PETROLEUM & RESOURCES CORP
Form N-CSRS
July 23, 2010

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-02736

PETROLEUM & RESOURCES CORPORATION

(Exact name of registrant as specified in charter)

7 Saint Paul Street, Suite 1140, Baltimore, Maryland 21202

(Address of principal executive offices)

Lawrence L. Hooper, Jr.
Petroleum & Resources Corporation
7 Saint Paul Street, Suite 1140
Baltimore, Maryland 21202

(Name and address of agent for service)

Registrant's telephone number, including area code:

(410) 752-5900
Date of fiscal year end: December 31
Date of reporting period: June 30, 2010

Item 1. Reports to Stockholders.

LETTER TO STOCKHOLDERS

We submit herewith the financial statements of Petroleum & Resources Corporation (the Corporation) for the six months ended June 30, 2010. Also provided are the report of the independent registered public accounting firm, a schedule of investments, and other financial information.

The tragic accident and oil spill in the Gulf of Mexico in April, in which eleven lives were lost and the coastlines of several states affected, have had a major impact on the energy industry in the Unites States. Clean up efforts are likely to continue for a long time. Safety concerns as well as the pollution of water and beaches have led the U.S. government to declare a moratorium on deepwater drilling for six months and a reassessment of regulations on shallow water activities. The companies directly involved in the oil spill have lost as much as 50% of their market value and the stocks of the rest of the industry have been under intense pressure. In the short term, production and revenue losses will depend on the length of time companies will have to forgo operations in the Gulf of Mexico; in the longer term, additional restrictions and regulation of offshore drilling will drive the price of crude oil higher due to higher operating costs as well as access to fewer reservoirs. As we get clarification on the regulatory environment and evaluate our holdings in that light, we will no doubt continue to make adjustments to the portfolio to reflect what is a very different outlook for the energy industry than we held just three months ago.

Net assets of the Corporation at June 30, 2010 were $22.90 per share on 24,339,526 shares outstanding, compared with $26.75 per share at December 31, 2009 on 24,327,307 shares outstanding. On March 1, 2010, a distribution of $0.10 per share was paid, consisting of $0.01 from 2009 investment income, $0.05 from 2009 short-term capital gain, $0.02 from 2009 long-term capital gain, and $0.02 form 2010 investment income, all taxable in 2010. A 2010 investment income dividend of $0.10 per share was paid June 1, 2010, and $0.10 per share investment income dividend has been declared to shareholders of record August 13, 2010, payable September 1, 2010.

Net investment income for the six months ended June 30, 2010 amounted to $4,185,877, compared with $3,468,336 for the same six month period in 2009. These earnings are equal to $0.17 and $0.15 per share, respectively.

Net capital gain realized on investments for the six months ended June 30, 2010 amounted to $9,993,596, or $0.41 per share.

For the six months ended June 30, 2010, the total return on net asset value (with dividends and capital gains reinvested) of shares of the Corporation was (13.6)%. The total return on the market value of the Corporation s shares for the period was (15.1)%. These compare to a (12.7)% total return in the Dow Jones U.S. Oil and Gas Index, a (9.8)% total return in the Dow Jones U.S. Basic Materials Index, and a (6.7)% total return for the Standard & Poor s 500 Composite Stock Index (S&P 500) over the same time period.

For the twelve months ended June 30, 2010, the Corporation s total return on net asset value was 4.3% and on market value was 3.6%. Comparable figures for the Dow Jones U.S. Oil & Gas Index, the Dow Jones U.S. Basic Materials Index, and the S&P 500 were 1.5%, 25.8%, and 14.4%, respectively.

Current and potential stockholders can find information about the Corporation, including the daily net asset value (NAV) per share, the market price, and the discount/premium to the NAV, on our website at *www.peteres.com*. Also available on the website are a brief history of the Corporation, historical financial information, and other useful content.

Beginning August 2010, we will be updating our website with investment returns on NAV and market price on a monthly basis.

By order of the Board of Directors,

Douglas G. Ober,

Chairman, President and

Chief Executive Officer

July 14, 2010

PORTFOLIO REVIEW

June 30, 2010

(unaudited)

TEN LARGEST EQUITY PORTFOLIO HOLDINGS

	Market Value	*% of Net Assets*
Exxon Mobil Corp.	$ 72,389,300	13.0%
Chevron Corp.	63,788,400	11.5
Occidental Petroleum Corp.	30,373,955	5.4
Schlumberger Ltd.	26,286,500	4.7
ConocoPhillips	17,181,500	3.1
Apache Corp.	16,838,000	3.0
Freeport-McMoRan Copper & Gold Inc.	16,260,750	2.9
Royal Dutch Shell plc ADR	16,205,994	2.9
Noble Energy, Inc.	15,685,800	2.8
Praxair, Inc.	14,932,643	2.7
Total	$ 289,942,842	52.0%

SECTOR WEIGHTINGS

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2010

Assets		
Investments* at value:		
Common stocks (cost $386,716,611)	$ 537,679,300	
Short-term investments (cost $21,323,732)	21,323,732	
Securities lending collateral (cost $14,969,735)	14,969,735	$ 573,972,767
Cash		195,512
Receivables:		
Investment securities sold		1,566,722
Dividends and interest		532,765
Prepaid expenses and other assets		408,516
Total Assets		576,676,282
Liabilities		
Investment securities purchased		739,800
Open written option contracts* at value (proceeds $634,465)		760,026
Obligations to return securities lending collateral		14,969,735
Accrued pension liabilities		2,432,582
Accrued expenses and other liabilities		428,526
Total Liabilities		19,330,669
Net Assets		$ 557,345,613
Net Assets		
Common Stock at par value $0.001 per share, authorized 50,000,000 shares; issued and outstanding 24,339,526 shares (includes 27,663 restricted shares, 8,800 nonvested or deferred restricted stock units, and 3,747 deferred stock units) (note 6)		$ 24,340
Additional capital surplus		398,641,042
Accumulated other comprehensive income (note 5)		(1,281,537)
Undistributed net investment income		(583,418)
Undistributed net realized gain on investments		9,708,058
Unrealized appreciation on investments		150,837,128
Net Assets Applicable to Common Stock		$ 557,345,613
Net Asset Value Per Share of Common Stock		$22.90

** See Schedule of Investments on page 11 and Schedule of Outstanding Written Option Contracts on page 13.*

The accompanying notes are an integral part of the financial statements.

STATEMENT OF OPERATIONS

Six Months Ended June 30, 2010

Investment Income	
Income:	
Dividends	$ 6,042,168
Interest and other income	30,426
Total income	6,072,594
Expenses:	
Investment research	636,249
Administration and operations	460,978
Directors fees	198,311
Reports and stockholder communications	125,909
Investment data services	82,741
Travel, training, and other office expenses	80,911
Transfer agent, registrar, and custodian	73,145
Auditing and accounting services	60,414
Occupancy	58,088
Insurance	34,174
Legal services	18,937
Other	56,860
Total expenses	1,886,717
Net Investment Income	4,185,877
Change in Accumulated Other Comprehensive Income (note 5)	69,335
Realized Gain and Change in Unrealized Appreciation on Investments	
Net realized gain on security transactions	9,369,456
Net realized gain on written option contracts	624,140
Change in unrealized appreciation on investments	(102,514,983)
Change in unrealized appreciation on written option contracts	(309,235)
Net Loss on Investments	(92,830,622)
Change in Net Assets Resulting from Operations	$ (88,575,410)

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CHANGES IN NET ASSETS

	Six Months Ended June 30, 2010	Year Ended December 31, 2009
From Operations:		
Net investment income	$ 4,185,877	$ 6,706,626
Net realized gain on investments	9,993,596	24,709,496
Change in unrealized appreciation on investments	(102,824,218)	102,205,614
Change in accumulated other comprehensive income (note 5)	69,335	2,327,392
Change in net assets resulting from operations	(88,575,410)	135,949,128
Distributions to Stockholders from:		
Net investment income	(3,161,308)	(8,800,886)
Net realized gain from investment transactions	(1,687,184)	(24,485,239)
Decrease in net assets from distributions	(4,848,492)	(33,286,125)
From Capital Share Transactions:		
Value of shares issued in payment of distributions (note 4)	8,964	13,102,449
Cost of shares purchased (note 4)		(4,043,629)
Deferred compensation (notes 4, 6)	42,228	59,558
Change in net assets from capital share transactions	51,192	9,118,378
Total Change in Net Assets	(93,372,710)	111,781,381
Net Assets:		
Beginning of period	650,718,323	538,936,942
End of period (including undistributed net investment income of $(583,418) and $(1,607,987) respectively)	$ 557,345,613	$ 650,718,323

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Petroleum & Resources Corporation (the Corporation) is registered under the Investment Company Act of 1940 as a non-diversified investment company. The Corporation is an internally-managed closed-end fund emphasizing petroleum and other natural resource investments. The investment objectives of the Corporation are preservation of capital, the attainment of reasonable income from investments, and an opportunity for capital appreciation.

The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of estimates made by Corporation management. Management believes that estimates and security valuations are appropriate; however, actual results may differ from those estimates, and the security valuations reflected in the financial statements may differ from the value the Corporation ultimately realizes upon sale of the securities.

Security Transactions and Investment Income Investment transactions are accounted for on the trade date. Gain or loss on sales of securities and options is determined on the basis of identified cost. Dividend income and distributions to stockholders are recognized on the ex-dividend date, and interest income is recognized on the accrual basis.

Security Valuation The Corporation s investments are reported at fair value as defined under accounting principles generally accepted in the United States of America. Investments in securities traded on a national security exchange are valued at the last reported sale price on the day of valuation. Over-the-counter and listed securities for which a sale price is not available are valued at the last quoted bid price. Short-term investments (excluding purchased options and money market funds) are valued at amortized cost, which approximates fair value. Purchased and written options are valued at the last quoted bid and asked price, respectively. Money market funds are valued at net asset value on the day of valuation.

Various inputs are used to determine the fair value of the Corporation s investments. These inputs are summarized in the following three levels:

Level 1 fair value is determined based on market data obtained from independent sources; for example, quoted prices in active markets for identical investments,
Level 2 fair value is determined using other assumptions obtained from independent sources; for example, quoted prices for similar investments,

Level 3 fair value is determined using the Corporation s own assumptions, developed based on the best information available in the circumstances.

The Corporation s investments at June 30, 2010 were classified as follows:

	Level 1	Level 2	Level 3	Total
Common stocks	$ 537,679,300	$	$	$537,679,300
Short-term investments	14,644,944	6,678,788		21,323,732
Securities lending collateral	14,969,735			14,969,735
Total investments	$ 567,293,979	$ 6,678,788	$	$ 573,972,767
Written options	$ (760,026)	$	$	$ (760,026)

There were no transfers into or from Level 1 or Level 2 during the six months ended June 30, 2010.

2. FEDERAL INCOME TAXES

No federal income tax provision is required since the Corporation s policy is to qualify as a regulated investment company under the Internal Revenue Code and to distribute substantially all of its taxable income to its stockholders. Additionally, management has analyzed and concluded that tax positions included in federal income tax returns from the previous three years that remain subject to examination do not require any provision. Any income tax-related interest or penalties would be recognized as income tax expense. As of June 30, 2010, the identified cost of securities for federal income tax purposes was $423,010,078, and net unrealized appreciation aggregated $150,962,689, consisting of gross unrealized appreciation of $201,690,296 and gross unrealized depreciation of $(50,727,607).

Distributions are determined in accordance with income tax regulations, which may differ from generally accepted accounting principles. Such differences are primarily related to the Corporation s retirement plans and equity-based compensation. Differences that are permanent are periodically reclassified in the capital accounts of the Corporation s financial statements and have no impact on net assets.

3. INVESTMENT TRANSACTIONS

The Corporation s investment decisions are made by a committee of management, and recommendations to that committee are made by the research staff. Purchases and sales of portfolio securities, other than options and short-term investments, during the six months ended June 30, 2010 were $76,700,373 and $71,593,945, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The Corporation is subject to changes in the value of equity securities held (equity price risk) in the normal course of pursuing its investment objectives. The Corporation may purchase and write option contracts to increase or decrease its equity price risk exposure or may write option contracts to generate additional income. Option contracts generally entail risks associated with counterparty credit, illiquidity, and unfavorable equity price movements. The Corporation has mitigated counterparty credit and illiquidity risks by trading its options through an exchange. The risk of unfavorable equity price movements is limited for purchased options to the premium paid and for written options by writing only covered call or collateralized put option contracts, which require the Corporation to segregate certain securities or cash at its custodian when the option is written. A schedule of outstanding option contracts as of June 30, 2010 can be found on page 13.

When the Corporation writes (purchases) an option, an amount equal to the premium received (paid) by the Corporation is recorded as a liability (asset) and is subsequently marked to market daily in the Statement of Assets and Liabilities, with any related change recorded as an unrealized gain or loss in the Statement of Operations. Premiums received (paid) from unexercised options are treated as realized gains (losses) on the expiration date. Upon the exercise of written put (purchased call) option contracts, premiums received (paid) are deducted from (added to) the cost basis of the underlying securities purchased. Upon the exercise of written call (purchased put) option contracts, premiums received (paid) are added to (deducted from) the proceeds from the sale of underlying securities in determining whether there is a realized gain or loss.

Transactions in written covered call and collateralized put options during the six months ended June 30, 2010 were as follows:

	Covered Calls		Collateralized Puts	
	Contracts	Premiums	Contracts	Premiums
Options outstanding, December 31, 2009	1,435	$ 153,916	812	$ 188,773
Options written	5,459	561,090	5,822	876,171
Options terminated in closing purchase transactions	(367)	(39,928)	(197)	(23,653)
Options expired	(3,130)	(291,366)	(2,932)	(483,095)
Options exercised	(563)	(60,154)	(1,692)	(247,289)
Options outstanding, June 30, 2010	2,834	$ 323,558	1,813	$ 310,907

4. CAPITAL STOCK

The Corporation has 5,000,000 authorized and unissued preferred shares, $0.001 par value.

During 2010, the Corporation has issued 375 shares of its Common Stock at a weighted average price of $23.86 per share as dividend equivalents to holders of deferred stock units and restricted stock units under the 2005 Equity Incentive Compensation Plan.

On December 28, 2009, the Corporation issued 580,521 shares of its Common Stock at a price of $22.54 per share (the average market price on December 9, 2009) to stockholders of record on November 20, 2009 who elected to take stock in payment of the distribution from 2009 capital gain and investment income. During 2009, 896 shares were issued at a weighted average price of $19.45 per share as dividend equivalents to

holders of deferred stock units and restricted stock units under the 2005 Equity Incentive Compensation Plan.

The Corporation may purchase shares of its Common Stock from time to time at such prices and amounts as the Board of Directors may deem advisable.

Transactions in Common Stock for 2010 and 2009 were as follows:

	Shares		Amount	
	Six months ended June 30, 2010	Year ended December 31, 2009	Six months ended June 30, 2010	Year ended December 31, 2009
Shares issued in payment of dividends	375	581,417	$ 8,964	$ 13,102,449
Shares purchased (at a weighted average discount from net asset value of 11.9%)		(215,835)		(4,043,629)
Net activity under the 2005 Equity Incentive Compensation Plan	11,844	3,069	42,228	59,558
Net change	12,219	368,651	$ 51,192	$ 9,118,378

5. RETIREMENT PLANS

The Corporation s non-contributory qualified defined benefit pension plan covers all employees with at least one year of service. In addition, the Corporation has a non-contributory nonqualified defined benefit plan which provides eligible employees with retirement benefits to supplement the qualified plan. Both plans were frozen as of October 1, 2009. Benefits are based on length of service and compensation during the last five years of employment

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

through September 30, 2009, with no additional benefits being accrued beyond that date.

The funded status of the plans is recognized as an asset (overfunded plan) or a liability (underfunded plan) in the Statement of Assets and Liabilities. Changes in the prior service costs and accumulated actuarial gains and losses are recognized as accumulated other comprehensive income, a component of net assets, in the year in which the changes occur and are subsequently amortized into net periodic pension cost.

The Corporation s policy is to contribute annually to the plans those amounts that can be deducted for federal income tax purposes, plus additional amounts as the Corporation deems appropriate in order to provide assets sufficient to meet benefits to be paid to plan participants. The Corporation made contributions of $15,604 to the plans during the six months ended June 30, 2010, and anticipates making additional contributions of up to $500,000 over the remainder of 2010.

Items impacting the Corporation s earnings were:

	Six months ended June 30, 2010	Year ended December 31, 2009
Components of net periodic pension cost		
Service cost	$	$ 174,661
Interest cost	129,907	400,099
Expected return on plan assets	(81,683)	(196,462)
Prior service cost component		11,397
Net loss component	70,168	322,484
Effect of settlement (non-recurring)		983,675
Effect of curtailment (non-recurring)		50,803
Net periodic pension cost	$ 118,392	$ 1,746,657

	Six months ended June 30, 2010	Year ended December 31, 2009
Changes recognized in accumulated other comprehensive income		
Net loss	$ (833)	$ (1,067,829)
Amortization of net loss	70,168	322,484
Amortization of prior service cost		11,397
Effect of settlement (non-recurring)		983,675
Effect of curtailment (non-recurring)		2,077,665
Change in accumulated other comprehensive income	$ 69,335	$ 2,327,392

The Corporation also sponsors qualified and nonqualified defined contribution plans. The Corporation expensed contributions to the plans in the amount of $34,118 for six months ended June 30, 2010. The Corporation does not provide postretirement medical benefits.

6. EQUITY-BASED COMPENSATION

Although the Stock Option Plan of 1985 (1985 Plan) has been discontinued and no further grants will be made under this plan, unexercised grants of stock options and stock appreciation rights granted in 2004 and prior years remain outstanding. The exercise price of the unexercised options and related stock appreciation rights is the fair market value on date of grant, reduced by the per share amount of capital gains paid by the Corporation during subsequent years. All options and related stock appreciation rights terminate ten years from date of grant, if not exercised.

A summary of option activity under the 1985 Plan as of June 30, 2010, and changes during the six month period then ended is presented below:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)
Outstanding at December 31, 2009	19,143	$ 8.88	2.49
Exercised	(4,322)	8.69	
Cancelled			
Outstanding at June 30, 2010	14,821	$ 8.84	2.14
Exercisable at June 30, 2010	5,292	$ 11.10	0.66

The options outstanding as of June 30, 2010 are set forth below:

Exercise Price	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)
$5.00-$6.99	5,185	$ 5.52	2.50
$7.00-$8.99	864	8.69	1.50
$9.00-$10.99	4,344	10.06	3.50
$11.00-$12.99	4,428	11.57	0.50
Outstanding at June 30, 2010	14,821	$ 8.84	2.14

Compensation cost resulting from stock options and stock appreciation rights granted under the 1985 Plan is based on the intrinsic value of the award, recognized over the award s vesting period, and remeasured at each reporting date through the date of settlement. The total compensation cost/(credit) recognized for the six months ended June 30, 2010 was $(38,470).

The 2005 Equity Incentive Compensation Plan (2005 Plan), adopted at the 2005 Annual Meeting and re-approved at the 2010 Annual Meeting, permits the grant of stock options, restricted stock awards and other stock incentives to key employees and all non-employee directors. The 2005 Plan provides for the issuance of up to 872,639 shares of the Corporation s Common Stock, including both performance and nonperformance-based restricted stock. Performance-based restricted stock awards vest at the end of a specified three year period, with the ultimate number of shares earned contingent on achieving certain performance targets. If performance targets are not achieved, all or a portion of the performance-based restricted shares are forfeited and become available for future grants.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Nonperformance-based restricted stock awards vest ratably over a three year period and nonperformance-based restricted stock units (granted to non-employee directors) vest over a one year period. Payments of awards may be deferred, if elected. It is the current intention that employee grants will be performance-based. The 2005 Plan provides for accelerated vesting in the event of death or retirement. Non-employee directors also may elect to defer a portion of their cash compensation, with such deferred amount to be paid by delivery of deferred stock units. Outstanding awards are granted at fair market value on grant date. The number of shares of Common Stock which remain available for future grants under the 2005 Plan at June 30, 2010 is 800,970 shares.

A summary of the status of the Corporations s awards granted under the 2005 Plan as of June 30, 2010, and changes during the six month period then ended is presented below:

Awards	Shares/ Units	Weighted Average Grant-Date Fair Value
Balance at December 31, 2009	34,502	$ 28.41
Granted:		
Restricted stock	12,275	24.43
Restricted stock units	3,600	23.65
Deferred stock units	365	23.95
Vested & issued	(7,775)	27.54
Forfeited	(2,757)	31.34
Balance at June 30, 2010 (includes 25,577 performance-based awards and 14,633 nonperformance-based awards)	40,210	$ 26.70

Compensation costs resulting from awards granted under the 2005 Plan are based on the fair value of the award on grant date (determined by the average of the high and low price on grant date) and recognized on a straight-line basis over the requisite service period. For those awards with performance conditions, compensation costs are based on the most probable outcome and, if such goals are not met, compensation cost is not recognized and any previously recognized compensation cost is reversed. The total compensation costs for the period ended June 30, 2010 for restricted stock granted to employees were $33,893. The total compensation costs for the period ended June 30, 2010 for restricted stock units granted to non-employee directors were $39,561. As of June 30, 2010, there were total unrecognized compensation costs of $460,700, a component of additional capital surplus, related to nonvested equity-based compensation arrangements granted under the 2005 Plan. Those costs are expected to be recognized over a weighted average period of 1.84 years. The total fair value of shares and units vested during the six month period ended June 30, 2010 was $189,397.

7. OFFICER AND DIRECTOR COMPENSATION

The aggregate remuneration paid during the six months ended June 30, 2010 to officers and directors amounted to $1,228,012, of which $246,481 was paid as fees and compensation to directors who were not officers. These amounts represent the taxable income to the Corporation s officers and directors and therefore differ from the amounts reported in the accompanying Statement of Operations that are recorded and expensed in accordance with generally accepted accounting principles.

8. PORTFOLIO SECURITIES LOANED

The Corporation makes loans of securities to approved brokers to earn additional income. It receives as collateral cash deposits, U.S. Government securities, or bank letters of credit valued at 102% of the value of the securities on loan. The market value of the loaned securities is calculated based upon the most recent closing prices and any additional required collateral is delivered to the Corporation on the next business day. Cash deposits are placed in a registered money market fund. The Corporation accounts for securities lending transactions as secured financing and receives compensation in the form of fees or retains a portion of interest on the investment of any cash received as collateral. The Corporation also continues to receive interest or dividends on the securities loaned. Gain or loss in the fair value of securities loaned that may occur during the term of the loan will be for the account of the Corporation. At June 30, 2010, the Corporation had securities on loan of $14,382,730 and held cash collateral of $14,969,735. The Corporation is indemnified by the Custodian, serving as lending agent, for loss of loaned securities and has the right under the lending agreement to recover the securities from the borrower on demand.

9. OPERATING LEASE COMMITMENT

The Corporation shares office space and equipment with its non-controlling affiliate, The Adams Express Company, under operating lease agreements expiring at various dates through the year 2016. Rental payments are based on a predetermined cost sharing methodology. The Corporation recognized rental expense of $49,073 in the first half of 2010, and its estimated portion of future minimum rental commitments are as follows:

2010	$ 47,999
2011	95,850
2012	93,791
2013	91,736
2014	91,810
2015 & 2016	140,933
Total	$ 562,119

FINANCIAL HIGHLIGHTS

	Six Months Ended		Year Ended December 31				
	June 30, 2010	June 30, 2009	2009	2008	2007	2006	2005
Per Share Operating Performance							
Net asset value, beginning of period	$26.75	$22.49	$22.49	$42.99	$36.61	$35.24	$28.16
Net investment income	0.17	0.15	0.28	0.43	0.46	0.47	0.53*
Net realized gains and increase (decrease) in unrealized appreciation	(3.82)	0.89	5.37	(17.71)	10.37	4.91	8.29
Change in accumulated other comprehensive income (note 5)	0.00	(0.01)	0.10	(0.07)	0.00	(0.09)	
Total from investment operations	(3.65)	1.03	5.75	(17.35)	10.83	5.29	8.82
Less distributions							
Dividends from net investment income	(0.13)	(0.21)	(0.37)	(0.38)	(0.49)	(0.47)	(0.56)
Distributions from net realized gains	(0.07)	(0.05)	(1.03)	(2.61)	(3.82)	(3.33)	(1.22)
Total distributions	(0.20)	(0.26)	(1.40)	(2.99)	(4.31)	(3.80)	(1.78)
Capital share repurchases	0.00	0.02	0.02	0.08	0.10	0.15	0.10
Reinvestment of distributions	0.00	0.00	(0.11)	(0.24)	(0.24)	(0.27)	(0.06)
Total capital share transactions	0.00	0.02	(0.09)	(0.16)	(0.14)	(0.12)	0.04
Net asset value, end of period	$22.90	$23.28	$26.75	$22.49	$42.99	$36.61	$35.24
Market price, end of period	$19.97	$20.44	$23.74	$19.41	$38.66	$33.46	$32.34
Total Investment Return							
Based on market price	(15.1)%	6.7%	30.3%	(42.2)%	28.9%	15.3%	32.3%
Based on net asset value	(13.6)%	4.9%	26.7%	(39.8)%	31.0%	15.7%	32.0%
Ratios/Supplemental Data							
Net assets, end of period (in 000 s)	$557,346	$552,908	$650,718	$538,937	$978,920	$812,047	$761,914
Ratio of expenses to average net assets	0.60%	0.87%	0.96%	0.51%	0.54%	0.60%	0.59%
Ratio of net investment income to average net assets	1.33%	1.32%	1.18%	1.10%	1.12%	1.22%	1.61%

Portfolio turnover	11.73%	8.45%	14.35%	16.89%	7.36%	9.95%	10.15%
Number of shares outstanding at end of period (in 000 s)	24,340	23,746	24,327	23,959	22,768	22,181	21,621

* In 2005, the Corporation received dividend income of $3,032,857, or $0.14 per share, as a result of Precision Drilling Corp. s reorganization.
Ratios presented on an annualized basis.
For 2009, the ratios of expenses and net investment income to average net assets were 0.78% and 1.36%, respectively, after adjusting for non-recurring pension expenses.

SCHEDULE OF INVESTMENTS

June 30, 2010

	Shares		Value (A)
Stocks 96.5%			
Energy 72.7%			
Exploration & Production 22.4%			
Anadarko Petroleum Corp. (E)	300,000	$	10,827,000
Apache Corp.	200,000		16,838,000
Devon Energy Corp.	110,000		6,701,200
Energen Corp.	250,000		11,082,500
EOG Resources, Inc.	120,000		11,804,400
Forest Oil Corp. (C)	100,000		2,736,000
Newfield Exploration Co. (C)	50,000		2,443,000
Noble Energy, Inc.	260,000		15,685,800
Oasis Petroleum, Inc. (C)	200,000		2,900,000
Occidental Petroleum Corp.	393,700		30,373,955
Pioneer Natural Resources Co.	140,000		8,323,000
Southwestern Energy Co. (C)	134,400		5,193,216
			124,908,071
Integrated 34.0%			
Chevron Corp.	940,000		63,788,400
ConocoPhillips	350,000		17,181,500
Exxon Mobil Corp. (F)	1,268,430		72,389,300
Hess Corp.	250,000		12,585,000
Royal Dutch Shell plc ADR (B)	322,700		16,205,994
Total S.A. ADR	162,000		7,231,680
			189,381,874
Pipelines 2.2%			
Spectra Energy Corp.	208,812		4,190,857
Williams Companies, Inc.	450,000		8,226,000
			12,416,857
Services 14.1%			
Baker Hughes, Inc.	105,000		4,364,850
Halliburton Co.	400,000		9,820,000
Nabors Industries Ltd. (C)	520,000		9,162,400
National Oilwell Varco, Inc.	138,538		4,581,452
Noble Corp. (C)(E)	270,000		8,345,700
Schlumberger Ltd.	475,000		26,286,500
Transocean Ltd. (C)	257,953		11,950,962

Weatherford International, Ltd. (C)	300,000

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

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

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

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

the holder fails to present (where presentation is required) its notes within 30 calendar days after PifCo has made available to the holder a payment under the notes and the indenture, provided that PifCo or Petrobras, as applicable, will pay additional amounts which a holder would have been entitled to had the notes owned by such holder been presented on any day (including the last day) within such 30 calendar day period;

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

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where such taxes, levies, deductions or other governmental charges are imposed on a payment on the notes to, or for, an individual and are required to be made pursuant to Council Directive 2003/48/EC or other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000, on the taxation of savings income, or any law implementing or complying with, or introduced in order to conform to, such directive;

where the holder could have avoided such taxes, levies, deductions or other governmental charges by requesting that a payment on the notes be made by, or presenting the relevant notes for payment to, another paying agent of PifCo located in a member state of the European Union; or

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

PifCo shall promptly pay when due any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies that arise in any taxing jurisdiction from any payment under the notes or under any other document or instrument referred in the indenture or from the execution, delivery, enforcement or registration of the notes or any other document or instrument referred to in the indenture. PifCo shall indemnify and make whole the holders for any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies payable by PifCo as provided in this paragraph paid by such holder. PifCo shall maintain a paying agent hereunder in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to the European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN council meeting of November 26-27, 2000, or any law implementing or complying with, or introduced in order to conform to, such Directive.

Holders in some jurisdictions may not receive payment of gross-up amounts for withholding in compliance with the EU Directive on taxation of savings income. See Risk Factors Holders in some jurisdictions may not receive payment of gross-up amounts for withholding in compliance with the EU Directive on taxation of savings income.

Negative Pledge

So long as any note of a series remains outstanding, PifCo will not create or permit any lien, other than a PifCo permitted lien, on any of its assets to secure (i) any of its indebtedness or (ii) the indebtedness of any other person, unless PifCo contemporaneously creates or permits such lien to secure equally and ratably its obligations under such series of the notes and the indenture or PifCo provides such other security for such series of the notes as is duly approved by a resolution of the holders of such series of the notes in accordance with the indenture. In addition, PifCo will not allow any of its material subsidiaries to create or permit any lien, other than a PifCo permitted lien, on any of its assets to secure (i) any of its indebtedness, (ii) any of the material subsidiary s indebtedness or (iii) the indebtedness of any other person, unless it contemporaneously creates or permits the lien to secure equally and ratably its obligations under each series of the notes and the indenture or PifCo provides such other security for such notes as is duly approved by a resolution of the holders of such series of the notes in accordance with the indenture. This covenant is subject to a number of important exceptions, including an exception that permits PifCo to grant liens in respect of indebtedness the principal amount of which, in the aggregate, together with all other liens not otherwise described in a specific exception, does not exceed 15% of PifCo s consolidated total assets (as determined in accordance with U.S. GAAP or IFRS) at any time as at which PifCo s balance sheet is prepared and published in accordance with applicable law.

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Limitation on Consolidation, Merger, Sale or Conveyance

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

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

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

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

- PifCo has delivered to the trustee an officers certificate and an opinion of counsel, each stating that the transaction, and each supplemental indenture relating to the transaction, comply with the terms of the indenture dated as of December 15, 2006, and that all conditions precedent provided for in the indenture and relating to the transaction have been complied with; and

PifCo has delivered notice of any such transaction to the trustee.

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

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

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

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

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

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

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

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

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

an obligation to pay or purchase such indebtedness;

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

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

any other agreement to be responsible for such indebtedness.

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

A PifCo permitted lien means a:

(a) lien arising by operation of law, such as merchants , maritime or other similar liens arising in PifCo s ordinary course of business or that of any subsidiary or lien in respect of taxes,

assessments or other governmental charges that are not yet delinquent or that are being contested in good faith by appropriate proceedings;

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

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

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

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

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

(g) lien existing as of the date of the eighth supplemental indenture in the case of the 2018 Notes and as of the date of the ninth supplemental indenture in the case of the 2022 Notes;

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(h) lien resulting from the indenture or the guaranties, if any;

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

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

(k) lien in respect of indebtedness the principal amount of which in the aggregate, together with all other liens not otherwise qualifying as PifCo permitted liens pursuant to another part of this definition of PifCo permitted liens, does not exceed 15% of PifCo s consolidated total assets (as determined in accordance with U.S. GAAP or IFRS) at any date as at which PifCo s balance sheet is prepared and published in accordance with applicable law.

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

Optional Redemption

PifCo will not be permitted to redeem the notes before their stated maturity, except as set

forth below. The notes will not be entitled to the benefit of any sinking fund (we will not deposit money on a regular basis into any separate account to repay your notes). In addition, you will not be entitled to require us to repurchase your notes from you before the stated maturity. The redemption price at maturity for the notes will be equal to 100% of the principal amount of such notes.

On and after the redemption date, interest will cease to accrue on the notes or any portion of the notes called for redemption (unless we default in the payment of the redemption price and accrued interest). On or before the redemption date, we will deposit with the trustee money sufficient to pay the redemption price of and (unless the redemption date shall be an interest payment date) accrued interest to the redemption date on the notes to be redeemed on such date. If less than all of the notes of any series are to be redeemed, the notes to be redeemed shall be selected by the trustee by such method as set forth in the indenture.

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Optional Redemption With Make-Whole Amount for the 2018 Notes and the 2022 Notes

PifCo will have the right at our option to redeem any of the notes in whole or in part, at any time or from time to time prior to their maturity, on at least 30 days but not more than 60 days notice, at a redemption price equal to the greater of (1) 100% of the principal amount of such notes and (2) the sum of the present values of each remaining scheduled payment of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on an annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Bund Rate plus 55 basis points with respect to the 2018 Notes and plus 55 basis points with respect to the 2022 Notes (in each case, the Euro Make-Whole Amount), plus in each case accrued interest on the principal amount of such notes to the date of redemption.

Bund Rate means, as of any redemption date, the rate per annum equal to the yield to maturity as of such redemption date of the Comparable German Bund Issue, assuming a price for the Comparable German Bund Issue (expressed as a percentage of its principal amount) equal to the Comparable German Bund Price for such redemption date, where:

(1) Comparable German Bund Issue means the German Bundesanleihe security selected by the Independent German Bund Investment Banker (as defined below) as having a fixed maturity most nearly equal to the remaining term of the series of notes to be redeemed and that would be utilized at the time of selection and in accordance with customary financial practice, in pricing new issues of euro-denominated corporate debt securities in a principal amount approximately equal to the then outstanding principal amount of the notes and of a maturity most nearly equal to the remaining term of the series of notes to be redeemed; provided, however, that, if the remaining term of the series of notes to be redeemed is not equal to the fixed maturity of the German Bundesanleihe security selected by such Reference German Bund Dealer, the Bund Rate shall be determined by linear interpolation (calculated to the nearest

one-twelfth of a year) from the yields of German Bundesanleihe securities for which such yields are given, except that if the remaining term of the series of notes to be redeemed is less than one year, a fixed maturity of one year shall be used;

(2) Comparable German Bund Price means, with respect to any redemption date, (i) the average of all Reference German Bund Dealer Quotations for such redemption date (which, in any event, must include at least two such quotations), after excluding the highest and lowest such Reference German Bund Dealer Quotations, or (ii) if the Independent German Bund Investment Bank obtains fewer than four such Reference German Bund Dealer Quotations, the average of all such quotations;

(3) Independent German Bund Investment Banker means one of the Reference German Bund Dealers (as defined below) appointed by us.

(4) Reference German Bund Dealer means each of Banco Santander, S.A. and Deutsche Bank AG, London branch, or their affiliates, which are dealers of German Bundesanleihe securities and two other leading dealers of German Bundesanleihe securities reasonably designated by us; provided, however, that if any of the foregoing shall cease to be a dealer of German Bundesanleihe securities, we will substitute therefor another dealer of German Bundesanleihe securities; and

(5) Reference German Bund Dealer Quotations means, with respect to each Reference German Bund Dealer and any redemption date, the average as determined by the Independent German Bund Investment Banker of the bid and offered prices for the Comparable German Bund Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent German Bund Investment Bank by such Reference German Bund Dealer at 3:30 p.m. Frankfurt, Germany, time on the third business day preceding the redemption date.

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Redemption for Taxation Reasons

We have the option, subject to certain conditions, to redeem each series of the notes in whole at their principal amount, plus accrued and unpaid interest, if any, to the relevant date of redemption, if and when, as a result of a change in, execution of, or amendment to, any laws or treaties or the official application or interpretation of any laws or treaties, we would be required to pay additional amounts related to the deduction of certain withholding taxes in respect of certain payments on such series of the notes. See Description of Debt Securities Special Situations-Optional Tax Redemption in the accompanying prospectus.

The Optional Tax Redemption set forth in the accompanying prospectus shall apply with the reincorporation of PifCo being treated as the adoption of a successor entity. Such redemption shall not be available if the reincorporation was performed in anticipation of a change in, execution of or amendment to any laws or treaties or the official application or interpretation of any laws or treaties in such new jurisdiction of incorporation that would result in the obligation to pay additional amounts.

Further Issuances

The indenture by its terms does not limit the aggregate principal amount of securities that may be issued under it and permits the issuance, from time to time, of additional notes (also referred to as add-on notes) of the same series as those offered under this prospectus supplement. The ability to issue add-on notes is subject to several requirements, however, including that (i) no event of default under the indenture or event that with the passage of time or other action may become an event of default (such event being a default) will have occurred and then be continuing or will occur as a result of that additional issuance and (ii) the add-on notes will rank *pari passu* and have equivalent terms and benefits as the notes offered under this prospectus supplement except for the price to the public and the issue date. Any add-on notes with respect to either series of the notes will be part of the same series as such notes that PifCo is currently offering and the holders will vote on all matters in relation to the applicable notes as a

single series.

Covenant Defeasance

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

Conversion

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

Listing

PifCo has applied to list the notes on the official list of the Luxembourg Stock Exchange and have them admitted to trading on the Euro MTF market of the Luxembourg Stock Exchange.

Notices

So long as the notes are represented by a global security deposited with The Bank of New York Mellon, as custodian for the common depositary for Clearstream and Euroclear, notices to be given to holders will be given to Clearstream and Euroclear in accordance with their applicable policies as in effect from time to time. If we issue notes in certificated form, notices to be given to holders will be sent by mail to the respective addresses of the holders as they appear in the trustee s records, and will be deemed given when mailed.

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In addition, so long as the notes are listed on the official list of the Luxembourg Stock Exchange for trading on the Euro MTF market and it is required by the rules of such exchange, all notices to holders of notes will be published in English:

(1) in a leading newspaper having a general circulation in Luxembourg (which currently is expected to be *Luxemburger Wort*); or

(2) on the website of the Luxembourg Stock Exchange at http://www.bourse.lu.

Notices will be deemed to have been given on the date of mailing or of publication as aforesaid or, if published on different dates, on the date of the first such publication. If publication as provided above is not practicable, notices will be given in such other manner, and shall be deemed to have been given on such date, as the trustee may approve.

Neither the failure to give any notice to a particular holder, nor any defect in a notice given to a particular holder, will affect the sufficiency of any notice given to other holders.

Currency Rate Indemnity

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

Exchange Rate Risks and Exchange Controls

Government and monetary authorities have imposed from time to time, and may in the future

impose, exchange controls that could affect exchange rates, as well as the availability, of the specified currency in which a note is payable at the time of payment of the principal or return in respect of such note.

The Trustee and the Paying Agent

The Bank of New York Mellon, a New York banking corporation, is the trustee under the indenture and has been appointed by PifCo as registrar and paying agent with respect to the notes. The address of the trustee is 101 Barclay Street, 4E, New York, New York, 10286. PifCo will at all times maintain a paying agent in New York City until the notes are paid. The Bank of New York Mellon, London Branch, has been designated principal paying agent and The Bank of New York Mellon (Luxembourg) S.A. has been designated paying agent in Luxembourg with respect to the notes under the eighth and ninth supplemental indentures, respectively.

Any corporation or association into which the trustee or any agent may be merged or converted or with which it may be consolidated, or any corporation or association resulting from any merger, conversion or consolidation to which the trustee or any agent shall be a party, or any corporation or association to which all or substantially all of the corporate trust business of the trustee or any agent may be sold or otherwise transferred, shall be the successor trustee or any agent hereunder without any further act.

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CLEARANCE AND SETTLEMENT

Book-Entry Ownership, Denomination and Transfer Procedures for the Notes

We have obtained the information in this section concerning Clearstream, Luxembourg and Euroclear Bank S.A./N.V., as operator of the Euroclear System, or Euroclear, and the book-entry system and procedures from sources that we believe to be reliable. We have accurately reproduced this information and, as far as we are aware and are able to ascertain from information published by such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. However, we do not assume responsibility for the accuracy of this information.

Book-Entry Ownership

We will issue the notes as global notes registered in the name of The Bank of New York Depositary (Nominees) Limited (having a mailing address of 30 Cannon Street, London, EC4M6XH); as common depositary for Clearstream, Luxembourg and Euroclear. Investors may indirectly hold interests in the global notice (i.e., book-entry interests) through organizations that participate, directly or indirectly, in Clearstream, Luxembourg or Euroclear. Book-entry interests in the notes and all transfers relating to the notes will be reflected in the book-entry records of Clearstream, Luxembourg and Euroclear.

Denomination

Beneficial interests in the 2018 Notes and the 2022 Notes will be held in minimum denominations of 100,000 and integral multiples of 1,000 in excess thereof.

Transfer Procedures

Notes represented by global notes can be exchanged for definitive notes in registered form only if:

Clearstream, Luxembourg and Euroclear are closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announce an intention to permanently cease business or have in fact done so, and no successor clearing system is available within 90 days; or

certain events provided in the indenture occur, including the occurrence and continuation

of an event of default with respect to the notes.

If any of these events occurs, we will reissue and the trustee will authenticate the notes in fully certificated registered form and will recognize the registered holders of the certificated notes as holders under the indenture. In all cases, certificated notes delivered in exchange for global notes will be registered in the names, and issued in any approved denominations, requested by the common depository and will bear a legend indicating the transfer restrictions of the related global note.

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Payment and Paying Agents

We will make principal and interest payments on all notes represented by global notes to the principal paying agent which in turn will make payment to the common depositary for Clearstream, Luxembourg and Euroclear, as the sole registered owner and the sole holder of the notes represented by global notes for all purposes under the indenture. Accordingly, we, the trustee and any paying agent will not have responsibility or liability for:

any aspect of the records of Clearstream, Luxembourg or Euroclear relating to, or payments made on account of, beneficial ownership interests in a note represented by global notes;

any other aspect of the relationship between Euroclear or Clearstream, Luxembourg and their participants or the relationship between those participants and the owners of beneficial interests in global notes held through those participants; or

the maintenance, supervision or review of any records of Clearstream, Luxembourg or Euroclear relating to those beneficial ownership interests.

Book-entry notes may be more difficult to pledge because of the lack of a physical note.

Clearstream, Luxembourg

Clearstream, Luxembourg was formed as a limited liability company under Luxembourg law. Clearstream, Luxembourg holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg customers through electronic book-entry changes in accounts of Clearstream, Luxembourg customers, thus eliminating the need for physical movement of certificates. Clearstream, Luxembourg provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg interfaces with domestic markets in a number of countries. Clearstream, Luxembourg has established an electronic bridge with Euroclear Bank S.A./N.V., the operator of the Euroclear System, to facilitate settlement of trades between Euroclear and Clearstream,

Luxembourg.

As a registered bank in Luxembourg, Clearstream, Luxembourg is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector. Clearstream, Luxembourg customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. In the United States, Clearstream, Luxembourg customers are limited to securities brokers and dealers and banks. Clearstream, Luxembourg customers may include the underwriters. Other institutions that maintain a custodial relationship with a Clearstream, Luxembourg customer may obtain indirect access to Clearstream, Luxembourg.

Distribution with respect to the notes held beneficially through Clearstream, Luxembourg will be credited to cash accounts of Clearstream, Luxembourg customers in accordance with its rules and procedures, to the extent received by Clearstream, Luxembourg.

The Euroclear System

The Euroclear System was created in 1968 to hold securities for participants in the Euroclear System and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thus eliminating the need for physical movement of certificates and risk from lack of simultaneous transfers of securities and cash. Transactions may now be settled in many currencies, including euros. The Euroclear System provides various other services, including securities lending and borrowing and interfaces with domestic markets in several countries.

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The Euroclear System is operated by Euroclear Bank S.A./N.V. (the Euroclear Operator), under contract with Euroclear Clearance System, S.C., a Belgian cooperative corporation (the Cooperative). The Euroclear Operator conducts all operations, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Cooperative. The Cooperative establishes policy for the Euroclear system on behalf of Euroclear participants. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to the Euroclear System is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

The Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System and applicable Belgian law govern securities clearance accounts and cash accounts with the Euroclear Operator. Specifically, these terms and conditions govern:

- transfers of securities and cash within the Euroclear System;
- withdrawal of securities and cash from the Euroclear System; and
- receipts of payments with respect to securities in the Euroclear System.

All securities in the Euroclear System are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the terms and conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding securities through Euroclear participants.

Distributions with respect to notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Euroclear terms and conditions, to the extent received by the Euroclear Operator.

The foregoing information about Euroclear and Clearstream, Luxembourg has been provided

by each of them for information purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

Although Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in the notes among participants and accountholders of Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither PifCo or Petrobras, nor the trustee nor any of the trustee s agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

While a note in global form is lodged with the custodian, notes represented by individual definitive notes will not be eligible for clearing or settlement through Euroclear or Clearstream, Luxembourg.

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Individual Definitive Notes

Registration of title to notes in a name other than The Bank of New York Depositary (Nominees) Limited will not be permitted unless (i) Euroclear or Clearstream, Luxembourg has notified us that it is unwilling or unable to continue as depositary for the notes in global form and we do not or cannot appoint a successor depositary within 90 days or (ii) PifCo decides in its sole discretion to allow some or all book-entry notes to be exchangeable for definitive notes in registered form, upon the occurrence of certain events such as Events of Default. In such circumstances, PifCo will cause sufficient individual definitive notes to be executed and delivered to the registrar for completion, authentication and dispatch to the relevant holders of notes. Payments with respect to definitive notes may be made through a paying agent. A person having an interest in the notes in global form must provide the registrar with a written order containing instructions and such other information as the registrar and we may require to complete, execute and deliver such individual definitive notes.

If PifCo issues notes in certificated form, holders of notes in certificated form will be able to transfer their notes, in whole or in part, by surrendering the notes, with a duly completed form of transfer, for registration of transfer at the office of the transfer agent, The Bank of New York Mellon. PifCo will not charge any fee for the registration or transfer or exchange, except that it may require the payment of a sum sufficient to cover any applicable tax or other governmental charge payable in connection with the transfer.

All money paid by PifCo to the paying agents for the payment of principal and interest on the notes which remains unclaimed at the end of two years after the amount is due to a holder subject to any relevant unclaimed property laws or regulations will be repaid to PifCo upon written request thereof, and thereafter holders of notes in certificated form may look only to PifCo for payment.

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DESCRIPTION OF THE GUARANTIES

General

In connection with the execution and delivery of the eighth supplemental indenture, the ninth supplemental indenture and the notes offered by this prospectus supplement, Petrobras will guarantee the 2018 Notes and the 2022 Notes (each, a guaranty and together, the guaranties) for the benefit of the holders.

The guaranties will provide that Petrobras will unconditionally and irrevocably guarantee the notes on the terms and conditions described below.

The following summary describes the material provisions of the guaranties. You should read the more detailed provisions of the applicable guaranty, including the defined terms, for provisions that may be important to you. This summary is subject to, and qualified in its entirety by reference to, the provisions of the applicable guaranty.

Despite the Brazilian government s ownership interest in Petrobras, the Brazilian government is not responsible in any manner for PifCo s obligations under the 2018 Notes or the 2022 Notes, as applicable, or Petrobras obligations under the guaranties.

Ranking

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

Nature of Obligation

Petrobras will unconditionally and irrevocably guarantee the full and punctual payment when due, whether at the maturity date of the notes, or earlier or later by acceleration or otherwise, of all of PifCo s obligations now or hereafter existing under the indenture and the notes, whether for principal, interest, make-whole premium, fees, indemnities, costs, expenses, tax payments or otherwise (such obligations being referred to as the guaranteed obligations).

The obligation of Petrobras to pay amounts in respect of the guaranteed obligations will be

absolute and unconditional upon failure of PifCo to make, at the maturity date of the 2018 Notes or the 2022 Notes, as applicable, or earlier upon any acceleration of the applicable notes in accordance with the terms of the indenture, any payment in respect of principal, interest or other amounts due under the indenture and the applicable series of the notes on the date any such payment is due. If PifCo fails to make payments to the trustee in respect of the guaranteed obligations, Petrobras will, upon notice from the trustee, immediately pay to the trustee such amount of the guaranteed obligations payable under the indenture and the notes. All amounts payable by Petrobras under the guaranties will be payable in euros and in immediately available funds to the trustee. Petrobras will not be relieved of its obligations under either guaranty unless and until the trustee receives all amounts required to be paid by Petrobras under such guaranty (and any related event of default under the indenture has been cured), including payment of the total non-payment overdue interest.

Events of Default

There are no events of default under the guaranties. The eighth supplemental indenture and the ninth supplemental indenture, however, contain events of default relating to Petrobras that may trigger an event of default and acceleration of the 2018 Notes or the 2022 Notes. See Description of Debt Securities Default and Related Matters Events of Default in the accompanying prospectus. Upon any such acceleration (including any acceleration arising out of the insolvency or similar events relating to Petrobras), if PifCo fails to pay all amounts then due under the 2018 Notes or the 2022 Notes, as applicable, and the indenture, Petrobras will be obligated to make such payments pursuant to the relevant guaranty.

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Covenants

For so long as any of the 2018 Notes or the 2022 Notes, as applicable, are outstanding and Petrobras has obligations under the guaranties, Petrobras will, and will cause each of its subsidiaries, as applicable, to comply with the terms of the following covenants:

Performance Obligations under the Guaranties and Indenture

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

Maintenance of Corporate Existence

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

Maintenance of Office or Agency

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

Ranking

Petrobras will ensure at all times that its obligations under the guaranties will be its general senior unsecured and unsubordinated obligations and will rank *pari passu*, without any preferences among themselves, with all other present and future senior unsecured and

unsubordinated obligations of Petrobras (other than obligations preferred by statute or by operation of law) that are not, by their terms, expressly subordinated in right of payment to the obligations of Petrobras under the guaranties.

Notice of Certain Events

Petrobras will give written notice to the trustee, as soon as is practicable and in any event within 30 calendar days after Petrobras becomes aware, or should reasonably become aware, of the occurrence of any event of default or a default under the indenture, accompanied by a certificate of Petrobras setting forth the details of that event of default or default and stating what action Petrobras proposes to take with respect to it.

Provision of Financial Statements and Reports

Petrobras will provide to the trustee, in English or accompanied by a certified English translation thereof, (i) within 90 calendar days after the end of each fiscal quarter (other than the fourth quarter), its unaudited and consolidated balance sheet and statement of income calculated in accordance with U.S. GAAP or IFRS, if Petrobras adopts IFRS as its primary reporting or accounting standard in reports filed with the SEC and (ii) within 120 calendar days after the end of each fiscal year, its audited and consolidated balance sheet and statement of income calculated in accordance with U.S. GAAP or IFRS.

Petrobras will provide, together with each of the financial statements delivered as described in the preceding paragraph, an officers certificate stating that a review of Petrobras and PifCo s activities has been made during the period covered by such financial statements with a view to determining whether Petrobras and PifCo have kept, observed, performed and fulfilled their covenants and agreements under the guaranties and the indenture, as applicable, and that no event of default has occurred during such period.

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In addition, whether or not Petrobras is required to file reports with the SEC, Petrobras will file with the SEC and deliver to the trustee (for redelivery to all holders of the notes, upon written request, of the 2018 Notes or the 2022 Notes, as applicable) all reports and other information it would be required to file with the SEC under the Exchange Act if it were subject to those regulations. If the SEC does not permit the filing described above, Petrobras will provide annual and interim reports and other information to the trustee within the same time periods that would be applicable if Petrobras were required and permitted to file these reports with the SEC.

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

Negative Pledge

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

the holders of each series of the notes in accordance with the indenture.

As used in this Negative Pledge section, the following terms have the respective meanings set forth below:

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

an obligation to pay or purchase such indebtedness;

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

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

any other agreement to be responsible for such indebtedness.

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

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

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

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A qualifying asset in relation to any project means:

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

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

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

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

- shares or other ownership interest in, and any subordinated debt rights owing to Petrobras

by, a special purpose company formed solely for the development of a project, and whose principal assets and business are constituted by such project and whose liabilities solely relate to such project.

A Petrobras permitted lien means a:

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

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

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

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

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

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

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

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

(i) lien existing as of the date of the eighth supplemental indenture in the case of the 2018 Notes and as of the date of the ninth supplemental indenture in the case of the 2022 Notes;

(j) lien resulting from the indenture, the notes, and the guaranties, if any;

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

(l) lien granted or incurred to secure any extension, renewal, refinancing, refunding or exchange (or successive extensions, renewals, refinancings, refundings or exchanges), in whole or in part, of or for any indebtedness secured by any lien referred to in paragraphs (a) through (k) above (but not paragraph (d)), provided that such lien does not extend to any other property, the principal amount of the indebtedness secured by the lien is not increased, and in the case of paragraphs (a), (b), (c) and (g), the obligees meet the requirements of that paragraph, and in the case of paragraph (h), the indebtedness is incurred in connection with a project financing by Petrobras, any of Petrobras subsidiaries or any consortium or other venture in which Petrobras or any subsidiary have any ownership or other similar interest; and

(m) lien in respect of indebtedness the principal amount of which in the aggregate, together with all liens not otherwise qualifying as Petrobras permitted liens pursuant to another part of this definition of Petrobras permitted liens, does not exceed 15% of Petrobras consolidated total assets (as determined in accordance with

U.S. GAAP or IFRS) at any date as at which Petrobras balance sheet is prepared and published in accordance with applicable law.

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

Limitation on Consolidation, Merger, Sale or Conveyance

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

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

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

2018 Notes or the 2022 Notes, as applicable;
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immediately after giving effect to the transaction, no event of default, and no default has occurred and is continuing;

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

Petrobras has delivered notice of any such transaction to the trustee.

Notwithstanding anything to the contrary in the foregoing, so long as no default or event of default under the indenture or the 2018 Notes or the 2022 Notes, as applicable, has occurred and is continuing at the time of such proposed transaction or would result therefrom and Petrobras has delivered notice of any such transaction to the trustee:

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

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

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

assets to, any other direct or indirect subsidiary of Petrobras; or

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

Amendments

The guaranties may only be amended or waived in accordance with their terms pursuant to a written document which has been duly executed and delivered by Petrobras and the trustee, acting on behalf of the holders of the 2018 Notes or the 2022 Notes, as applicable. Because the guaranties form part of the indenture, they may be amended by Petrobras and the trustee, in some cases without the consent of the holders of the applicable notes. See Description of Debt Securities Special Situations Modification and Waiver in the accompanying prospectus.

Except as contemplated above, the indenture will provide that the trustee may execute and deliver any other amendment to the guaranties or grant any waiver thereof only with the consent of the holders of a majority in aggregate principal amount of the 2018 Notes or 2022 Notes then outstanding, as applicable.

Governing Law

The guaranties will be governed by the laws of the State of New York.

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Jurisdiction

Petrobras has consented to the non-exclusive jurisdiction of any court of the State of New York or any U.S. federal court sitting in the Borough of Manhattan, The City of New York, New York, United States and any appellate court from any thereof. Service of process in any action or proceeding brought in such New York State federal court sitting in New York City may be served upon Petrobras at Petrobras New York office located at 570 Lexington Avenue, 43rd Floor, New York, New York 10022-6837. The guaranties provide that if Petrobras no longer maintains an office in New York City, then it will appoint a replacement process agent within New York City as its authorized agent upon which process may be served in any action or proceeding.

Waiver of Immunities

To the extent that Petrobras may in any jurisdiction claim for itself or its assets immunity from a suit, execution, attachment, whether in aid of execution, before judgment or otherwise, or other legal process in connection with the guaranties (or any document delivered pursuant thereto) and to the extent that in any jurisdiction there may be immunity attributed to Petrobras, PifCo or their assets, whether or not claimed, Petrobras has irrevocably agreed with the trustee, for the benefit of the holders, not to claim, and to irrevocably waive, the immunity to the full extent permitted by law.

Currency Rate Indemnity

Petrobras has agreed that, if a judgment or order made by any court for the payment of any amount in respect of any of its obligations under the guaranties is expressed in a currency (the judgment currency) other than euros (the denomination currencies), Petrobras will indemnify the relevant holder and the trustee against any deficiency arising from any variation in rates of exchange between the date as of which the denomination currency is notionally converted into the judgment currency for the purposes of the judgment or order and the date of actual payment. This indemnity will constitute a separate and independent obligation from Petrobras other obligations under the guaranties, will give rise to a separate and independent cause

of action, will apply irrespective of any indulgence granted from time to time and will continue in full force and effect.

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PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in the underwriting agreement dated December 1, 2011, by and among PifCo, Petrobras, Banco Bradesco BBI S.A., with offices at Avenida Paulista, 1450, 8th Floor, São Paulo, SP, Brazil, Banco Santander, S.A., with offices at Ciudad Grupo Santander, Edificio Encinar, Avenida de Cantabria, s/n, Boadilla del Monte, 28660, Madrid, Spain, BB Securities Ltd., with offices at 4th Floor, Pinners Hall, 105-108 Old Broad Street, London, EC2N 1ER, United Kingdom, Crédit Agricole Corporate and Investment Bank, with offices at Broadwalk House, 5 Appold Street, London, EC2 2DA, United Kingdom, Deutsche Bank AG, London Branch, with offices at Winchester House, 1 Great Winchester Street, London, EC2N 2DB, United Kingdom, HSBC Securities (USA) Inc., with offices at 452 Fifth Avenue, New York, NY, 10018, USA, Banca IMI S.p.A., with offices at Largo Mattioli 3, 20121, Milan, Italy, and Mitsubishi UFJ Securities International plc, with offices at Ropemaker Place, 25 Ropemaker Street, London, EC2Y 9AJ, United Kingdom, as underwriters, each underwriter has severally agreed to purchase, and PifCo has agreed to sell to the underwriters, the number of notes set forth opposite the name of such underwriters below:

Underwriters	Principal Amount of the 2018 Notes	Principal Amount of the 2022 Notes
Banco Bradesco BBI S.A.	200,000,000	96,000,000
Banco Santander, S.A.	200,000,000	96,000,000
BB Securities Ltd.	200,000,000	96,000,000
Crédit Agricole Corporate and Investment Bank	200,000,000	96,000,000
Deutsche Bank AG,	200,000,000	96,000,000

London Branch		
HSBC Securities (USA) Inc.	200,000,000	96,000,000
Banca IMI S.p.A.	25,000,000	12,000,000
Mitsubishi UFJ Securities International plc	25,000,000	12,000,000
Total	1,250,000,000	600,000,000

The underwriting agreement provides that the obligation of the underwriters to pay for and accept delivery of the notes is subject to, among other conditions, the delivery of certain legal opinions by its counsel. The underwriters are obligated to take and pay for all of the notes offered by this prospectus supplement if any notes are taken. The notes will initially be offered at the price indicated on the cover page of this prospectus supplement. After the initial offering of the notes, the offering price and other selling terms may from time to time be varied by the underwriters.

Bradesco Securities Inc. will act as agent of Banco Bradesco BBI S.A. for sales of the notes in the United States of America. Banco Bradesco BBI S.A. is not a broker-dealer registered with the SEC, and therefore may not make sales of any notes in the United States to U.S. persons. Banco Bradesco BBI S.A. and Bradesco Securities Inc. are affiliates of Banco Bradesco S.A.

Banco Santander, S.A. is not a broker-dealer registered with the SEC and therefore may not make sales of any notes in the United States or to U.S. persons except in compliance with applicable U.S. laws and regulations. To the extent that Banco Santander, S.A. intends to effect sales of the notes in the United States, Banco Santander, S.A. will do so only through Santander Investment Securities Inc. or one more U.S. registered broker-dealers or otherwise, as permitted by applicable U.S. law.

BB Securities Ltd. is not a broker-dealer registered with the SEC and therefore may not make sales of any notes in the United States or to U.S. persons except in compliance with

applicable U.S. laws and regulations. To the extent that BB Securities Ltd. intends to effect sales of the notes in the United States, BB Securities Ltd. will do so only through Banco do Brasil Securities LLC or one or more U.S. registered broker-dealers or otherwise, as permitted by applicable U.S. law.

Crédit Agricole Corporate and Investment Bank is not a broker-dealer registered with the SEC and therefore may not make sales of any notes in the United States or to U.S. persons except in compliance with applicable U.S. laws and regulations. To the extent that Crédit Agricole Corporate and Investment Bank intends to effect sales of the notes in the United States, Crédit Agricole Corporate and Investment Bank will do so only through Crédit Agricole Securities (USA) Inc., as permitted by applicable U.S. law.

Deutsche Bank AG, London Branch is not a broker-dealer registered with the SEC and therefore may not make sales of any notes in the United States or to U.S. persons except in compliance with applicable U.S. laws and regulations. To the extent that Deutsche Bank AG, London Branch intends to effect sales of the notes in the United States, Deutsche Bank AG, London Branch will do so only through Deutsche Bank Securities Inc. or one more U.S. registered broker-dealers or otherwise, as permitted by applicable U.S. law.

Banca IMI S.p.A. is not a U.S. registered broker-dealer, and will not effect any offers or sales of any notes in the United States unless it is through one or more U.S. registered broker-dealers as permitted by the regulations of the Financial Industry Regulatory Authority, Inc.

Mitsubishi UFJ Securities International plc is not a U.S. registered broker-dealer, and will not effect any offers or sales of any notes in the United States unless it is through one or more U.S. registered broker-dealers as permitted by the regulations of the Financial Industry Regulatory Authority, Inc.

The underwriting agreement provides that PifCo and Petrobras will indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, and will contribute to payments the underwriters may be required to make in respect of the underwriting agreement.

PifCo has been advised by the underwriters that the underwriters intend to make a market in the notes as permitted by applicable laws and regulations. The underwriters are not obligated, however, to make a market in the notes and any such market-making may be discontinued at any time at the sole discretion of the underwriters. In addition, such market-making activity will be subject to the limits imposed by the Exchange Act. Accordingly, no assurance can be given as to the liquidity of, or the development or continuation of trading markets for, the notes.

In connection with this offering, certain persons participating in this offering may engage in transactions that stabilize, maintain or otherwise affect the price of the notes. Specifically, the underwriters may bid for and purchase notes in the open market to stabilize the price of the notes. The underwriters may also over-allot this offering, creating a short position, and may bid for and purchase notes in the open market to cover the short position. In addition, the underwriters may bid for and purchase the notes in market-making transactions and impose penalty bids. These activities may stabilize and maintain the market price of the notes above market levels that may otherwise prevail. The underwriters are not required to engage in these activities, and may end these activities at any time.

The underwriters have from time to time in the past provided, and may in the future provide, investment banking, financial advisory and other services to Petrobras, PifCo and their affiliates for which the underwriters have received or expect to receive customary fees.

The underwriters and/or their affiliates may acquire the notes for their own property accounts. Such acquisitions may have an effect on demand for and the price of the notes.

In compliance with FINRA guidelines, the maximum compensation to the underwriters or agents in connection with the sale of the notes pursuant to this prospectus supplement and the accompanying prospectus will not exceed 8% of the aggregate total offering price to the public of the notes as set forth on the cover page of this prospectus supplement; however, it is anticipated that the maximum compensation paid will be

significantly less than 8%.

The expenses of the offering, excluding the underwriting discount, are estimated to be U.S.$500,000 and will be borne by PifCo.

The underwriters propose to offer the notes initially at the public offering price set forth on the cover page of this prospectus supplement and to dealers at that price less a selling concession not in excess of 0.25% of the principal amount of the notes. After the initial public offering of the notes, the public offering price and concession and discount to dealers may be changed.

General

No action has been or will be taken in any jurisdiction other than the United States by PifCo or any underwriter that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this prospectus supplement or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons outside the United States into whose hands this prospectus supplement comes are required by PifCo and the underwriters to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this prospectus supplement or any other offering material relating to the Notes, in all cases at their own expense.

Brazil

The notes have not been, and will not be, registered with the Comissão de Valores Mobiliários - CVM. The notes may not be offered or sold in Brazil, except in circumstances that do not constitute a public offering or distribution under Brazilian laws and regulations.

Cayman Islands

No invitation may be made to the public in the Cayman Islands to subscribe for any of the notes.

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United Kingdom

This prospectus supplement is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the Financial Promotion Order), (ii) are persons falling within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations etc) of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the FSMA)) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as relevant persons). This prospectus supplement is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this prospectus supplement relates is available only to relevant persons and will be engaged in only with relevant persons.

In relation to the United Kingdom, each underwriter has represented and agreed that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any notes in circumstances in which section 21(1) of the FSMA does not apply to PifCo or Petrobras; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

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Dubai

This prospectus supplement relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (DFSA). This prospectus supplement is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this prospectus supplement nor taken steps to verify the information set forth herein and has no responsibility for the prospectus supplement. The notes to which this prospectus supplement relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the notes offered should conduct their own due diligence on the notes. If you do not understand the contents of this prospectus supplement you should consult an authorized financial advisor.

Hong Kong

The notes may not be offered or sold in Hong Kong by means of any document other than (i) to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, The Laws of Hong Kong) and any rules made thereunder, or (ii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap.32, The Laws of Hong Kong), or which do not constitute an offer to the public within the meaning of the Companies Ordinance, and no advertisement, invitation or document relating to the notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance and any rules made thereunder.

Japan

The notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the FIEL) and each underwriter has agreed that it has not offered or sold and will not offer or sell any notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

This document has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this document and any other document or material in connection with the offer or sale, or invitation or subscription or purchase, of the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than under circumstances in which such offer, sale or invitation does not constitute an offer or sale, or invitation for subscription or purchase, of the notes to the public in Singapore.

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TAXATION

The following discussion summarizes certain U.S. federal income, Brazilian, Cayman Islands and EU related tax considerations that may be relevant to the ownership and disposition of the notes acquired in this offering for the original price. This summary does not describe all of the tax considerations that may be relevant to you or your situation, particularly if you are subject to special tax rules. You should consult your tax advisors about the tax consequences of holding the notes, including the relevance to your particular situation of the considerations discussed below, as well as of any other tax laws. There currently are no income tax treaties between Brazil and the United States. Although the tax authorities of Brazil and the United States have had recent discussions that may culminate in such a treaty, we cannot assure you as to whether or when a treaty will enter into force or how it will affect holders of the notes.

U.S. Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax considerations that may be relevant to a beneficial owner of a note that is, for U.S. federal income tax purposes, a citizen or resident of the United States, a domestic corporation or an entity otherwise subject to U.S. federal income taxation on a net income basis in respect of the note (a U.S. Holder). This summary addresses only U.S. Holders that purchase notes as part of the initial offering, and that hold such notes as capital assets. The summary does not address tax considerations applicable to investors that may be subject to special tax rules, such as banks or other financial institutions, tax-exempt entities, partnerships (or entities or arrangements treated as partnerships for U.S. federal income tax purposes) or partners therein, insurance companies, dealers in securities or currencies, traders in securities electing to mark to market, persons that will hold the notes as a position in a straddle or conversion transaction, or as part of a synthetic security or other integrated financial transaction or persons that have a functional currency other than the U.S. Dollar. A Non-U.S. Holder is a beneficial owner of the notes (other than a partnership or other entity or arrangement treated as a

partnership for U.S. federal income tax purposes) that is not a U.S. Holder.

This summary is based on the Internal Revenue Code of 1986, as amended, existing, proposed and temporary U.S. Treasury regulations and judicial and administrative interpretations thereof, in each case as in effect and available on the date hereof. All of the foregoing are subject to change (possibly with retroactive effect) or to differing interpretations, which could affect the U.S. federal income tax consequences described herein.

INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE APPLICATION TO THEIR PARTICULAR CIRCUMSTANCES OF THE U.S. FEDERAL INCOME TAX CONSIDERATIONS DISCUSSED BELOW, AS WELL AS THE APPLICATION OF U.S. FEDERAL ESTATE, GIFT AND ALTERNATIVE MINIMUM TAX LAWS, U.S. STATE AND LOCAL TAX LAWS AND FOREIGN TAX LAWS.

Payments of Interest and Additional Amounts

Payments of interest on a note (which may include additional amounts) 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 accounting for U.S. federal income tax purposes.

A U.S. Holder that uses the cash method of accounting for U.S. federal income tax purposes and that receives a payment of stated interest will be required to include in ordinary income the U.S. dollar value of the euro (foreign currency) interest payment determined on the date such payment is received, regardless of whether the payment is in fact converted to U.S. dollars. A cash method U.S. Holder will not recognize exchange gain or loss with respect to the receipt of such payment, but may have exchange gain or loss attributable to the actual disposition of the foreign currency so received.

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A U.S. Holder that uses the accrual method of accounting for U.S. federal income tax purposes will be required to include in income the U.S. dollar value of the amount of stated interest income in foreign currency that has accrued with respect to a note during an accrual period. The U.S. dollar value of such accrued income will be determined by translating such income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year. A U.S. Holder may elect, however, to translate such accrued interest income using the spot rate on the last day of the accrual period or, with respect to an accrual period that spans two taxable years, using the spot rate on the last day of the taxable year. If the last day of an accrual period is within five business days of the date of receipt of the accrued interest, a U.S. Holder may translate such interest using the spot rate on the date of receipt. The above election will apply to other obligations held by the U.S. Holder and may not be changed without the consent of the Internal Revenue Service (IRS).

A U.S. Holder that uses the accrual method of accounting for U.S. federal income tax purposes will recognize exchange gain or loss with respect to accrued interest income on the date such interest is received. The amount of exchange gain or loss recognized will equal the difference, if any, between the U.S. dollar value of the foreign currency payment received (determined at the spot rate on the date such payment is received) in respect of such accrual period and the U.S. dollar value of interest income that has accrued during such accrual period (as determined above).

Exchange gain or loss generally, (i) will constitute ordinary income or loss, (ii) will not be treated as an adjustment to interest income received on the notes and (iii) will be treated as U.S. source income or as an offset to U.S. source income, respectively.

Interest income in respect of the notes generally will constitute foreign-source income for purposes of computing the foreign tax credit allowable under the U.S. federal income tax laws. The limitation on foreign income taxes

eligible for credit is calculated separately with respect to specific classes of income. Such income generally will constitute passive category income for foreign tax credit purposes. The calculation and availability of foreign tax credits and, in the case of a U.S. Holder that elects to deduct foreign income taxes, the availability of such deduction involves the application of complex rules that depend on the U.S. Holder s particular circumstances. In addition, foreign tax credits generally will not be allowed for certain short-term or hedged positions in the notes.

U.S. Holders should consult their own tax advisors regarding the availability of foreign tax credits or deductions in respect of foreign taxes and the treatment of additional amounts.

A Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on interest income earned in respect of notes so long as such income is not effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States. Non-U.S. Holders should consult their own tax advisors in the event interest income with respect to the notes is effectively connected with their trade or business in the United States.

Sale or Disposition of Notes

A U.S. Holder generally will recognize capital gain or loss upon the sale, exchange, retirement or other taxable disposition of a note in an amount equal to the difference between the U.S. dollar value of the amount realized upon such disposition (other than amounts attributable to accrued but unpaid interest, which will be taxed as ordinary income to the extent not previously included in gross income) and such U.S. Holder s tax basis in the note as determined in U.S. dollars. A U.S. Holder s tax basis in the note will generally equal such U.S. Holder s purchase price of the Note. Subject to the discussion in the next paragraph, gain or loss realized by a U.S. Holder on the disposition of a Note generally will be long-term capital gain or loss if, at the time of the disposition, the Note has been held for more than one year. The net amount of long-term capital gain realized by an individual U.S. Holder generally is subject to tax at a reduced rate which rates currently are scheduled to increase on January 1, 2013. The deductibility of capital losses is subject to limitations.

Any gain or loss realized upon a sale, exchange, retirement or other taxable disposition of a note that is attributable to fluctuations in currency exchange rates will be ordinary income or loss and will generally be treated as U.S. source income or as an offset to U.S. source income, respectively. In addition, upon the sale, exchange, retirement or other taxable disposition of a note, an accrual method U.S. Holder may realize exchange gain or loss attributable to amounts received in respect of accrued and unpaid interest. However, a U.S. Holder will realize exchange gain or loss with respect to principal and accrued interest only to the extent of the total gain or loss realized on the disposition.

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Capital gain or loss recognized by a U.S. Holder generally will be U.S.-source gain or loss. Consequently, if any such gain is subject to foreign withholding tax, a U.S. Holder may not be able to credit the tax against its U.S. federal tax liability unless such credit can be applied (subject to the applicable limitation) against tax due on other income treated as derived from foreign sources. U.S. Holders should consult their own tax advisors as to the foreign tax credit implications of a disposition of the notes.

A Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on gain realized on the sale or other taxable disposition of notes so long as (i) such gain is not effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States or (ii) in the case of gain realized by an individual, such Non-U.S. Holder is not present in the United States for 183 days or more in the taxable year of the disposition. Non-U.S. Holders should consult their own tax advisors in the event either of the foregoing conditions applies.

Backup Withholding and Information Reporting

Payments in respect of the notes that are paid within the United States or through certain U.S.-related financial intermediaries are subject to information reporting, and may be subject to backup withholding, unless the U.S. Holder (i) is a corporation or other exempt recipient, and demonstrates this fact when so required, or (ii) provides a correct taxpayer identification number, certifies that it is not subject to backup withholding and otherwise complies with applicable requirements of the backup withholding rules. 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 timely furnished to the IRS.

Although Non-U.S. Holders generally are exempt from backup withholding, a Non-U.S. Holder may, in certain circumstances, be required to comply with certification procedures to prove entitlement to this exemption.

U.S. Holders may be subject to other U.S. information reporting requirements. Holders should consult their own advisors regarding the application of U.S. information reporting rules in light of their particular circumstances.

Brazilian Tax Considerations

The following discussion is a summary of the Brazilian tax considerations relating to an investment in the notes by a non-resident of Brazil. This discussion is based on the tax laws of Brazil as in effect on the date of this prospectus supplement 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 tax 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 OR OTHER DISPOSITION OF THE NOTES OR COUPONS.

Payments in Respect of the Notes, and Sale or Other Disposition of Notes

Generally, an individual, entity, trust or organization that is domiciled for tax purposes outside Brazil (a Non-Resident) is subject to income tax in Brazil only when income is derived from Brazilian source or when the transaction giving rise to such earnings involves assets located in Brazil. Therefore, based on the fact that PifCo is considered to be domiciled abroad for tax purposes, any interest (including original issue discount, if any), gains, fees, commissions, expenses and any other income paid by PifCo in respect of the notes it issues to Non-Resident holders should not, under Brazilian law, be regarded as payable by a Brazilian obligor. Accordingly, no Brazilian income or withholding taxes should apply to payments made by the issuer, provided that such payments are made with funds held by PifCo outside of Brazil.

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Any capital gains generated outside Brazil as a result of a transaction between two Non-Resident holders with respect to assets not located in Brazil are generally not subject to tax in Brazil. If the assets are located in Brazil, then capital gains realized thereon are subject to income tax, according to Law No. 10,833, enacted on December 29, 2003. Since the notes will be issued and registered abroad, the notes should not fall within the definition of assets located in Brazil for purposes of Law No. 10,833. Therefore, gains realized on the sale or other disposition of the notes made outside Brazil by a Non-Resident holder to another non-Brazilian resident should not be subject to Brazilian taxes. Notwithstanding the foregoing, considering the general and unclear scope of this legislation and the absence of judicial guidance in respect thereof, we cannot assure prospective investors that such interpretation will prevail in the courts of Brazil.

As a result, gains realized by a Non-Resident holder from the sale or other disposition of the notes (i) in case the notes are deemed to be located in Brazil, to a Non-Resident, or (ii) to a resident of Brazil may be subject to income tax in Brazil at a rate of 15%, or 25% if such Non-Resident holder is located in a country that does not impose any income tax or which imposes income tax at a maximum rate lower than 20% or in a country or location where the local laws do not allow access to information related to the shareholding composition of legal entities, to their ownership or to the identity of the effective beneficiary of the income attributed to non-residents (a Low or Nil Tax Jurisdiction), unless a lower rate is provided for in an applicable tax treaty between Brazil and the country where the Non-Resident holder has its domicile.

Payments Made by Petrobras as Guarantor

Interest, fees, commissions, expenses and any other income payable by Petrobras as guarantor resident in Brazil to a Non-Resident holder are generally subject to income tax withheld at source. The rate of withholding in respect of interest payments is generally 15%, unless (i) the holder of the notes is resident or domiciled in a Low or Nil Tax Jurisdiction, in which case the

applicable rate is 25%, or (ii) such other lower rate as provided for in an applicable tax treaty between Brazil and another country where the beneficiary is domiciled. In case the guarantor is required to assume the obligation to pay the principal amount of the notes, Brazilian tax authorities could attempt to impose withholding income tax as described above.

If the payments with respect to the notes are made by Petrobras as a guarantor, then Non-Resident holders will be indemnified so that, after payment of applicable Brazilian taxes imposed by deduction or withholding with respect to principal or interest payable with respect to the notes, subject to certain exceptions, as mentioned in Description of the Notes Covenants Additional Amounts , a Non-Resident holder will receive an amount equal to the amount that such Non-Resident holder would have received if no such taxes were imposed.. See Description of the Notes Covenants Additional Amounts .

Low or Nil Tax Jurisdictions and Privileged Tax Regimes

On June 4, 2010, Brazilian tax authorities adopted Normative Instruction No. 1,037 listing (i) the countries and jurisdictions considered as Low or Nil Tax Jurisdictions and (ii) the privileged tax regimes, which definition is provided by Law No. 11,727, of June 23, 2008. Although we believe that the best interpretation of the current tax legislation could lead to the conclusion that the privileged tax regime concept should solely apply for purposes of Brazilian transfer pricing and thin capitalization rules, we cannot assure whether subsequent legislation or interpretations by the Brazilian tax authorities will not also make it applicable to a Non-Resident holder with respect to payments potentially made by a Brazilian source.

We recommend prospective investors to consult their own tax advisors from time to time to verify any possible tax consequences arising from Normative Instruction No. 1,037 and Law No. 11,727. If the Brazilian tax authorities determine that payments made to a Non-Resident holder are within the scope of a privileged tax regime, then the withholding income tax applicable to such payments could be up to 25%.

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Other Tax Considerations

Brazilian law imposes a tax on foreign exchange transactions (*Imposto sobre Operações de Crédito, Câmbio, Seguros e sobre Operações relativas à Títulos e Valores Mobiliários*) (the IOF/Exchange) on the conversion of *reais* into foreign currency and on the conversion of foreign currency into *reais*, including foreign exchange transactions in connection with payments made by a Brazilian guarantor under the guarantee to Non-Resident holders.

Currently, the IOF/Exchange rate is 0.38% for most foreign exchange transactions, including foreign exchange transactions in connection with payments by Petrobras to Non-Resident holders under the guarantee. However, the IOF/Exchange rate can be increased by the Brazilian Government at any time up to a maximum rate of 25%. Any such new rate would only apply to future foreign exchange transactions.

Generally, there are no inheritance, gift, succession, stamp, or other similar taxes in Brazil with respect to the ownership, transfer, assignment or 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 domiciled or residing within such states.

Cayman Islands Tax Considerations

The Cayman Islands currently have no exchange control restrictions and no income, corporate or capital gains tax, estate duty, inheritance tax, gift tax or withholding tax applicable to PifCo or any holder of notes issued by PifCo. Accordingly, payment of principal of (including any premium) and interest on, and any transfer of, the notes will not be subject to taxation in the Cayman Islands; no Cayman Islands withholding tax will be required on such payments to any holder of a note; and gains derived from the sale of notes will not be subject to Cayman Islands capital gains tax. The Cayman Islands are not party to any double taxation treaties, other than a double taxation agreement entered into between the governments of the United Kingdom and the Cayman Islands on June 15, 2009. The Cayman Islands government has recently entered into certain agreements with

various governments in relation to information with respect to tax matters.

No stamp duties or similar taxes or charges are payable under the laws of the Cayman Islands in respect of the execution and issue of notes by PifCo unless they are executed in or brought within (for example, for the purposes of enforcement) the jurisdiction of the Cayman Islands, in which case stamp duty of 0.25% of the face amount of the notes may be payable on each Note (up to a maximum of 250 Cayman Islands Dollars (CI$) (U.S.$312.50)) unless stamp duty of CI$500 (U.S.$625.00) has been paid in respect of the entire issue of notes.

The foregoing conversions of Cayman Island Dollars to U.S. Dollars have been made on the currently applicable basis of U.S.$1.25 = CI$1.00.

European Union Savings Directive

Under Council Directive 2003/48/EC (the Directive) on the taxation of savings income, each Member State is required to provide to the tax or other relevant authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria will (unless during that period they elect otherwise) operate a withholding system in relation to such payments deducting tax at the rate of 35% (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend and broaden the scope of the requirement described above.

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

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

For further information on potential difficulties in effecting service of process on any of those persons or enforcing judgments against any of them outside the United States, see Enforceability of Civil Liabilities in the accompanying prospectus.

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LEGAL MATTERS

Walkers, special Cayman Islands counsel for PifCo, will pass upon the validity of the notes and the indenture for PifCo as to certain matters of Cayman Islands law. Mr. Nilton Antonio de Almeida Maia, Petrobras general counsel, will pass upon, for PifCo and Petrobras, certain matters of Brazilian law relating to the notes, the indenture and the guaranties. The validity of the notes, the indenture and the guaranties will be passed upon for PifCo and Petrobras by Cleary Gottlieb Steen & Hamilton LLP as to certain matters of New York law.

Mattos Filho Veiga Filho Marrey Jr. e Quiroga Advogados will pass upon the validity of the indenture and the guaranties for the underwriters as to certain matters of Brazilian law. Shearman & Sterling LLP will pass upon the validity of the notes, the indenture and the guaranties for the underwriters as to certain matters of New York law.

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EXPERTS

The consolidated financial statements of Petrobras and its subsidiaries and of PifCo and its subsidiaries as of and for the years ended December 31, 2010, 2009 and 2008, and management s assessments of the effectiveness of internal control over financial reporting as of December 31, 2010, have been incorporated in this prospectus supplement by reference to the combined Petrobras and PifCo annual report on Form 20-F for the year ended December 31, 2010 in reliance upon the report of KPMG Auditores Independentes, an independent registered public accounting firm, and upon the authority of KPMG Auditores Independentes as experts in accounting and auditing.

With respect to the unaudited interim financial information of Petrobras and PifCo for the nine-month periods ended September 30, 2011 and September 30, 2010, which are incorporated by reference herein, KPMG Auditores Independentes has reported that it applied limited procedures in accordance with professional standards for a review of such information. However, its reports included in the Petrobras Form 6-K furnished to the SEC on August 25, 2011, and PifCo Form 6-K furnished to the SEC on August 25, 2011, and incorporated by reference herein, state that it did not audit and it does not express an opinion on that interim financial information. Accordingly, the degree of reliance on its reports on such information should be restricted in light of the limited nature of the review procedures applied. KPMG Auditores Independentes is not subject to the liability provisions of Section 11 of the Securities Act for its reports on the unaudited interim financial information because those reports are not reports or a part of the registration statement prepared or certified by the accountants within the meaning of Sections 7 and 11 of the Securities Act.

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LISTING AND GENERAL INFORMATION

1. We have applied to list the notes on the official list of the Luxembourg Stock Exchange and have them admitted to trading on the Euro MTF market of the Luxembourg Stock Exchange.

2. The notes have been accepted for clearance through Euroclear and Clearstream. The ISIN numbers and Common Codes for the notes are as follows:

Series of Notes	ISIN Number	Common Code
2018 Notes	XS0716979249	071697924
2022 Notes	XS0716979595	071697959

3. We have obtained all necessary consents, approvals and authorizations in connection with the issuance and performance of the notes. Resolutions of PifCo s board of directors, dated as of November 30, 2011, authorized the issuance of the notes. Resolutions of Petrobras board of directors and resolutions of Petrobras board of officers, dated as of August 15, 2011 and November 24, 2011, respectively, authorized the execution and delivery of the guarantees.

4. Except as described in this prospectus supplement, since September 30, 2011, there has been no change (or any development or event involving a prospective change of which we are or might reasonably be expected to be aware) which is materially adverse to our financial condition and that of our subsidiaries taken as a whole.

5. Except as described in this prospectus supplement, since September 30, 2011, there has been no change (or any development or event involving a prospective change of which Petrobras is or might reasonably be expected to be aware) which is materially adverse to Petrobras financial condition and that of its subsidiaries taken as a whole.

6. Except as described in this prospectus supplement, including the documents incorporated by reference herein, there are no pending actions, suits or proceedings against or affecting us or any of our subsidiaries or any of their respective properties, which, if determined adversely to us or any such subsidiary, would individually or in the aggregate have an adverse effect on our financial condition and that of our

subsidiaries taken as a whole or would adversely affect our ability to perform our obligations under the notes or which are otherwise material in the context of the issue of the notes, and, to the best of our knowledge, no such actions, suits or proceedings are threatened.

7. For so long as any of the notes are outstanding and admitted for listing on the official list of the Luxembourg Stock Exchange and trading on the Euro MTF market, copies of the following items in English will be available at the expense of PifCo from The Bank of New York Mellon, at its office at 101 Barclay Street, 4E, New York, New York, 10286:

Our audited consolidated financial statements as of December 31, 2010, 2009 and 2008 and for the years ended December 31, 2010, 2009 and 2008, and any related notes to these items.

Petrobras audited consolidated financial statements as of December 31, 2010, 2009 and 2008 and for the years ended December 31, 2010, 2009 and 2008, and any related notes to these items.

For so long as any of the notes are outstanding and admitted for listing on the official list of the Luxembourg Stock Exchange and trading on the Euro MTF market, copies of the current annual financial statements and unaudited financial information of PifCo and Petrobras may be obtained from our Luxembourg listing agent at its office listed above. PifCo and Petrobras currently publish their unaudited financial information on a quarterly basis.

During the same period, the base indenture, the eighth and ninth supplemental indentures and a copy of our by-laws and Petrobras by-laws will be available at the offices of the Bank of New York Mellon and The Bank of New York Mellon (Luxembourg) S.A.

8. Neither PifCo nor Petrobras have issued convertible debt securities, exchangeable debt securities or debt securities with warrants attached.

9. PifCo s principal executive office is located at Harbour Place, 103 South Church Street, 4th Floor P.O. Box 1034GT-BWI, George Town, Grand Cayman, Cayman Islands and its constitutive documents are available at the same address. Petrobras principal executive office is located at Avenida República do Chile, 65 20031-912 Rio de Janeiro, RJ, Brazil and its constitutive documents can be inspected at the same address.