.***

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

***Holders of ADSs may be unable to exercise preemptive rights with respect to the common or preferred shares underlying the ADSs.***

Holders of ADSs who are residents of the United States may not be able to exercise the preemptive rights relating to the common or preferred shares underlying our ADSs unless a registration statement under the U.S. Securities Act is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to the common or preferred shares relating to these preemptive rights, and therefore we may not file any such registration statement. If a registration statement is not filed and an exemption from registration does not exist, JPMorgan Chase Bank, N.A., as depositary, will attempt to sell the preemptive rights, and holders of ADSs will be entitled to receive the proceeds of the sale. However, the preemptive rights will expire if the depositary cannot sell them. For a more complete description of preemptive rights with respect to the common or preferred shares, see Item 10. "Additional Information-Memorandum and Articles of Association of Petrobras-Preemptive Rights."

***Restrictions on the movement of capital out of Brazil may impair the ability of holders of ADSs to receive dividends and distributions on, and the proceeds of any sale of, the common or preferred shares underlying the ADSs and may impact our ability to service certain debt obligations, including guarantees and standby purchase agreements we have entered into in support of PifCo's notes.***

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

The Brazilian government imposed remittance restrictions for approximately six months in 1990. The Brazilian government could decide to take similar measures in the future. Similar restrictions, if imposed, could impair or prevent the conversion of dividends, distributions,



or the proceeds from any sale of common or preferred shares from *reais* into U.S. dollars and the remittance of the U.S. dollars abroad. If such restrictions were imposed, the depository for the ADSs would hold the *reais* it cannot convert for the account of the ADS holders who have not been paid. The depository would not invest the *reais* and would not be liable for the interest.

Similar restrictions, if imposed, could also impair or prevent the conversion of payments under guaranty and standby purchase agreements supporting PifCo's notes from *reais* into U.S. dollars and the remittance of the U.S. dollars abroad. In the case that the PifCo noteholders receive payments in *reais* corresponding to the equivalent U.S. dollar amounts due under PifCo's notes, it may not be possible to convert these amounts into U.S. dollars. These restrictions, if imposed, could also prevent us from making funds available to PifCo in U.S. dollars abroad, in which case PifCo may not have sufficient U.S. dollar funds available to make payment on its debt obligations.

In addition, payments of dividends and other distributions to shareholders and payments under Petrobras' guarantees and standby purchase agreements in connection with PifCo's notes do not currently require approval by or registration with the Central Bank of Brazil. The Central Bank of Brazil may nonetheless impose prior approval requirements on the remittance of U.S. dollars abroad, which could cause delays in such payments.

***If holders of our ADSs exchange their ADSs for common or preferred shares, they risk losing the ability to remit foreign currency abroad and forfeiting Brazilian tax advantages.***

The Brazilian custodian for our common or preferred shares underlying our ADSs must obtain a certificate of registration from the Central Bank of Brazil to be entitled to remit U.S. dollars abroad for payments of dividends and other distributions relating to our preferred and common shares or upon the disposition of the common or preferred shares. If holders of ADSs decide to exchange their ADSs for the underlying common or preferred shares, they will be entitled to continue to rely, for five Brazilian business days from the date of exchange, on the custodian's certificate of registration. After that period, such holders may not be able to obtain and remit U.S. dollars abroad

upon the disposition of the common or preferred shares, or distributions relating to the common or preferred shares, unless they obtain their own certificate of registration or register under Resolution No. 2,689, of January 26, 2000, of the *Conselho Monetário Nacional* (National Monetary Council), which entitles registered foreign investors to buy and sell on the São Paulo Stock Exchange. In addition, if such holders do not obtain a certificate of registration or register under Resolution No. 2,689, they may be subject to less favorable tax treatment on gains with respect to the common or preferred shares.

If such holders attempt to obtain their own certificate of registration, they may incur expenses or suffer delays in the application process, which could delay their ability to receive dividends or distributions relating to the common or preferred shares or the return of their capital in a timely manner. The custodian's certificate of registration or any foreign capital registration obtained by such holders may be affected by future legislative or regulatory changes and we cannot assure such holders that additional restrictions applicable to them, the disposition of the underlying common or preferred shares, or the repatriation of the proceeds from the process will not be imposed in the future.

***Holders of ADSs may face difficulties in protecting their interests.***

Our corporate affairs are governed by our bylaws and Brazilian Corporate Law, which differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States or elsewhere outside Brazil. In addition, the rights of an ADS holder, which are derivative of the rights of holders of our common or preferred shares, as the case may be, to protect their interests against actions by our board of directors are different under Brazilian Corporate Law than under the laws of other jurisdictions. Rules against insider trading and self-dealing and the preservation of shareholder interests may also be less developed and enforced in Brazil than in the United States. In addition, shareholders in Brazilian companies ordinarily do not have standing to bring a class action.

We are a state-controlled company organized under the laws of Brazil and all of our directors and officers reside in Brazil. Substantially

all of our assets and those of our directors and officers are located in Brazil. As a result, it may not be possible for holders of ADSs to effect service of process upon us or our directors and officers within the United States or other jurisdictions outside Brazil or to enforce against us or our directors and officers judgments obtained in the United States or other jurisdictions outside Brazil. Because judgments of U.S. courts for civil liabilities based upon the U.S. federal securities laws may only be enforced in Brazil if certain requirements are met, holders of ADSs may face greater difficulties in protecting their interest in actions against us or our directors and officers than would shareholders of a corporation incorporated in a state or other jurisdiction of the United States.

***Holders of our ADSs may encounter difficulties in the exercise of voting rights and preferred shares and the ADSs representing preferred shares generally do not give holders of ADSs voting rights.***

Holders of ADSs may encounter difficulties in the exercise of some of their rights as a shareholder if they hold our ADS rather than the underlying shares. For example, if we fail to provide the depositary with voting materials on a timely basis, holders of ADSs may not be able to vote by giving instructions to the depositary on how to vote for them.

In addition, a portion of our ADSs represents our preferred shares. Under Brazilian law and our bylaws, holders of preferred shares generally do not have the right to vote in meetings of our stockholders. This means, among other things, that holders of ADSs representing preferred shares are not entitled to vote on important corporate transactions or decisions. See Item 10. "Additional Information-Memorandum and Articles of Incorporation of Petrobras-Voting Rights" for a discussion of the limited voting rights of our preferred shares.

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

We have entered into a standby purchase agreement in support of some of PifCo's obligations under its notes and indentures. Our obligation to purchase from the PifCo noteholders any unpaid amounts of principal, interest and other amounts

due under the PifCo notes and the indenture applies, subject to certain limitations, irrespective of whether any such amounts are due at the maturity of the PifCo notes or otherwise.

We have been advised by our counsel that the enforcement of the standby purchase agreement in Brazil against us, 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.

***We would be required to pay judgments of Brazilian courts enforcing our obligations under the guaranty and standby purchase agreement relating to PifCo's notes only in reais.***

If proceedings were brought in Brazil seeking to enforce our obligations in respect of the guaranty and standby purchase agreement relating to PifCo's notes, we would be required to discharge our obligations only in *reais*. Under the Brazilian exchange control rules, an obligation to pay amounts denominated in a currency other than *reais*, which is payable in Brazil pursuant to a decision of a Brazilian court, may be satisfied in *reais* at the rate of exchange, as determined by the Central Bank of Brazil, in effect on the date of payment.

***A finding that we are subject to U.S. bankruptcy laws and that the guaranty and standby purchase agreement executed by us were a fraudulent conveyance could result in PifCo noteholders losing their legal claim against us.***

PifCo's obligation to make payments on the PifCo notes is supported by our obligation under the guaranty or standby purchase agreement. We have been advised by our external U.S. counsel that the guaranty and the standby purchase agreement are valid and enforceable in accordance with the laws of the State of New York and the United States. In addition, we have been advised by our general counsel that the laws of Brazil do not prevent the guaranty and the standby purchase agreement from being valid, binding and enforceable against us in accordance with their terms. In the event that U.S. federal fraudulent conveyance or similar laws are applied to the guaranty and the standby purchase agreement, and we, at the time we

entered into the relevant guaranty or standby purchase agreement:

- were or are insolvent or rendered insolvent by reason of our entry into such guaranty or standby purchase agreement;
- were or are engaged in business or transactions for which the assets remaining with us constituted unreasonably small capital; or
- intended to incur or incurred, or believed or believe that we would incur, debts beyond our ability to pay such debts as they mature; and
- in each case, intended to receive or received less than reasonably equivalent value or fair consideration therefore,

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

#### Item 4. Information on the Company

##### History and Development

Petróleo Brasileiro S.A.—PETROBRAS—was incorporated in 1953 to conduct the Brazilian government's hydrocarbon activities. We began operations in 1954 and for approximately forty years carried out crude oil and natural gas production and refining activities in Brazil on behalf of the government.

In the 1990s, in a series of legislative actions, the Brazilian state relinquished its monopoly on oil and gas activities. On November 9, 1995, the Brazilian constitution was amended to authorize the Brazilian government to contract with any state or privately owned company to carry out upstream and downstream oil and gas activities in Brazil. On August 6, 1997, Brazil enacted the Oil Law (Law No. 9,478), which established competition in Brazilian markets for crude oil, oil products and natural gas. Effective January 2, 2002, Brazil deregulated prices for crude oil, oil products and natural gas. See "Regulation of the Oil and Gas Industry in Brazil—Price Regulation."

Our common and preferred shares have been traded on the São Paulo Stock Exchange since 1968. Petrobras was incorporated as a state-controlled company under Law No. 2,004 (effective October 3, 1953), and a majority of our voting capital must be owned by the Brazilian federal government, a state or a municipality. As of December 31, 2008, the Brazilian government owned 32.2% of our outstanding capital stock and 55.7% of our voting shares. We operate through subsidiaries, joint ventures, and associated companies established in Brazil and many other countries. Our principal executive office is located at Avenida República do Chile 65, 20031-912 Rio de Janeiro, RJ, Brazil and our telephone number is (55-21) 3224-4477.

##### Overview of the Group

We are an integrated oil and gas company that is the largest corporation in Brazil and one of the largest companies in Latin America in terms of revenues. Because of our legacy as Brazil's former sole supplier of crude oil and oil products and our ongoing commitment to development and growth, we operate most of Brazil's producing oil and gas fields and hold a large base of proved reserves and a fully developed operational infrastructure. In 2008, our average domestic daily hydrocarbons production was 2,176 mboe/d, an estimated 98.5% of Brazil's total. Over 84% of our proved reserves are in large, contiguous and highly productive fields in the offshore Campos Basin, which allows us to concentrate our operational infrastructure and limit our costs of exploration, development and production. In 40 years of developing Brazil's offshore basins we have developed special expertise in deepwater