

ADSSs sold in the international offering and will be maintained by the Brazilian custodian for the relevant shares on behalf of the depositary.

In the event that a holder of ADSSs exchanges such ADSSs for the underlying shares, the holder will be entitled to continue to rely on such electronic registration for five business days after the exchange. Thereafter, unless the relevant shares are held pursuant to Resolution No. 2,689 by a duly registered investor, or a holder of the relevant shares applies for and obtains a new certificate of registration from the Central Bank of Brazil, the holder may not be able to convert into foreign currency and to remit outside Brazil the proceeds from the disposition of, or distributions with respect to, the relevant shares, and the holder, if not registered under Resolution No. 2,689, will be subject to less favorable Brazilian tax treatment than a holder of ADSSs. In addition, if the foreign investor resides in a “tax haven” jurisdiction, the investor will be also subject to less favorable tax treatment. See Item 3. “Key Information–Risk Factors–Risks Relating to Our Equity and Debt Securities” and “–Brazilian Tax Considerations.”

PIFCo

There are:

- no governmental laws, decrees or regulations in Cayman Islands that restrict the export or import of capital, including dividend and other payments to holders of notes who are not residents of the Cayman Islands, provided that such holders are not resident in countries subject to certain sanctions by the United Nations or the European Union, and
- no limitations on the right of nonresident or foreign owners imposed by Cayman Island law or PIFCo’s Memorandum of Association to hold or vote PIFCo’s shares.

Taxation relating to our ADSSs and common and preferred shares

The following summary contains a description of material Brazilian and U.S. federal income tax considerations that may be relevant to the purchase, ownership and disposition of preferred or common shares or ADSSs by a holder. This summary does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than Brazil and the United States.

This summary is based upon the tax laws of Brazil and the United States as in effect on the date of this annual report, which are subject to change (possibly with retroactive effect). This summary is also based upon the representations of the depositary and on the assumption that the obligations in the deposit agreement and any related documents will be performed in accordance with their respective terms.

This description is not a comprehensive description of all of the tax considerations that may be relevant to any particular investor, including tax considerations that arise from rules of general application to all taxpayers or to certain classes of investors or that are generally assumed to be known by investors. **Prospective purchasers of common or preferred shares or ADSSs should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of common or preferred shares or ADSSs.**

There is no income tax treaty between the United States and Brazil. In recent years, the tax authorities of Brazil and the United States have held discussions that may culminate in such a treaty. We cannot predict, however, whether or when a treaty will enter into force or how it will affect the U.S. holders of common or preferred shares or ADSSs.

Brazilian Tax Considerations

General

The following discussion summarizes the material Brazilian tax consequences of the acquisition, ownership and disposition of preferred or common shares or ADSSs, as the case may be, by a holder that is not domiciled in

Brazil, also called a non-Brazilian holder, for purposes of Brazilian taxation and, in the case of a holder of preferred or common shares, which has registered its investment in preferred or common shares at the Central Bank of Brazil as a U.S. dollar investment.

Under Brazilian law, investors may invest in the preferred or common shares under Resolution No. 2,689 or under Law No. 4,131 of September 3, 1962. Investments under Resolution No. 2,689 afford favorable tax treatment to foreign investors who are not resident in a tax haven jurisdiction. The rules of Resolution No. 2,689 allow foreign investors to invest in almost all instruments and to engage in almost all transactions available in the Brazilian financial and capital markets, provided that certain requirements are met. In accordance with Resolution No. 2,689, the definition of foreign investor includes individuals, legal entities, mutual funds and other collective investment entities, domiciled or headquartered abroad.

Pursuant to this rule, foreign investors must: (1) appoint at least one representative in Brazil with powers to perform actions relating to the foreign investment; (2) complete the appropriate foreign investor registration form; (3) register as a foreign investor with the CVM; and (4) register the foreign investment with the Central Bank of Brazil.

Securities and other financial assets held by foreign investors pursuant to Resolution No. 2,689 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank of Brazil or the CVM. In addition, securities trading is restricted to transactions carried out in the stock exchanges or organized over-the-counter markets licensed by the CVM.

Taxation of Dividends

Dividends paid by us, including stock dividends and other dividends paid in property to the depositary in respect of the ADSs, or to a non-Brazilian holder in respect of the preferred or common shares, are currently not subject to withholding tax in Brazil.

We must pay to our shareholders (including holders of common or preferred shares or ADSs) interest on the amount of dividends payable to them, at the SELIC rate (the interest rate applicable to certain Brazilian government securities), from the end of each fiscal year through the date of effective payment of those dividends. These interest payments are considered as fixed-yield income and are subject to withholding income tax at varying rates depending on the length of period of interest accrual. The tax rate ranges from 15%, in case of interest accrued for a period greater than 720 days, to 22.5%, in case of interest accrued for a period up to 180 days. However, holders of ADSs and holders of common or preferred shares not resident or domiciled in tax haven jurisdictions (see “Beneficiaries Residing or Domiciled in Tax Havens or Low Tax Jurisdictions”) investing under Resolution No. 2,689 are subject to such withholding tax at a reduced rate, currently at 15%.

Taxation on Interest on Shareholders’ Equity

Any payment of interest on shareholders’ equity (see “Memorandum and Articles of Incorporation of Petrobras—Payment of Dividends and Interest on Shareholders’ Equity”) to holders of ADSs or preferred or common shares, whether or not they are Brazilian residents, is subject to Brazilian withholding income tax at the rate of 15% at the time we record such liability, whether or not the effective payment is made at that time. In the case of non-Brazilian residents that are resident in a tax haven jurisdiction, the applicable withholding income tax rate is 25% (see “Beneficiaries Residing or Domiciled in Tax Havens or Low Tax Jurisdictions”). The payment of interest at the SELIC rate that is applicable to payments of dividends applies equally to payments of interest on shareholders’ equity. The determination of whether or not we will make distributions in the form of interest on shareholders’ equity or in the form of dividends is made by our board of directors at the time distributions are to be made. We cannot determine how our board of directors will make these determinations in connection with future distributions.

Taxation of Gains

For purposes of Brazilian taxation, there are two types of non-Brazilian holders of ADSs or preferred or common shares: (1) non-Brazilian holders that are not resident or domiciled in a tax haven jurisdiction (see “Beneficiaries Residing or Domiciled in Tax Havens or Low Tax Jurisdictions”), and that, in the case of holders of preferred or common shares, are registered before the Central Bank of Brazil and the CVM to invest in Brazil in accordance with Resolution No. 2,689; and (2) other non-Brazilian holders, which include any and all non-residents of Brazil who invest in equity securities of Brazilian companies through any other means (including under Law No. 4,131 of 1962) and all types of investors that are located in tax haven jurisdictions. The investors identified in clause (1) above are subject to favorable tax treatment in Brazil, as described below.

According to Law nº 10,833, dated December 29, 2003, capital gains realized on the disposition of tangible assets located in Brazil, by non-Brazilian residents, whether or not to other non-residents and whether made outside or within Brazil, are subject to taxation in Brazil at a rate of 15% (a rate of 25% is applicable if realized by investors resident in a tax haven jurisdiction, i.e. a country that does not impose any income tax or that imposes tax at a maximum rate of less than 20%). We understand the ADSs do not fall within the definition of tangible assets located in Brazil for the purposes of this law, but there is still no pronouncement from tax authorities nor judicial court rulings in this respect. Therefore, we are unable to predict whether such understanding will prevail in the courts of Brazil.

The deposit of preferred or common shares in exchange for ADSs may be subject to Brazilian capital gains at the rate of 15% if the amount previously registered with the Central Bank of Brazil as a foreign investment in the preferred or common shares is lower than:

(1) the average price per preferred or common share on a Brazilian stock exchange on which the greatest number of such shares were sold on the day of deposit; or

(2) if no preferred or common shares were sold on that day, the average price on the Brazilian stock exchange on which the greatest number of preferred or common shares were sold in the 15 trading sessions immediately preceding such deposit. In such a case, the difference between the amount previously registered and the average price of the preferred or common shares calculated as above, will be considered a capital gain. Investors registered under Resolution No. 2,689 and not located in a tax haven jurisdiction are exempt from this type of taxation. The withdrawal of ADSs in exchange for preferred or common shares is not subject to Brazilian tax. On receipt of the underlying preferred or common shares, the non-Brazilian holder registered under Resolution No. 2,689 will be entitled to register the U.S. dollar value of such shares with the Central Bank of Brazil as described below in “Registered Capital.”

Non-Brazilian holders are not subject to tax in Brazil on gains realized on sales of preferred or common shares that occur abroad to non-Brazilian holders.

Non-Brazilian holders which are not located in a tax haven jurisdiction are subject to income tax imposed at a rate of 15% on gains realized on sales or exchanges of the preferred or common shares that occur in Brazil or with a resident of Brazil, other than in connection with transactions on the Brazilian stock, future or commodities exchanges. With respect to proceeds of a redemption or of a liquidating distribution with respect to the preferred or common shares, the difference between the amount effectively received by the shareholder and the amount of foreign currency registered with the Central Bank of Brazil, accounted for in *reais* at the commercial market rate on the date of the redemption or liquidating distribution, will be also subject to income tax at a rate of 15% given that such transactions are treated as a sale or exchange not carried out on the Brazilian stock, future and commodities exchanges.

Gains realized arising from transactions on the Brazilian stock, future or commodities exchanges by an investor registered under Resolution No. 2,689 who is not located in a tax haven jurisdiction are exempt from Brazilian income tax. Otherwise, gains realized on transactions related to the Brazilian stock, future or commodities exchanges are subject to income tax at a rate of 20%.

Therefore, non-Brazilian holders are subject to income tax imposed at a rate of 20% on gains realized on sales or exchanges of preferred or common shares that occur on the stock exchange unless such a sale is made by a non-Brazilian holder who is not resident in a tax haven jurisdiction and:

(1) such sale is made within five business days of the withdrawal of such preferred or common shares in exchange for ADSs and the proceeds thereof are remitted abroad within such five-day period; or

(2) such sale is made under Resolution No. 2,689 by registered non-Brazilian holders who obtain registration with the CVM.

In these two cases, the transaction will not be subject to taxation in Brazil. The "gain realized" is for tax purposes the difference between the amount in *reais* realized on the sale or exchange and the acquisition cost measured in *reais*, without any adjustment to account for inflation of the shares sold. The "gain realized" as a result of a transaction that occurs other than on the stock exchange will be the positive difference between the amount realized on the sale or exchange and the acquisition cost of the preferred or common shares, both such values to be taken into account in *reais*. There are reasonable grounds, however, to hold that the "gain realized" should be calculated based on the foreign currency amount registered with the Central Bank of Brazil, such foreign currency amount to be translated into *reais* at the commercial market rate on the date of such sale or exchange.

Any exercise of preemptive rights relating to the preferred or common shares will not be subject to Brazilian taxation. Any gain on the sale or assignment of preemptive rights relating to the preferred or common shares by the depositary on behalf of holders of the ADSs will be subject to Brazilian income taxation according to the same rules applicable to the sale or disposition of preferred or common shares, unless such sale or assignment is performed on the stock exchange by an investor under Resolution No. 2,689 who is not resident in a tax haven jurisdiction, in which case the gains are exempt from income tax.

There is no assurance that the current preferential treatment for holders of the ADSs and some non-Brazilian holders of the preferred or common shares under Resolution No. 2,689 will continue in the future.

Taxation of Foreign Exchange Transactions ("IOF/Câmbio")

Under Decree No. 4,494 of December 3, 2002, the conversion into Brazilian currency of proceeds received by a Brazilian entity from a foreign investment in the Brazilian securities market (including those in connection with an investment in preferred or common shares or the ADSs and those under Resolution No. 2, 689) and the conversion into foreign currency of proceeds received by a non-Brazilian holder is subject to a tax on exchange transactions known as IOF/Câmbio, which is currently applicable at a zero percent rate in most transactions. However, according to Law No. 8,894 of June 21, 1994, the IOF/Câmbio rate may be increased at any time to a maximum of 25% by a decision of the Minister of Finance, but only in relation to exchange transactions carried out after the increase of the applicable rate.

Taxation on Bonds and Securities Transactions ("IOF/Títulos")

Law No. 8,894 created the Tax on Bonds and Securities Transactions, or IOF/Títulos, which may be imposed on any transactions involving bonds and securities carried out in Brazil, even if these transactions are performed on the Brazilian stock, futures or commodities exchange. As a general rule, the rate of this tax is currently zero but the Brazilian government may increase such rate up to 1.5% per day, but only in relation to transactions carried out after the increase of the applicable rate.

Other Brazilian Taxes

There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of preferred or common shares or ADSs by a non-Brazilian holder, except for gift and inheritance taxes which are levied by some states of Brazil on gifts made or inheritances bestowed by individuals or entities not resident or domiciled in Brazil to individuals or entities resident or domiciled within such states in Brazil. There are

no Brazilian stamp, issue, registration, or similar taxes or duties payable by holders of preferred or common shares or ADSs.

Tax on Bank Account Transactions ("CPMF")

The *Contribuição Provisória sobre Movimentação Financeira* (Tax on Bank Account Transactions, or CPMF), is imposed on any debit to bank accounts. As a result, transactions by the depositary or by holders of preferred or common shares, which involve the transfer of Brazilian currency through Brazilian financial institutions, are subject to the CPMF tax at a rate of 0.38%. These transactions include situations where a non-Brazilian holder transfers the proceeds from the sale or assignment of preferred or common shares by an exchange transaction, in which case the CPMF tax will be levied on the amount to be remitted abroad in reais. If we have to perform any exchange transaction in connection with ADSs or preferred or common shares, we will also be subject to the CPMF tax. The financial institution that carries out the relevant financial transaction will be responsible for collecting the applicable CPMF tax.

Withdrawals from deposit accounts of Brazilian or non-Brazilian residents, for the acquisition of shares in public offerings registered with CVM, but not in stock exchange, are subject to a zero percent CPMF tax rate, provided that the issuer is registered for negotiation of the shares in a stock exchange.

The CPMF will not be levied in the liquidation of stock acquisitions in public offers registered with the *Comissão de Valores Mobiliários* (Securities and Exchange Commission, or CVM), provided that the issuing company is listed in a stock exchange.

Beneficiaries Resident or Domiciled in Tax Havens or Low Tax Jurisdictions

Law No. 9,779 of January 1, 1999 states that, except for limited prescribed circumstances, income derived from transactions by a beneficiary, resident or domiciliary of a country considered a tax haven is subject to withholding income tax at the rate of 25%. Tax havens are considered to be countries which do not impose any income tax or which impose such tax at a maximum rate of less than 20%. Accordingly, if the distribution of interest attributed to shareholders' equity is made to a beneficiary resident or domiciled in a tax haven jurisdiction, the applicable income tax rate will be 25% instead of 15%. Capital gains are not subject to this 25% tax, even if the beneficiary is resident in a tax haven jurisdiction. See "—Taxation of Gains."

Registered Capital

The amount of an investment in preferred or common shares held by a non-Brazilian holder who obtains registration under Resolution No. 2,689, or by the depositary representing such holder, is eligible for registration with the Central Bank of Brazil; such registration (the amount so registered being called registered capital) allows the remittance outside Brazil of foreign currency, converted at the commercial market rate, acquired with the proceeds of distributions on, and amounts realized with respect to dispositions of, such preferred or common shares. The registered capital for each preferred or common share purchased as part of the international offering or purchased in Brazil after the date hereof, and deposited with the depositary will be equal to its purchase price (in U.S. dollars). The registered capital for a preferred or common share that is withdrawn upon surrender of an ADS will be the U.S. dollar equivalent of:

- the average price of a preferred or common share on the Brazilian stock exchange on which the greatest number of such shares were sold on the day of withdrawal; or
- if no preferred or common shares were sold on that day, the average price on the Brazilian stock exchange on which the greatest number of preferred or common shares were sold in the 15 trading sessions immediately preceding such withdrawal.

The U.S. dollar value of the average price of preferred or common shares is determined on the basis of the average of the U.S. dollar/*real* commercial market rates quoted by the Central Bank of Brazil information system on that date (or, if the average price of preferred or common shares is determined under the second option above, the

average of such average quoted rates on the same 15 dates used to determine the average price of preferred or common shares).

A non-Brazilian holder of preferred or common shares may experience delays in effecting such registration, which may delay remittances abroad. Such a delay may adversely affect the amount, in U.S. dollars, received by the non-Brazilian holder. See Item 3. “Key Information–Risk Factors–Risks Relating to Our Equity and Debt Securities.”

U.S. Federal Income Tax Considerations

The statements regarding U.S. tax law set forth below are based on U.S. law as in force on the date of this annual report, and changes to such law subsequent to the date of this annual report may affect the tax consequences described herein. This summary describes the principal tax consequences of the ownership and disposition of common or preferred shares or ADSs, but it does not purport to be a comprehensive description of all of the tax consequences that may be relevant to a decision to hold or dispose of common or preferred shares or ADSs. This summary applies only to purchasers of common or preferred shares or ADSs who will hold the common or preferred shares or ADSs as capital assets and does not apply to special classes of holders such as dealers in securities or currencies, holders whose functional currency is not the U.S. dollar, holders of 10% or more of our shares (taking into account shares held directly or through depositary arrangements), tax-exempt organizations, financial institutions, holders liable for the alternative minimum tax, securities traders who elect to account for their investment in common or preferred shares or ADSs on a mark-to-market basis, and persons holding common or preferred shares or ADSs in a hedging transaction or as part of a straddle or conversion transaction.

Each holder should consult such holder’s own tax advisor concerning the overall tax consequences to it, including the consequences under laws other than U.S. federal income tax laws, of an investment in common or preferred shares or ADSs.

Shares of our preferred stock will be treated as equity for U.S. federal income tax purposes. In general, for purposes of the U.S. Internal Revenue Code of 1986, or the Code a holder of an ADS will be treated as the holder of the shares of common or preferred stock represented by those ADSs, and no gain or loss will be recognized if you exchange an ADS for the shares of common or preferred stock represented by that ADS.

In this discussion, references to ADSs refer to ADSs with respect to both common and preferred shares, and references to a “U.S. holder” are to a holder of an ADS that:

- is a citizen or resident of the United States of America,
- is a corporation organized under the laws of the United States of America or any state thereof; or
- is otherwise subject to U.S. federal income taxation on a net basis with respect to the shares or the ADS.

Taxation of Distributions

A U.S. holder will recognize ordinary dividend income for U.S. federal income tax purposes in an amount equal to the amount of any cash and the value of any property we distribute as a dividend to the extent that such distribution is paid out of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes, when such distribution is received by the custodian, or by the U.S. holder in the case of a holder of common or preferred shares. The amount of any distribution will include the amount of Brazilian tax withheld on the amount distributed, and the amount of a distribution paid in *reais* will be measured by reference to the exchange rate for converting *reais* into U.S. dollars in effect on the date the distribution is received by the custodian, or by a U.S. holder in the case of a holder of common or preferred shares. If the custodian, or U.S. holder in the case of a holder of common or preferred shares, does not convert such *reais* into U.S. dollars on the date it receives them, it is possible that the U.S. holder will recognize foreign currency loss or gain, which would be ordinary loss or gain,

when the *reais* are converted into U.S. dollars. Dividends paid by us will not be eligible for the dividends received deduction allowed to corporations under the Code.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual prior to January 1, 2011 with respect to the ADSs will be subject to taxation at a maximum rate of 15% if the dividends are “qualified dividends.” Dividends paid on the ADSs will be treated as qualified dividends if (i) the ADSs are readily tradable on an established securities market in the United States and (ii) the Company was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company (“PFIC”). The ADSs are listed on the New York Stock Exchange, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on the Company’s audited financial statements and relevant market and shareholder data, the Company believes that it was not treated as a PFIC for U.S. federal income tax purposes with respect to its 2004 or 2005 taxable year. In addition, based on the Company’s audited financial statements and its current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market and shareholder data, the Company does not anticipate becoming a PFIC for its 2006 taxable year. Based on existing guidance, it is not clear whether dividends received with respect to the shares will be treated as qualified dividends, because the shares are not themselves listed on a U.S. exchange. In addition, the U.S. Treasury has announced its intention to promulgate rules pursuant to which holders of ADSs and intermediaries through whom such securities are held will be permitted to rely on certifications from issuers to treat dividends as qualified for tax reporting purposes. Because such procedures have not yet been issued, it is not clear whether the Company will be able to comply with the procedures.

Distributions out of earnings and profits with respect to the shares or ADSs generally will be treated as dividend income from sources outside of the United States and generally will be treated as “passive income” (or, for taxable years beginning after December 31, 2006, as “passive category income”) for foreign tax credit purposes. Subject to certain limitations, Brazilian income tax withheld in connection with any distribution with respect to the shares or ADSs may be claimed as a credit against the U.S. federal income tax liability of a U.S. holder if such U.S. holder elects for that year to credit all foreign income taxes. Alternatively, such Brazilian withholding tax may be taken as a deduction against taxable income. Foreign tax credits may not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities or in respect of arrangements in which a U.S. holder’s expected economic profit is insubstantial. U.S. holders should consult their own tax advisors concerning the implications of these rules in light of their particular circumstances.

Holders of ADSs that are foreign corporations or nonresident alien individuals (“non-U.S. holders”) generally will not be subject to U.S. federal income tax or withholding tax on distributions with respect to shares or ADSs that are treated as dividend income for U.S. federal income tax purposes unless such dividends are effectively connected with the conduct by the holder of a trade or business in the United States.

Holders of shares and ADSs should consult their own tax advisers regarding the availability of the reduced dividend tax rate in the light of the considerations discussed above and their own particular circumstances.

Taxation of Capital Gains

Upon the sale or other disposition of a share or an ADS, a U.S. holder will generally recognize gain or loss for U.S. federal income tax purposes. The amount of the gain or loss will be equal to the difference between the amount realized in consideration for the disposition of the share or the ADS and the U.S. holder’s tax basis in the share or the ADS. Such gain or loss generally will be subject to U.S. federal income tax and will be treated as capital gain or loss. The net amount of long-term capital gain recognized by an individual holder before January 1, 2011 generally is subject to taxation at a maximum rate of 15%. Capital losses may be deducted from taxable income, subject to certain limitations.

A non-U.S. holder will not be subject to U.S. federal income tax or withholding tax on gain realized on the sale or other disposition of a share or an ADS unless:

- such gain is effectively connected with the conduct by the holder of a trade or business in the United States; or
- such holder is an individual who is present in the United States of America for 183 days or more in the taxable year of the sale and certain other conditions are met.

Backup Withholding and Information Reporting

Dividends paid on, and proceeds from the sale or other disposition of, the ADSs or common or preferred shares to a U.S. holder generally may be subject to the information reporting requirements of the Code and may be subject to backup withholding unless the U.S. holder provides an accurate taxpayer identification number or otherwise establishes an exemption. The amount of any backup withholding collected from a payment to a U.S. holder will be allowed as a credit against the U.S. holder's U.S. federal income tax liability and may entitle the U.S. holder to a refund, provided that certain required information is furnished to the Internal Revenue Service.

A non-U.S. holder generally will be exempt from these information reporting requirements and backup withholding tax, but may be required to comply with certain certification and identification procedures in order to establish its eligibility for such exemption.

Taxation relating to PIFCo's notes

The following summary contains a description of material Cayman Islands, Brazilian and U.S. federal income tax considerations that may be relevant to the purchase, ownership, and disposition of PIFCo's debt securities. This summary does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than the Cayman Islands, Brazil and the United States.

This summary is based on the tax laws of the Cayman Islands, Brazil and the United States as in effect on the date of this annual report, which are subject to change (possibly with retroactive effect). This description is not a comprehensive description of all of the tax considerations that may be relevant to any particular investor, including tax considerations that arise from rules of general application to all taxpayers or to certain classes of investors or that are generally assumed to be known by investors. **Prospective purchasers of notes should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of notes.**

There is no tax treaty to avoid double taxation between the Cayman Islands and the United States, the Cayman Islands and Brazil or Brazil and the United States. In recent years, the tax authorities of Brazil and the United States have held discussions that may culminate in such a treaty. We cannot predict, however, whether or when a treaty will enter into force or how it will affect the U.S. holders of notes.

Cayman Islands Taxation

Under current law, PIFCo is not subject to income, capital, transfer, sales or other taxes in the Cayman Islands.

PIFCo was incorporated as an exempted company under the laws of the Cayman Islands on September 24, 1997. PIFCo has received an Undertaking as to Tax Concessions pursuant to Section 6 of the Tax Concessions Law (1999 Revision) which provides that, for a period of twenty years from the date thereof no law hereafter enacted in the Cayman Islands imposing any tax or duty to be levied on income or on capital assets, gains or appreciation will apply to any of PIFCo's income or property and which is deemed to provide that no tax is to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable or in respect of shares, debentures or other of PIFCo's obligations, or by way of withholding of any part of a payment of principal due under a debenture or other of PIFCo's obligations.

No Cayman Islands withholding tax applies to distributions by PIFCo in respect of the notes. Noteholders are not subject to any income, capital, transfer, sales or other taxes in the Cayman Islands in respect of their purchase, holding or disposition of the notes.

Noteholders whose notes are brought into or issued in the Cayman Islands will be liable to pay stamp duty of up to C.I.250 on each note.

Brazil Taxation

The following discussion is a summary of the Brazilian tax considerations relating to an investment in the notes by a non-resident of Brazil. The discussion is based on the tax laws of Brazil as in effect on the date hereof and is subject to any change in Brazilian law that may come into effect after such date. The information set forth below is intended to be a general discussion only and does not address all possible consequences relating to an investment in the notes.

PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISERS AS TO THE CONSEQUENCES OF PURCHASING THE NOTES, INCLUDING, WITHOUT LIMITATION, THE CONSEQUENCES OF THE RECEIPT OF INTEREST AND THE SALE, REDEMPTION OR REPAYMENT OF THE NOTES OR COUPONS.

Generally, an individual, entity, trust or organization domiciled for tax purposes outside Brazil (a "Non-resident") is taxed in Brazil only when income is derived from Brazilian sources. Therefore, any gains or income paid by PIFCo in respect of the notes issued by it in favor of Non-resident noteholders are not subject to Brazilian taxes.

Interest (including original issuer discount, or OID, fees, commissions, expenses and any other income payable by a Brazilian resident to a non-resident) is generally subject to income tax withheld at source. Currently, the rate of withholding tax is 15% or such other lower rate as provided for in an applicable tax treaty between Brazil and another country. If the recipient of the payment is domiciled in a tax haven jurisdiction, as defined by Brazilian tax regulations, the rate will be 25%.

If the payments with respect to the notes are made by a Brazilian source, the noteholders will be indemnified so that, after payment of all applicable Brazilian taxes collectable by withholding, deduction or otherwise, with respect to principal, interest (including the OID) and additional amounts payable with respect to the notes (plus any interest and penalties thereon), a noteholder will retain an amount equal to the amounts that such noteholder would have retained had no such Brazilian taxes (plus interest and penalties thereon) been payable. The Brazilian obligor will, subject to certain exceptions, pay additional amounts in respect of such withholding or deduction so that the holder receives the net amount due.

According to Law nº 10,833, dated December 29, 2003, capital gains realized on the disposition of tangible assets located in Brazil, by non-Brazilian residents, whether or not to other non-residents and whether made outside or within Brazil, are subject to taxation in Brazil at a rate of 15% (a rate of 25% is applicable if realized by investors resident in a tax haven jurisdiction, i.e. a country that does not impose any income tax or that imposes tax at a maximum rate of less than 20%). We understand the notes do not fall within the definition of tangible assets located in Brazil for the purposes of this law, but there is still no pronouncement from tax authorities nor judicial court rulings in this respect. Therefore, we are unable to predict whether such understanding will prevail in the courts of Brazil.

Generally, there are no inheritance, gift, succession, stamp, or other similar taxes in Brazil with respect to the ownership, transfer, assignment or any other disposition of the notes by a Non-resident, except for gift and inheritance taxes imposed by some Brazilian states on gifts or bequests by individuals or entities not domiciled or residing in Brazil to individuals or entities not domiciled or residing within such states.

U.S. Federal Income Taxation

The following summary sets forth certain United States federal income tax considerations that may be relevant to a holder of a note that is, for U.S. federal income purposes, a citizen or resident of the United States or a domestic corporation or that otherwise is subject to United States federal income tax on a net income basis in respect of the notes (a "U.S. holder"). This summary is based upon the Code, its legislative history, existing and proposed U.S. Treasury regulations promulgated thereunder, published rulings by the U.S. Internal Revenue Service, or the

IRS, and court decisions, all in effect as of the date hereof, all of which authorities are subject to change or differing interpretations, which changes or differing interpretations could apply retroactively. This summary does not purport to discuss all aspects of United States federal income taxation which may be relevant to particular investors, such as financial institutions, insurance companies, dealers or traders in securities or currencies, regulated investment companies, tax-exempt organizations, certain short-term holders of notes, persons that hedge their exposure in the notes or hold notes as part of a position in a “straddle” or as part of a hedging transaction or “conversion transaction” for U.S. federal tax purposes, persons that enter into a “constructive sale” transaction with respect to the notes or U.S. Holder whose functional currency as defined in Section 985 of the code is not the U.S. dollar. U.S. holders should be aware that the U.S. federal income tax consequences of holding the notes may be materially different for investors described in the prior sentence.

In addition, this summary does not discuss any foreign, state or local tax considerations. This summary only applies to original purchasers of notes who purchase notes at the original issue price and hold the notes as “capital assets” (generally, property held for investment) within the meaning of Section 1221 of the Code.

PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES OF INVESTING IN THE NOTES, INCLUDING THE EFFECTS OF FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX LAWS.

Payments of interest

Payments of “qualified stated interest” (as defined below) on a note (including additional amounts, if any) generally will be taxable to a U.S. holder as ordinary interest income when such interest is accrued or received, in accordance with the U.S. holder’s regular method of tax accounting. In general, if the “issue price” of a note is less than the “stated redemption price at maturity” by more than a *de minimis* amount, such note will be considered to have OID. The issue price of a note is the first price at which a substantial amount of such notes are sold to investors. The stated redemption price at maturity of a note generally includes all payments other than payments of qualified stated interest (as defined below).

In general, each U.S. holder of a note, whether such holder uses the cash or the accrual method of tax accounting, will be required to include in gross income as ordinary interest income the sum of the “daily portions” of OID on the note for all days during the taxable year that the U.S. holder owns the note. The daily portions of OID on a note are determined by allocating to each day in any accrual period a ratable portion of the OID allocable to that accrual period. In general, in the case of an initial holder, the amount of OID on a note allocable to each accrual period is determined by (a) multiplying the “adjusted issue price,” as defined below, of the note at the beginning of the accrual period by the yield to maturity of the note, and (b) subtracting from that product the amount of qualified stated interest allocable to that accrual period. U.S. holders should be aware that they generally must include OID in gross income as ordinary interest income for U.S. federal income tax purposes as it accrues, in advance of the receipt of cash attributable to that income. The “adjusted issue price” of a note at the beginning of any accrual period will generally be the sum of its issue price (generally including accrued interest, if any) and the amount of OID allocable to all prior accrual periods, reduced by the amount of all payments other than payments of qualified stated interest (if any) made with respect to such note in all prior accrual periods. The term “qualified stated interest” generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually during the entire term of a note at a single fixed rate of interest, or subject to certain conditions, based on one or more interest indices.

Interest income, including OID, in respect of the notes will constitute foreign source income for United States federal income tax purposes and, with certain exceptions, will be treated separately, together with other items of “passive income” (or, for taxable years beginning after December 31, 2006, of “passive category income”), for purposes of computing the foreign tax credit allowable under the United States federal income tax laws. The calculation of foreign tax credits, involves the application complex of rules that depend on a U.S. holder’s particular circumstances. U.S. holders should consult their own tax advisors regarding the availability of foreign tax credits and the treatment of additional amounts.

Sale or disposition of notes

A U.S. holder generally will recognize capital gain or loss upon the sale, exchange, retirement or other disposition of a note in an amount equal to the difference between the amount realized upon such sale, exchange, retirement or other disposition (other than amounts attributable to accrued qualified stated interest, which will be taxed as such) and such U.S. holder's adjusted tax basis in the note. A U.S. Holder's adjusted tax basis in the note generally will equal the U.S. holder's cost for the note increased by any amounts included in gross income by such U.S. holder as OID and reduced by any payments other than payments of qualified stated interest on that note. Gain or loss realized by a U.S. Holder on the sale, exchange, retirement or other disposition of a note generally will be United States source gain or loss for United States federal income tax purposes unless it is attributable to an office or other fixed place of business outside the United States and certain other conditions are met. The gain or loss realized by a U.S. holder will be capital gain or loss, and will be long-term capital gain or loss if the notes were held for more than one year. The net amount of long-term capital gain recognized by an individual holder before January 1, 2011 generally is subject to taxation at a maximum rate of 15%.

Backup Withholding and Information Reporting

A U.S. holder may, under certain circumstances, be subject to "backup withholding" with respect to certain payments to that U.S. holder, unless the holder (i) is a corporation or comes within certain other exempt categories, and demonstrates this fact when so required, or (ii) provides a correct taxpayer identification number, certifies that it is not subject to backup withholding otherwise complies with applicable requirements of the backup withholding rules. Any amount withheld under these rules generally will be creditable against the U.S. holder's U.S. federal income tax liability. While Non-U.S. holders generally are excepted from backup withholding, a Non-U.S. holder may, in certain circumstances, be required to comply with certain information and identification procedures in order to prove entitlement to this exemption.

Non-U.S. Holder

A holder or beneficial owner of a note that is not a U.S. holder (a "non-U.S. holder") generally will not be subject to U.S. federal income or withholding tax on interest received on the notes. In addition, a non-U.S. holder will not be subject to U.S. federal income or withholding tax on gain realized on the sale of notes unless, in the case of gain realized by an individual non-U.S. holder, the non-U.S. holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

Documents on Display

Statements contained in this annual report regarding the contents of any contract or other document are not necessarily complete, and, where the contract or other document is an exhibit to the annual report, each of these statements is qualified in all respects by the provisions of the actual contract or other documents.

We are subject to the information requirements of the Securities Exchange Act of 1934, as amended, applicable to a foreign private issuer, and accordingly, we file or furnish reports, information statements and other information with the SEC. These reports and other information filed by us can be inspected at, and subject to the payment of any required fees, copies may be obtained from, the Public Reference Room of the SEC, 100 F Street, N.E., Washington, D.C. 20549. As a foreign private issuer, we were not required to make filings with the SEC by electronic means prior to November 4, 2002, although we were permitted to do so. Any filings we make electronically will be available to the public over the internet at the SEC's website at <http://www.sec.gov>.

Reports and other information may also be inspected and copied at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005. As a foreign private issuer, however, we are exempt from the proxy requirements of Section 14 of the Exchange Act and from the short-swing profit recovery rules of Section 16 of the Exchange Act, although the rules of the New York Stock Exchange may require us to solicit proxies from our shareholders under some circumstances. Our website is located at <http://www.petrobras.com.br>. The information on our website is not part of this annual report.

PIFCo Senior Notes

PIFCo has issued three series of Senior Notes in the aggregate amount of U.S.\$1,550.0 million. See Item 5. “Operating and Financial Review and Prospects—Liquidity and Capital Resources.” The terms of each of these series of Senior Notes, and the material agreements, which set forth, their terms, are substantially similar and are summarized below.

Indentures

PIFCo issued each series of Senior Notes pursuant to an indenture between PIFCo, as the issuer, and The Bank of New York, as trustee. The terms of the indentures require PIFCo and its subsidiaries, among other things, to:

- pay all amounts owed by it under the indenture and the notes when such amounts are due, and perform each of its other obligations under the various transaction documents entered into by it in connection with the issuance of the notes;
- comply with all applicable laws and maintain all necessary governmental approvals;
- pay all uncontested taxes;
- preserve its existence and maintain our properties;
- maintain adequate insurance;
- maintain its books and records in accordance with U.S. GAAP;
- maintain an office or agency in New York for the purpose of service of process;
- ensure that the notes continue to be its senior obligations;
- use proceeds from the issuance of the notes for specified purposes, namely the purchase of oil imports and the repayment of short-term indebtedness;
- give notice to the trustee of any default or event of default under the indenture or certain currency control events in Brazil;
- provide certain financial statements to the trustee;
- take actions to maintain the trustee’s or the noteholders’ rights under the relevant transaction documents;
- maintain the required coverage amount;
- provide certain information to noteholders required by Rule 144A; and
- replace the trustee upon any resignation or removal thereof.

In addition, the terms of the indenture restrict PIFCo’s ability and the ability of 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.

These covenants are subject to a number of terms, conditions and further qualifications.

The indenture also contains certain events of default, consisting of the following:

- failure to pay principal when due;
- failure to pay interest within 30 days of any interest payment date;
- inaccuracy of any representation or warranty made by PIFCo or us in any transaction document or in certain specified other certificates when made;
- breach of a covenant or agreement in the indenture, the standby purchase agreement and other relevant transaction documents by PIFCo or us;
- acceleration of or failure to make a payment on PIFCo's indebtedness or our indebtedness or the indebtedness of one of our material subsidiaries that equals or exceeds a specified threshold;
- a final judgment against PIFCo, us or a material subsidiary of ours that equals or exceeds a specified threshold;
- certain events of bankruptcy, liquidation or insolvency of PIFCo, us or any material subsidiary of ours;
- certain events relating to the unenforceability of the relevant transaction documents against PIFCo or us;
- the cancellation, termination (other than as permitted in the indenture) or unenforceability of the letter of credit unless an equivalent letter of credit is promptly provided or an equivalent amount in U.S. dollars is promptly deposited in the reserve account;
- we cease to own at least 51% of PIFCo's outstanding voting shares; and
- we or PIFCo shall fail to comply with our obligations with respect to the required coverage amount.

Standby Purchase Agreements

PIFCo's Senior Notes have the benefit of credit support from us in the form of standby purchase agreements under which we are 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 Senior Notes and the indenture. Subject to certain limitations, we are required to purchase from the holders of the PIFCo notes and pay to the trustee amounts in respect of the noteholders' right to receive:

- the amount of any interest or other amounts not paid by PIFCo in accordance with the terms of the notes and the indenture;
- the entire principal amount of the notes in the event PIFCo fails to do so at their expected maturity or earlier upon any redemption or acceleration of the PIFCo Senior Notes prior to the expected maturity date or, if extended, on the final maturity date; and
- except where certain events have occurred which limit our ability to convert and transfer *reais* and U.S. dollars, interest on all of the foregoing amounts at a default rate, for payments beyond the date that PIFCo was required to make payment under the indenture in respect of the full principal amount of the Senior Notes.

PIFCo will have the right to defer making payments under the Senior Notes indentures for up to 18 months, if an event of inconvertibility, untransferability or expropriation occurs that prevents us from making required payments under the standby purchase agreement.

Obligations under the standby purchase agreement constitute direct and general senior unsecured and unsubordinated obligations of ours and rank *pari passu* with other senior, unsecured obligations of ours that are not, by their terms, expressly subordinated in right of payment to our obligations under the standby purchase agreement.

Letters of Credit/Political Risk Insurance

Pursuant to the indentures, PIFCo established and maintained reserve accounts with the trustee on behalf of the holders of the Senior Notes. PIFCo was also required to issue an irrevocable standby letter of credit in favor of the trustee or provide political risk insurance for the trustee, in aggregate amounts set forth in the terms of the Senior Notes. The required coverage amount varies for each series of Senior Notes. The funds in the reserve account may be returned to PIFCo, and the required coverage amount may be reduced, under certain circumstances. PIFCo has paid all premiums on its insurance policies and/or has funded and issued standby irrevocable letters of credit, which will be replaced by other standby letters of credit or by funds in its reserve accounts.

Amounts may be withdrawn from the reserve account and drawings may be made under the letter of credit or the political risk insurance policy to make scheduled interest payments on the Senior Notes for up to 18 months, if an event of inconvertibility, untransferability or expropriation occurs.

PIFCo Global Notes

On March 31, 2003, PIFCo issued U.S.\$400 million of Global Step-Up Notes due 2008, which bear interest from March 31, 2003 at the rate of 9.00% per year until April 1, 2006 and at a rate of 12.375% thereafter. On July 2, 2003, PIFCo issued U.S.\$500 million of 9.125% Global Notes. On September 18, 2003, PIFCo issued an additional U.S.\$250 million in 9.125% Global Notes, which form a single fungible series with the U.S.\$500 million Global Notes due July 2013. On December 10, 2003, PIFCo issued U.S.\$750 million of 8.375% Global Notes due 2018. On September 15, 2004, PIFCo issued U.S.\$600 million of 7.75% Global Notes due 2014.

PIFCo issued these notes pursuant to our and PIFCo's U.S.\$8 billion shelf registration statement on Form F-3, which was filed with the SEC on July 2, 2002. See Item 5. "Operating and Financial Review and Prospects—Liquidity and Capital Resources."

The terms of these notes are summarized below.

Indenture

PIFCo issued the Global Notes pursuant to an indenture between PIFCo, as the issuer, and JP Morgan Chase Bank, as trustee, dated as of July 19, 2002. The U.S.\$400 million Global Step-Up Notes due 2008 were supplemented by the first supplemental indenture dated as of March 31, 2003, among PIFCo, us and the trustee. The U.S.\$500 million 9.125% Global Notes issued on July 2, 2003 due 2013 were supplemented by the second supplemental indenture dated as of July 2, 2003, among PIFCo, us and the trustee. The U.S.\$250 million 9.125% Global Notes issued on September 18, 2003 due 2013 were supplemented by the amended and restated second supplemental indenture dated as of September 18, 2003, among PIFCo, us and the trustee. The U.S.\$750 million 8.375% Global Notes due 2018 were supplemented by the third supplemental indenture dated as of December 10, 2003, among PIFCo, us and the trustee. The U.S.\$600 million 7.75% Global Notes due 2014 were supplemented by the fourth supplemental indenture dated as of September 15, 2004, among PIFCo, us and the trustee. When we refer to the indenture in this section, we are referring to the indenture as supplemented by the first, second, amended and restated second, third and fourth supplemental indentures.

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

- pay all amounts owed by PIFCo 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 its senior obligations;
- use proceeds from the issuance of the notes for specified purposes, namely the purchase of oil imports and the repayment of short-term indebtedness
- give notice to the trustee of any default or event of default under the indenture;
- provide certain financial statements to the trustee;
- take actions to maintain the trustee's or the noteholders' rights under the relevant transaction documents; and
- replace the trustee upon any resignation or removal thereof.

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

- undertake certain mergers, consolidations or similar transactions;
- create certain liens on PIFCo's assets or pledge PIFCo's assets; and
- enter into certain transactions with PIFCo's affiliates.

These covenants are subject to a number of terms, conditions and further qualifications.

The indenture also contains certain events of default, consisting of the following:

- failure to pay principal within three calendar days of its due date;
- failure to pay interest within 30 days of any interest payment date;
- specified representations or warranties made by us 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 or us, if not remedied within 60 calendar days;
- acceleration of or failure to make a payment on PIFCo's indebtedness or our indebtedness or the indebtedness of a material subsidiary of ours that equals or exceeds U.S.\$100 million;
- a final judgment against PIFCo, us or a material subsidiary of ours that equals or exceeds U.S.\$100 million;
- certain events of bankruptcy, liquidation or insolvency of PIFCo, us or any material subsidiary of ours;
- certain events relating to the unenforceability of the notes, the indenture or the standby purchase agreement against PIFCo or us; and
- we cease to own at least 51% of PIFCo's outstanding voting shares.

Standby Purchase Agreement

PIFCo's Global Notes have the benefit of credit support from us in the form of a standby purchase agreement under which we are 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 senior Global Notes and the indenture. Subject to certain limitations, we are required to purchase from the holders of the notes and pay to the trustee amounts in respect of the noteholders' right to receive:

- the amount of any interest or other amounts not paid by PIFCo in accordance with the terms of the notes and the indenture;
- the entire principal amount of the notes in the event PIFCo fails to do so at their expected maturity or earlier upon any redemption or acceleration of the notes prior to the expected maturity date;
- 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
- interest on all of the foregoing amounts at the rate of 1% above the note rate (the default rate), for payments beyond the date that PIFCo was required to make such payments under the indenture.

Obligations under the standby purchase agreement constitute direct and general senior unsecured and unsubordinated obligations of ours and rank *pari passu* with other senior, unsecured obligations of ours that are not, by their terms, expressly subordinated in right of payment to our obligations under the standby purchase agreement.

The Global Notes did not include a letter of credit or political risk insurance.

Sale of Future Receivables

In connection with our exports prepayment program, PFL has received senior and junior trust certificates in the aggregate amount of U.S.\$1,800.0 million. In May 2004, PFL and the PF Export Trust executed an amendment to the Trust Agreement allowing the junior trust certificates, which amounted to U.S.\$300 million as of December 31, 2005, to be set-off against the obligation of PFL to deliver future receivables, rather than paid in full, after fulfillment of all obligations pursuant to the senior trust certificates. See Item 4. "Information on the Company—Incorporation of PIFCo—PIFCo Business Overview—Export Prepayment Program."

On September 1, 2005, PFL prepaid the floating rate Senior Trust Certificates (Series 2001-A2 and 2001-C) in accordance with the applicable provisions of the governing agreements. In order to facilitate this advance payment, Petrobras prepaid to PFL the amount of U.S.\$330.3 million related to the export prepayment program.

On March 1, 2006, PFL prepaid the fixed rate Senior Trust Certificates (Series 2001-A1 and 2001-B) in accordance with the applicable provisions of the governing agreements. In order to facilitate this advance payment, Petrobras prepaid to PFL an amount of U.S.\$333.9 million related to the export prepayment program. As a result of this prepayment, U.S.\$150 million of Junior Trust Certificates were cancelled by offsetting the Certificates with the obligation to deliver future receivables.

The Prepayment Agreement

Pursuant to a prepayment agreement entered into by us and PFL, we undertook to deliver, for as long as any Senior and Junior Trust Certificates remain outstanding, in each quarterly period, a quantity of Eligible Products having a market value equal to any scheduled payments of interest on and principal of the Senior and Junior Trust Certificates.

The Master Export Contract

As long as any Senior Trust Certificates or any amounts payable to the insurers remain outstanding, we will deliver, in each quarterly period, a quantity of Eligible Products having a value equal to any scheduled payments of interest, principal or other amounts due under the Senior Trust Certificates. Under the Master Export Contract, we export and sell Eligible Products to PFL during each quarterly period:

- in an amount equal to at least 80% of the total volume of all fuel oil (Heavy Fuel Oil) exported by us during that quarterly period; and
- with a value (based upon the net invoice price at which such Eligible Products are actually sold by PFL) equal to at least:
 - (a) the highest aggregate amount scheduled to be paid by the Trustee in any quarterly period during the remaining term of any series of Senior Trust Certificates at the time outstanding, with respect to interest, principal and other amounts due under the Senior Trust Certificates multiplied by
 - (b) a factor that fluctuates between 2.0 and 3.0, depending upon the level of sales of Eligible Products by PFL that are contracted to be made under arrangements that provide for a minimum price per barrel or other hedging arrangements and the relevant minimum price or price established by such hedging arrangements.

We also agree that our average daily gross exports of fuel oil for any rolling twelve-month period will be equal to at least 50,000 barrels of fuel oil. We are not relieved of our obligations to deliver Eligible Products under the Master Export Contract or the Prepayment Agreement, for any reason, including, without limitation, as a result of force majeure or on non-payment by PFL.

On May 23, 2006, PFL has successfully completed a solicitation of consents from holders of the Series 2003-A 6.436% Senior Trust Certificates due 2015 issued by PF Export Receivables Master Trust. The amendments sought to eliminate exports of bunker fuel from the transaction so that the securities will be collateralized only by receivables from sales of fuel oil exported by PETROBRAS and to reduce the minimum average daily gross exports of fuel oil for any rolling twelve-month period. PFL also obtained the consent from the holders of Series 2003-B 3.748% due 2013. The amendments became effective on June 1, 2006.

The summary of the Master Export Contract that is presented above is already reflecting the amendments executed after the consent. The amendments became effective June 1, 2006.

Risk of Loss

We fulfill our delivery obligations to PFL by delivering the Eligible Products directly to buyers on behalf of PFL. Title and risk of loss remain with us until the Eligible Products are delivered to the buyers, at which time both title and risk of loss pass to PFL and simultaneously to the buyers.

Taxes and Expenses

We are obligated to indemnify PFL against all costs, expenses, liabilities, damages and other similar obligations which may be imposed upon, incurred or suffered by PFL in respect of any present or future taxes of any nature assessed against PFL by Brazil, the Cayman Islands, the United States or any other taxing jurisdiction.

Indemnification

We are obligated to indemnify and hold harmless PFL, its affiliates, and their respective officers, directors, employees and agents from all suits, direct damages or other losses arising from or out of the transactions contemplated by the principal agreements, including: any negligence or willful misconduct of ours, breach of representations or warranties, claims for payment (whether in cash or kind) by any and all third parties in respect of taxes or similar charges upon the distribution, sale and transportation of any Eligible Products prior to its export, claims for payment by any and all third parties who purport to be entitled to receive any portion of the proceeds from, or any payment relating to, the sale of the Eligible Products to PFL, amounts payable by PFL in respect of any indemnification provided to other persons, and all expenses arising from or out of any tax which may be levied and assessed upon PFL in respect of any delivery, sale or resale of Eligible Products to PFL.

Negative Pledge

So long as any senior trust certificate remains outstanding or any amount payable to an Enhancer under any of the insurance documents remains outstanding, we will not create or permit any Lien, other than a Petrobras Permitted Lien, on any of our assets or any of our subsidiaries' assets to secure (i) any of our indebtedness, (ii) any of our subsidiaries' indebtedness or (iii) the indebtedness of any other person, unless we contemporaneously create or permit such Lien to secure equally and ratably our obligations under the Master Export Contract and the other transaction documents to which we are a party or we provide other security for our obligations under the Master Export Contract and the other transaction documents to which we are a party as is duly approved by a resolution of the senior certificate holders in accordance with the trust deed.

Sales Agreements

PFL sells Eligible Products purchased from us or our affiliates through the following agreements:

- Offtake Contracts with Citibank, N.A, as Offtaker, pursuant to which PFL agreed to deliver and sell, and Citibank N.A. agreed to accept and purchase, during each quarterly delivery period, Eligible Products with a value equal to at least 1.1 times the amounts scheduled to be paid in respect of the Series 2001 and 2003 Senior Trust Certificates on the payment date immediately following the end of such quarterly delivery period.
- A Product Sale Agreement with PAI, which may purchase Eligible Products from time to time from PFL and sell them to buyers primarily in the United States and its territories; and
- Sales to other purchasers of Eligible Products in the open market.

The Receivables Purchase Agreement

Pursuant to a Receivables Purchase Agreement, PFL sells to the Trustee the rights to a specified amount of designated receivables to be generated from the sale of Eligible Products by PFL. In exchange, the Trustee issued to