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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act). (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)
Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, December 28, 2007, was approximately \$227,449,000. The registrant has no non-voting common stock.

26,671,031

(Number of shares of class A common stock outstanding as of September 4, 2008)

36,858,465

(Number of shares of class B common stock outstanding as of September 4, 2008)

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's Definitive Proxy Statement for the 2008 Annual Meeting of Stockholders (the Definitive Proxy Statement) are incorporated by reference into Part III of this Report.

1-800-FLOWERS.COM, INC.
FORM 10-K
For the fiscal year ended June 29, 2008

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PART I

Item 1. BUSINESS

The Company

1-800-FLOWERS.COM, Inc. is the world's leading florist and gift shop. For more than 30 years, 1-800-FLOWERS.COM, Inc. has been providing customers with fresh flowers and the finest selection of plants, gift baskets, gourmet foods, confections, balloons and plush stuffed animals perfect for every occasion. Named one of the top 50 online retailers by Internet Retailer, as well as 2008 Laureate Honoree by the Computerworld Honors Program and the recipient of ICMI's 2006 Global Call Center of the Year Award, 1-800-FLOWERS.COM(R) (1-800-356-9377 or www.1800flowers.com) offers the best of both worlds: exquisite arrangements created by some of the nation's top floral artists and hand-delivered the same day, and spectacular flowers shipped overnight through our Fresh From Our Growers(R) program. As always, 100% satisfaction and freshness are guaranteed. The Company's BloomNet(R) (www.mybloomnet.net) international floral wire service provides a broad range of quality products and value-added services designed to help professional florists grow their businesses profitably. The 1-800-FLOWERS.COM, Inc. "Gift Shop" also includes gourmet gifts such as popcorn and specialty treats from The Popcorn Factory(R) (1-800-541-2676 or www.thepopcornfactory.com); exceptional cookies and baked gifts from Cheryl&Co.(R) (1-800-443-8124 or www.cherylandco.com); premium chocolates and confections from Fannie May Confections Brands (www.fanniemay.com and www.harrylondon.com); gourmet foods from Greatfood.com(R) (www.greatfood.com); wine gifts from Ambrosia(R) (www.ambrosia.com or www.winetasting.com); gift baskets from 1-800-BASKETS.COM(R) (www.1800baskets.com) and DesignPac Giftssm (www.designpac.com) as well as Home Decor and Children's Gifts from Plow &

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Hearth(R) (1-800-627-1712 or www.plowandhearth.com), Wind & Weather(R) (www.windandweather.com), HearthSong(R) (www.hearthsong.com) and Magic Cabin(R) (www.magiccabin.com).

1-800-FLOWERS.COM, Inc. stock is traded on the NASDAQ Global Select Market under ticker symbol FLWS.

References in this Annual Report on Form 10-K to "1-800-FLOWERS.COM" and the "Company" refer to 1-800-FLOWERS.COM, Inc. and its subsidiaries. The Company's principal offices are located at One Old Country Road, Suite 500, Carle Place, NY 11514 and its telephone number at that location is (516) 237-6000.

The Origins of 1-800-FLOWERS.COM

The Company's operations began in 1976 when James F. McCann, its Chairman and Chief Executive Officer, acquired a single retail florist in New York City, which he subsequently expanded to a 14-store chain. Thereafter, the Company modified its business strategy to take advantage of the rapid emergence of toll-free calling. The Company acquired the right to use the toll-free telephone number 1-800-FLOWERS, adopted it as its corporate identity and began to aggressively build a national brand around it. The Company believes it was one of the first companies to embrace this new way of conducting business.

In order to support the growth of its toll-free business and to provide superior customer service, the Company developed an operating infrastructure that incorporated the best available technologies. Over time, the Company implemented a sophisticated transaction processing system that facilitated rapid order entry and fulfillment, an advanced telecommunications system and multiple customer service centers to handle increasing call volume.

To enable the Company to deliver products reliably nationwide on a same-day or next-day basis and to market pre-selected, high-quality floral products, the Company created BloomNet(R), a nationwide network including independent local florists selected for their high-quality products, superior customer service and order fulfillment and delivery capabilities.

The Company's online presence has enabled it to expand the number and types of products it can effectively offer to its customers. As a result, the Company has developed relationships with customers who purchase products for both a broad range of celebratory gifting occasions as well as for everyday personal use. The Company has broadened its product offering to include products that a customer could expect to find in a high-end florist shop, including a wide assortment of

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cut flowers and plants, candy, balloons, plush toys, giftware and gourmet gift baskets. In addition, the Company has further expanded its product offering to include home and garden merchandise through its April 1998 acquisition of The Plow & Hearth, Inc.; unique and educational children's gifts through its acquisition of the HearthSong and Magic Cabin product lines in June 2001 and, more recently, weather-themed gifts and instruments through the acquisition of Wind & Weather in October 2005. The Company has also significantly expanded its presence in the gourmet food and gift baskets category through a combination of organic initiatives and strategic acquisitions beginning with the purchase of GreatFood.com, Inc. in November 1999, followed by the purchase of certain assets of The Popcorn Factory, Inc. in May 2002, the addition of wine gifts through the acquisition of The WineTasting Network in November 2004, the addition of cookies and other bakery gift items through the purchase of Cheryl & Co. in March 2005, premium chocolates and confections with the acquisition of Fannie May Confections Brands, Inc. in May 2006, and most recently, gourmet gift baskets,

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food towers and gift sets through the acquisition of DesignPac Gifts LLC in April 2008.

The Company's Strategy

1-800-FLOWERS.COM's objective is to become the leading authority on thoughtful gifting, to serve an expanding range of our customers' celebratory needs, thereby helping our customers express themselves and connect with the important people in their lives. The Company will continue to build on the trusted relationships with our customers by providing them with ease of access, tasteful and appropriate gifts, and superior service.

The Company believes that 1-800-FLOWERS.COM is one of the most recognized brands in the floral and gift industry. The strength of its brand has enabled the Company to extend its product offerings beyond the floral category into complementary products, which include home and garden merchandise, children's toys and games, gourmet popcorn, cookies and related baked and snack food products, premium chocolate and confections, wine gifts and gourmet gift baskets. This extension of gift offerings helps our customers in all of their celebratory occasions, and has enabled the Company to increase the number of purchases and the average order value by existing customers who have come to trust the 1-800-FLOWERS.COM brand, as well as continue to attract new customers.

The Company believes its brands are characterized by:

- o Convenience. All of the Company's product offerings can be purchased either via the web, or via the Company's toll-free telephone numbers, 24 hours a day, seven days a week, for those customers who prefer a personal gift advisor to assist them. The Company offers a variety of delivery options, including same-day or next-day service throughout the world.
- o Quality. High-quality products are critical to the Company's continued brand strength and are integral to the brand loyalty that it has built over the years. The Company offers its customers a 100% satisfaction guarantee on all of its products.
- o Delivery. The Company has developed a market-proven fulfillment infrastructure that allows delivery on a same-day, next-day and any-day basis. Key to the Company's fulfillment capability is an innovative "hybrid" model which combines BloomNet (comprised of independent florists operating retail flower shops and Local Fulfillment or Design Centers ("LFC's"), Company-owned stores, LFC's, and franchise stores), with its eleven distribution centers located in California, Illinois, New York, Nevada, Ohio, and Virginia, and third-party vendors who ship directly to the Company's customers. These fulfillment points are connected by the Company's proprietary "BloomLink(R)" communication system, a secure internet-based system through which orders and related information are transmitted.
- o Selection. Over the course of a year, the Company offers more than 2,600 varieties of fresh-cut flowers, floral arrangements and plants, more than 7,000 SKUs of gifts, gourmet foods, cookies, chocolates and wines, more than 10,000 different SKUs for the home, including garden accessories, casual lifestyle furnishings, weather themed instruments and gift items, and unique and educational toys and games.
- o Customer Service. The Company strives to ensure that customer service, whether online, via the telephone, or in one of its retail stores is of the highest caliber. The Company operates four customer service facilities and employs a network of home agents to provide helpful assistance on everything from advice on product selection to the monitoring of the fulfillment and delivery process.

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As part of the Company's continuing effort to serve the thoughtful gifting needs of its customers, and leverage its business platform, where appropriate, the Company intends to market other high-quality brands in addition to the 1-800-Flowers.com brand. The Company intends to accomplish this through organic growth, and where appropriate, through acquisition of complementary businesses. In keeping with this strategy, in April 2008, the Company acquired DesignPac Gifts LLC, a designer, assembler and distributor of gourmet gift baskets, gourmet food towers and gift sets, including a broad range of branded and private label components. Subsequent to year end, in July 2008, the Company acquired selected assets of Napco Marketing Corp. Napco is a wholesale merchandiser and marketer of products designed primarily for the floral industry, and will complement the product line already offered by BloomNet. In May 2006, the Company acquired Fannie May Confections Brands, Inc. a manufacturer and direct retailer of premium chocolates and confections, through its Fannie May(R), Harry London(R) and Fanny Farmer(R) brands, while in March 2005, the Company acquired Cheryl & Co., a manufacturer and direct marketer of premium cookies and related baked gift items, and, in November 2004, The Winetasting Network, a distributor and direct-to-consumer marketer of wine. These acquisitions have enabled the Company to more fully develop its gourmet food and gift baskets product line, which the Company has identified as having significant revenue and earnings growth potential. In November 2005, the Company acquired Wind & Weather, a direct-marketer of weather-themed instruments and gift items. In June 2001 the Company acquired The Children's Group, Inc., including its two brands of unique and educational children's toys and games, HearthSong and Magic Cabin, deepening its product assortment in the home and children's gift category which the Company first entered in 1998, through its acquisition of The Plow & Hearth, Inc., a direct marketer of home decor and garden merchandise. As a complement to the Company's own brands and product lines, the Company has formed strategic relationships, including Martha Stewart for 1-800-FLOWERS.COM, a co-branded line of fresh, seasonal flower arrangements and plants which was launched during the latter part of fiscal 2008, as well as with Lenox(R), Waterford(R), Godiva(R) and Junior's Cheesecake(R). The Company also continues to develop signature products with renowned celebrity floral artisans and celebrity chefs in order to provide its customers with differentiated products and further its position as a destination for all of their gifting needs.

Having now achieved a solid base of business, through organic efforts and strategic acquisitions, management's current focus is on improving the Company's earnings performance through a combination of gross margin improvement from expanded overseas product sourcing and expected manufacturing efficiencies, leveraging the Company's operating platform to reduce operating expenses, and changes in advertising and marketing strategies designed to increase its effectiveness.

Business Category Reorganization

With the addition of Fannie May Confections Brands, Inc. in May 2006, and the growing importance of BloomNet to the Company's operating results, the Company restructured its organization during fiscal 2007 in order to strengthen its execution and customer focus, and align resources to better meet the demands of the consumers that it serves and to deliver improved financial performance. To enhance the visibility of the growth and profit characteristics of its different business categories, the Company has provided results for its Consumer Floral, Home & Children's Gifts, Gourmet Food and Gift Baskets, and BloomNet Wire Service businesses (see Management Discussion and Analysis of Financial Condition and Results of Operations section for details). The Consumer Floral business category includes the operations of the Company's flagship brand, 1-800-Flowers.com, while the Home & Children's Gifts business category includes the Company's Plow & Hearth, Wind & Weather, HearthSong and Magic Cabin brands. The Gourmet Food and Gift Baskets category includes the operations of Fannie May Confections Brands, Cheryl & Co., The Popcorn Factory, The Winetasting Network

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and DesignPac. The BloomNet Wire Service includes the operations of BloomNet, BloomNet Technologies, and beginning in fiscal 2009, Napco.

The Company's Products and Service Offerings

The Company offers a wide range of products including fresh-cut flowers, floral arrangements and plants, gifts, popcorn, gourmet foods and gift baskets, cookies, candy and wine, home and garden merchandise and unique toys and games for children. In order to maximize sales opportunities, products are not exclusive to certain brands, and may be sold across business categories. In addition to selecting its core products, the Company's merchandising team works closely with manufacturers and suppliers to select and design products that meet the seasonal, holiday and other special needs of its customers.

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The Company's differentiated and value-added product offerings create the opportunity to have a relationship with customers who purchase items not only for gift-giving occasions but also for everyday consumption. The Company's merchandising team works closely with manufacturers and suppliers to select and design its floral, gourmet foods and gift baskets, home and garden and children's toys, as well as other gift-related products that accommodate our customers' needs to celebrate a special occasion, convey a sentiment or cater to a casual lifestyle. As part of this continuing effort, the Company intends to continue to develop differentiated products and signature collections that our customers have embraced and come to expect from us, while we eliminate marginal performers from our product offerings.

Over the course of a year, the Company's product selection consists of:

Flowers & Plants. The Company offers more than 2,000 varieties of fresh-cut flowers and floral arrangements for all occasions and holidays, available for same-day delivery. The Company provides its customers with a choice of florist designed products, flowers delivered through its Fresh From Our Growers(R) program, and its successful "celebrity" gift collections, including the unique floral creations of Jane Carroll, Julie McCann Mulligan, Jane Packer and Preston Bailey. The Company also offers approximately 500 varieties of popular plants to brighten the home and/or office, and accent gardens and landscapes.

Gourmet Foods and Gift Baskets. The Company offers more than 1,000 premium popcorn and specialty snack products from The Popcorn Factory brand, as well as approximately 600 carefully selected gourmet food and sweet products from the GreatFood.com brand. Additionally, the Company has more than 1,100 premium cookies and baked gift items from Cheryl & Co., which are delivered in beautiful and innovative gift baskets and containers, providing customers with a variety of assortments to choose from. Through The Winetasting Network, the Company now offers its customers more than 500 different wines, primarily from the prestigious wine regions in California. Currently, restrictions exist in many states regarding interstate shipment of wine. As such, these items are only available in selected states. Through the Company's Fannie May Confections Brands, the Company offers more than 900 different selections of premium chocolate and candy. Many of the Company's gourmet products can be packaged in seasonal, occasion specific or decorative tins, fitting the "giftable" requirement of our individual customers, while also adding the capability to customize the tins with corporate logos and other personalized features for the Company's corporate customer's gifting needs. The Company offers more than 300 specially selected gift items, including plush toys, balloons, bath and spa items and gift baskets, candles, wreaths, ornaments, collectibles, home accessories and giftware.

Home and Children's Gifts. Through the Company's Plow & Hearth and Wind & Weather brands, the Company offers approximately 10,000 SKUs for the home,

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hearth and outdoor living, including casual lifestyle furniture and home accessories, clothing, footwear, candles and lighting, vases, kitchen items and accents and gardening items, including tools and accessories, pottery, nature and weather-related products, books and related products. Through the HearthSong and Magic Cabin brands, the Company offers environmentally friendly toys, plush stuffed animals, crafts and books with educational, nature and art themes, as well as, natural-fiber soft dolls, kits and accessories for children ages 3 through 12.

BloomNet Products and Services

In order to further strengthen its florist designed fulfillment capabilities, and to compete in the profitable florist-to-florist business, during fiscal 2005, the Company began expanding its network of BloomNet florists. The Company's BloomNet business provides its members with products and services, including: (i) clearinghouse services, consisting of the settlement of orders between sending florists (including the 1-800-Flowers.com brand) and receiving florists, (ii) advertising, in the form of member directories, including the industry's first on-line directory, (iii) communication services, by which BloomNet florists are able to send and receive orders and communicate between members, using Bloomlink(R), the Company's proprietary electronic communication system, (iv) other services including web hosting and point of sale, and (v) wholesale products, which consist of branded and non-branded floral supplies, enabling member florists to reduce their costs through 1-800-Flowers purchasing leverage, while also ensuring that member florists will be able to fulfill 1-800-Flowers.com brand orders based on recipe specifications. In order to

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further enhance the wholesale capability of BloomNet, in July 2008, the Company acquired selected assets of Napco Marketing Corp., a wholesale merchandiser and marketer of products designed primarily for the floral industry. While maintaining industry-high quality standards for its 1-800-Flowers.com brand customers, the Company offers florists a compelling value proposition, offering products and services that its florists need to grow their business and to enhance profitability. With the completion of the Company's BloomNet investment phase in fiscal 2006, and following its strong operating results in fiscal 2007 and 2008, the company expects that its BloomNet operations will continue to contribute an increasing level of profitability during fiscal 2009.

Marketing and Promotion

The Company's marketing and promotion strategy is designed to strengthen the 1-800-FLOWERS.COM brands, increase customer acquisition, build customer loyalty, and encourage repeat purchases. The Company's goal is to make its brands synonymous with thoughtful gifting. To do this, the Company intends to continue to invest in its brands and acquisition of new customers through the use of selective on and off-line media, direct marketing, public relations and strategic internet relationships, while cost-effectively capitalizing on the Company's large and loyal customer base.

Enhance its Customer Relationships. The Company intends to deepen its relationship with its customers and be their trusted resource to fulfill their need for quality, tasteful gifts. We plan to encourage more frequent and extensive use of our branded web sites, by continuing to provide product-related content and interactive features which will enable the Company to reach its customers during non-holiday periods, thereby increasing everyday purchases for birthdays, anniversaries, weddings, and sympathy. Through customer panel research, the 1-800-Flowers.com brand recently introduced a number of new signature products designed to increase everyday purchases. From its celebrity floral artisan collection, including the exclusive Martha Stewart for

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1-800-FLOWERS.COM, a co-branded line of fresh, seasonal flower arrangements and plants which was launched during the latter part of fiscal 2008, to the successful introduction of its "Happy Hour" collection of margarita, martini and daiquiri inspired floral arrangements, which are advertised using innovative outdoor bus and billboard campaigns, the Company's marketing and product offerings continue to evolve to meet consumer needs. The Company will also continue to improve its customers' shopping experience by personalizing the features of its web site and, in compliance with the Company's privacy policy, utilizing customer information to target product promotions, identify individual and mass market consumption trends, remind customers of upcoming occasions and convey other marketing messages. In addition, the Company plans to drive purchase frequency improvements through the use of loyalty, thank-you and reminder programs, as well as targeting catalog content and mailings based on consumers changing purchasing habits. For example, the 1-800-Flowers.com brand introduced its Fresh Rewards(R) loyalty program whereby customers earn credit towards future purchases upon achieving targeted spending levels, while the Fannie May Confections Brands expanded its bounce back programs during its key holiday selling seasons. As of June 29, 2008, the Company's total database of unique customers numbered approximately 34.4 million (14.4 million of which have transacted business with the Company within the past 36 months).

Through its Business Gift Services division, the Company believes it has significant opportunity to expand its corporate customer base and leverage existing and/or develop successful gifting programs with corporate customers', many of which are included in the Fortune 1000, such as AT&T, American Express, Bank of America, General Electric, Deloitte, IBM, Verizon, Honeywell, Microsoft, Hewlett Packard, Sodexo, and UPS, to name a few. These programs focus on developing and/or strengthening strategic partnerships through the coordinated development of customized and personalized gifts for their clients and employees, and are tailored to meet the needs of small, mid-sized and large businesses. The Company helps its corporate customers manage the Life Celebrations at Work(SM) programs, which include occasions such as Sympathy, Get Well, Anniversary, Birthday, Thank You and other daily floral needs.

Additionally, through the many brands supported by the Company, the Business Gift Services division supports corporate customers' holiday gifting, rewards and recognition programs, conferences and events, as well as client acquisition and customer retention programs to support their growth strategies.

Increase the Number of Online Customers. Online transactions are more cost efficient to process. Although the Company expects its customers to choose the most convenient channel available to them at the time of their purchase, the Company expects its trend of online growth to continue. In order to maximize the value of this trend, the Company intends to continue to:

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- o further build brand awareness to drive customers directly to the Company's URLs, further reducing reliance on internet portals and search engines; currently, greater than 73% of online revenues comes directly to the Company's websites;
- o cost effectively promote its web site through internet portals, online networks and search engines and affiliates;
- o aggressively market the Company's web site in its marketing campaigns;
- o facilitate access to the Company's web site for its corporate customers by implementing direct links from their internal corporate networks, and develop customized co-branded micro-sites for larger corporate partners; and
- o actively promote the Company's Fresh Rewards loyalty program to increase customer frequency and average order value.

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In order to attract new customers and to increase purchase frequency and average order value of existing customers, the Company markets and promotes its brands and products as follows:

Direct Mail and Catalogs. The Company uses its direct mail promotions and catalogs to increase the number of new customers and to increase purchase frequency of its existing customers. Through the use of the Plow & Hearth, Wind & Weather, HearthSong, Magic Cabin, Popcorn Factory and Cheryl & Co. catalogs, the Company can utilize its extensive customer database to effectively cross-promote its products. In addition to providing a direct sale mechanism, these catalogs drive on-line sales and will attract additional customers to the Company's web sites. For the year ended June 29, 2008, the Company mailed in excess of 115 million branded catalogs.

Off-line Media. The Company utilizes off-line media, including television, radio and print to market its 1-800-Flowers.com brand and products. Off-line media allows the Company to reach a large number of customers and to target particular market segments.

The Company's Strategic Online Relationships. The Company promotes its products through strategic relationships with leading internet portals, search engines and online networks. The Company's online relationships include, among others, AOL, Yahoo!, Microsoft, and Google.

Affiliate and Co-Marketing Promotions. In addition to securing alliances with frequently visited web sites, the Company developed an affiliate network that includes thousands of web sites operated by third parties. Affiliate participation may be terminated by them or by the Company at any time. These web sites earn commissions on purchases made by customers referred from their sites to the Company's web site. In order to expand the reach of its marketing programs and stretch its marketing dollars, the Company has established a number of co-marketing relationships and promotions to advertise its products. For example, the Company has established co-marketing arrangements with American Airlines, Delta Airlines, Starwood Hotels, Choice Hotels, Next Jump, Bank Of America, SunTrust, American Express, MasterCard, Visa and Paypal, among others.

E-mails. The Company is able to capitalize on its customer database of approximately 34.4 million unique customers (14.7 million of which have transacted business with the Company within the past 36 months), 20.3 million of which have transacted business with the Company on-line (10.5 million of which have transacted business with the Company online within the past 36 months), by utilizing cost-effective, targeted e-mails to notify customers of product promotions, remind them of upcoming gifting occasions and convey other marketing messages.

The Company's Web Sites

The Company offers floral, plant, gift baskets, gourmet foods, chocolate and candies, plush and specialty gift products through its 1-800-FLOWERS.COM web site (www.1800flowers.com). Customers can come to the web site directly or be linked by one of the Company's portal providers, search engine, or affiliate relationships. These include AOL (keyword:flowers), Yahoo!, Microsoft and Google, as well as thousands of its online affiliate program members. The Company also offers home and garden products through Plow & Hearth (www.plowandhearth.com), weather-themed gifts through Wind & Weather (www.windandweather.com), premium chocolates and confections from Fannie May

Confections Brands, (www.fanniemay.com and www.harrylondon.com), gourmet food products through GreatFood.com (www.greatfood.com), premium popcorn and

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specialty food products through The Popcorn Factory (www.thepopcornfactory.com), exceptional baked cookies and baked gifts from Cheryl&Co. (www.cherylandco.com), children's gifts through its HearthSong (www.hearthsong.com) and Magic Cabin (www.magiccabin.com), and wine gifts from The Winetasting Network (www.ambrosiawine.com and www.winetasting.com) web sites. Greater than 73% of online revenues are derived from traffic coming directly to one of the Company's Universal Resource Locators ("URL's").

The Company's web sites allow customers to easily browse and purchase its products, promote brand loyalty and encourage repeat purchases by providing an inviting customer experience. The Company's web sites offer customers detailed product information, complete with photographs, personalized shopping services, including search and order tracking, contests, sweepstakes, gift-giving suggestions and reminder programs, home decorating and how-to-tips and information about special events and offers. The Company has designed its web sites to be fast, secure and easy to use and allows customers to order products with minimal effort. The Company's web sites include the following key features in addition to the variety of delivery and shipping options (same day/next day) and 24 hour/7 day customer service that are available to all its customers:

Technology Infrastructure

The Company believes it has been and continues to be a leader in implementing new technologies and systems to give its customers the best possible shopping experience, whether online or over the telephone. Through the use of customized software applications, the Company is able to retrieve, sort and analyze customer information to enable it to better serve its customers and target its product offerings. The Company's online and telephonic orders are fed directly from the Company's secure web sites, or with the assistance of a gift advisor, into a transaction processing system which captures the required customer and recipient information. The system then routes the order to the appropriate Company warehouse, or for florist fulfilled or drop-shipped items, selects a vendor to fulfill the customer's order and electronically transmits the necessary information using BloomLink(R), the Company's proprietary communication system, assuring timely delivery. In addition, the Company's gift advisors have electronic access to this system, enabling them to assist in order fulfillment and subsequently track other customer and/or order information.

In prior years, the Company has invested heavily in building a scalable technology platform to support the Company's order volume growth. The Company employs a combination of in-house personnel which concentrate on core competencies, including strategic direction and system and project management and implementation. However, more recently, the Company began outsourcing certain of its programming and support services in order to achieve cost efficiencies, allowing the Company to focus its resources on customer specific projects to ensure an enjoyable shopping experience while providing improved operational flexibility, additional capacity and system redundancy.

The Company's technology infrastructure, primarily consisting of the Company's web sites, transaction processing, manufacturing and warehouse management, customer databases and telecommunications systems, is built and maintained for reliability, security, scalability and flexibility. To minimize the risk of service interruptions from unexpected component or telecommunications failure, maintenance and upgrades, the Company has built full back-up and system redundancies into those components of its systems that have been identified as critical. The Company plans to continue to invest in technologies that will improve and expand its e-commerce and telecommunication capabilities and utilize its informational technology expertise to improve the technology infrastructure of its recently acquired businesses to accommodate anticipated growth and improve their customers' shopping experiences.

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Fulfillment and Manufacturing Operations

The Company's customers primarily place their orders either online or over the telephone. The Company's development of a hybrid fulfillment system which enables the Company to offer same-day, next-day and any-day delivery, combines the use of BloomNet (comprised of independent florists operating retail flower shops and LFC's, Company-owned stores, LFC's, and franchise stores), with the Company-owned distribution centers and brand-name vendors who ship directly to the Company's customers. While providing a significant competitive advantage in

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terms of delivery options, the Company's fulfillment system also has the added benefit of reducing the Company's capital investments in inventory and infrastructure. All of the Company's products are backed by a 100% satisfaction guarantee, and the Company's business is not dependent on any single third-party supplier.

To ensure reliable and efficient communication of online and telephonic orders to its BloomNet members and third party gift vendors, the Company developed BloomLink(R), a proprietary and secure internet-based communications system which is available to all BloomNet members and third-party gift vendors. The Company also has the ability to arrange for international delivery of floral products through independent wire services and direct relationships.

The Company intends to improve its fulfillment capabilities to make its operations more efficient by:

- o strengthening relationships and increasing the number of its vendors and BloomNet member florists, as appropriate, to ensure geographic coverage and shorten delivery times;
- o continuing to improve warehousing operations and reduce fulfillment times in support of its floral, gifts, gourmet food and wines, and home product lines; and
- o expanding the use of cross-dock logistics, and work with additional third party carriers to increase volume capability and utilizing cross brand fulfillment capabilities to mitigate the impact of fuel cost increases.

Fulfillment of products is as follows:

Flowers and Plants. A majority of the Company's floral orders are fulfilled by one of the Company's BloomNet members, allowing the Company to deliver its floral products on a same-day or next-day basis to ensure freshness and to meet its customers' need for immediate gifting. In addition, the Company is better positioned to ensure consistent product quality and presentation and offer a greater variety of arrangements, which creates a better experience for its customers and gift recipients. The Company selects retail florists for BloomNet based upon the florist's design staff, facilities, quality of floral processing, and delivery capabilities and allocates orders to members within a geographical area based on historical performance of the florist in fulfilling orders, and the number of BloomNet florists currently serving the area. The Company regularly monitors BloomNet florists' performance and adherence to the Company's quality standards to ensure proper fulfillment.

The Company's relationships with its BloomNet members are non-exclusive. Many florists, including many BloomNet florists, also are members of other floral fulfillment organizations. The BloomNet agreements generally are cancelable by either party with ten days notification and do not guarantee any orders, dollar amounts or exclusive territories from the Company to the florist. In fiscal

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2001, the Company began entering into Order Fulfillment Agreements with selected BloomNet members to operate LFC's in high volume markets to facilitate the fulfillment of the Company's floral and gift orders, improving the economics of florist fulfilled transactions, and improving the Company's ability to control product quality and branding. In consideration of the operator's satisfactory performance, the Company agrees to use reasonable efforts to forward orders with a specified minimum merchandise value during each year of the agreement. The Company has not granted an exclusive territory to any operator.

In certain instances, the Company is required to fulfill orders through non-BloomNet members, and transmits these orders to the fulfilling florist using the communication system of an independent wire service or via telephone.

In addition to its florist designed product, the Company offers its customers an alternative to florist designed products through its Fresh From Our Growers(R) program, and by providing for a full array of products from bouquets to unique floral celebrity expert designed products.

As of June 29, 2008, the Company operates 4 floral retail stores located in New York and 1 fulfillment center. In addition, the Company has 104 franchised stores, located primarily in California, Colorado, Florida, New Jersey, New York and Texas. Company-owned stores serve as local points of fulfillment and enable the Company to test new products and marketing programs.

Gourmet Foods and Gift Baskets. In order to take advantage of improved margins, better control quality and to offer premium branded signature products in the

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Gourmet Food and Gift Baskets product category, which was identified by the Company as one of its fastest growing and most profitable product lines, the Company has acquired several gourmet food retailers with manufacturing operations. The Company's premium chocolates are manufactured and distributed from its 200,000 square foot production facility in Akron, Ohio, and the Company's cookie and baked gifts are fulfilled from its 176,000 square foot baking and distribution center in Obetz, Ohio, while its premium popcorn and related snack products are shipped from the Company's 148,000 square foot manufacturing and distribution center located in Lake Forest, Illinois. Most wine gift and fulfillment services are provided through the Company's 52,000 square foot fulfillment center in Napa, California and 42,000 square foot fulfillment center in Albany, New York. The remainder of the Company's wine and wine-related items are fulfilled by third-party gift vendors that ship products directly to the customer by next-day or other delivery options chosen by the customer. In April 2008, through the acquisition of DesignPac Gifts LLC, the Company significantly improved its gift basket fulfillment capabilities. Initially, DesignPac's confection and fulfillment, through its 249,000 square foot distribution center located in Melrose Park, IL, will focus on wholesale operations. During fiscal 2009, the Company will begin to leverage the capabilities of DesignPac to enable it to handle its expanding direct-to-consumer demand.

Home and Children's Gifts. The Company packages and ships its home and children's gift products primarily from three locations; (i) a 300,000 square foot distribution center located in Madison, Virginia, (ii) a 200,000 square foot distribution center in Vandalia, Ohio and (iii) a 140,000 square foot distribution center in Reno, Nevada. A smaller portion of the Company's home and children's items are shipped by third-party product suppliers using next-day or other delivery options selected by the customer.

Seasonality

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The Company's quarterly results may experience seasonal fluctuations. Due to the Company's expansion into non-floral products, the Thanksgiving through Christmas holiday season, which falls within the Company's second fiscal quarter, generates the highest proportion of the Company's annual revenues. In addition, as the result of a number of major floral gifting occasions, including Mother's Day and Administrative Professionals Week, revenues also rise during the Company's fiscal fourth quarter. Finally, results during the Company's fiscal first quarter are negatively impacted by the lack of major gift-giving holidays, and the disproportionate amount of overhead incurred during this slow period.

Adjusting for its most recent acquisitions, during fiscal 2009, the Company's fiscal second quarter, its largest in terms of revenues, is expected to account for approximately 38-40% of sales, followed by its fiscal fourth quarter, which is expected to account for 23-25% of sales, including the shift in the timing of the Easter Holiday from Q3 during fiscal 2008 to Q4 during fiscal 2009. The Company's fiscal third quarter is expected to account for approximately 21-23% of sales, also adjusting for the timing of the Easter Holiday, while the Company's fiscal first quarter is expected to account for approximately 14-16% of sales.

Accordingly, a disproportionate amount of operating cash flows are generated in the Company's fiscal second and fourth quarters. In preparation for the Company's second quarter holiday season, the Company significantly increases its inventories, and therefore, corresponding cash requirements, which traditionally have been financed by cash flows from operations and bank lines of credit, are highest during the latter part of the Company's fiscal first quarter, peaking within its second fiscal quarter. The Company has historically repaid all revolving bank lines of credit with cash generated from operations, prior to the end of the Company's fiscal second quarter.

Competition

The growing popularity and convenience of e-commerce has continued to give rise to established businesses on the Internet. In addition to selling their products over the Internet, many of these retailers sell their products through a combination of channels by maintaining a web site, a toll-free phone number and physical locations. Additionally, several of these merchants offer an expanding variety of products and some are attracting an increasing number of customers. Certain mass merchants have expanded their offerings to include competing products and may continue to do so in the future. These mass merchants, as well as other potential competitors, may be able to:

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- o undertake more extensive marketing campaigns for their brands and services;
- o adopt more aggressive pricing policies; and
- o make more attractive offers to potential employees, distributors and retailers.

In addition, the Company faces intense competition in each of its individual product categories. In the floral industry, there are various providers of floral products, none of which is dominant in the industry. The Company's competitors include:

- o retail floral shops, some of which maintain toll-free telephone numbers and web sites;
- o online floral retailers;
- o catalog companies that offer floral products;
- o floral telemarketers and wire services; and
- o supermarkets, mass merchants and specialty retailers with floral

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departments.

Similarly, the plant, gift basket, gourmet foods and wine, unique gifts, children's toys and home and garden categories are highly competitive. Each of these categories encompasses a wide range of products, is highly fragmented and is served by a large number of companies, none of which is dominant. Products in these categories may be purchased from a number of outlets, including mass merchants, telemarketers, retail specialty shops, online retailers and mail-order catalogs.

The Company believes the strength of its brands, product selection, customer relationships, technology infrastructure and fulfillment capabilities position it to compete effectively against its current and potential competitors in each of its product categories. However, increased competition could result in:

- o price reductions, decreased revenues and lower profit margins;
- o loss of market share; and
- o increased marketing expenditures.

These and other competitive factors may adversely impact the Company's business and results of operations.

Government Regulation and Legal Uncertainties

The Internet continues to evolve and there are laws and regulations directly applicable to e-commerce. Legislatures are also considering an increasing number of laws and regulations pertaining to the Internet, including laws and regulations addressing:

- o user privacy;
- o pricing;
- o content;
- o connectivity;
- o intellectual property;
- o distribution;
- o taxation;
- o liabilities;
- o antitrust; and
- o characteristics and quality of products and services.

Further, the growth and development of the market for online services may prompt more stringent consumer protection laws that may impose additional burdens on those companies conducting business online. The adoption of any additional laws or regulations may impair the growth of the Internet or commercial online services. This could decrease the demand for the Company's services and increase its cost of doing business. Moreover, the applicability to the Internet of existing laws regarding issues like property ownership, taxes, libel and personal privacy is uncertain. Any new legislation or regulation that has an adverse impact on the Internet or the application of existing laws and regulations to the Internet could have a material adverse effect on the Company's business, financial condition and results of operations.

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States or foreign countries might attempt to regulate the Company's business or levy additional sales or other taxes relating to its activities. Because the Company's products and services are available over the Internet anywhere in the world, multiple jurisdictions may claim that the Company is required to do business as a foreign corporation in one or more of those jurisdictions. Failure to qualify as a foreign corporation in a jurisdiction where the Company is required to do so could subject it to taxes and penalties. States or foreign governments may charge the Company with violations of local laws.

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Intellectual Property and Proprietary Rights

The Company regards its service marks, trademarks, trade secrets, domain names and similar intellectual property as critical to its success. The Company has applied for or received trademark and/or service mark registration for, among others, "1-800-FLOWERS.COM", "1-800-FLOWERS", "Plow & Hearth", "Wind & Weather", "GreatFood.com", "The Popcorn Factory", "TheGift.com", "HearthSong", "Magic Cabin", "Winetasting Network", "Cheryl&Co.", "Fannie May" and "Harry London". The Company also has rights to numerous domain names, including www.1800flowers.com, www.800flowers.com, www.flowers.com, www.plowandhearth.com, www.windandweather.com, www.greatfood.com, www.thepopcornfactory.com, www.hearthsong.com, www.magiccabin.com, www.ambrosiawine.com, www.winetasting.com, www.cherylandco.com, www.fanniemay.com, www.harrylondon.com and www.designpac.com. In addition, the Company has developed transaction processing and operating systems as well as marketing data, and customer and recipient information databases.

The Company relies on trademark, unfair competition and copyright law, trade secret protection and contracts such as confidentiality and license agreements with its employees, customers, vendors and others to protect its proprietary rights. Despite the Company's precautions, it may be possible for competitors to obtain and/or use the Company's proprietary information without authorization or to develop technologies similar to the Company's and independently create a similarly functioning infrastructure. Furthermore, the protection of proprietary rights in Internet-related industries is uncertain and still evolving. The laws of some foreign countries do not protect proprietary rights to the same extent as do the laws of the United States. The Company's means of protecting its proprietary rights in the United States or abroad may not be adequate.

The Company intends to continue to license technology from third parties, including Oracle, Microsoft, Verizon and AT&T, for its communications technology and the software that underlies its business systems. The market is evolving and the Company may need to license additional technologies to remain competitive. The Company may not be able to license these technologies on commercially reasonable terms or at all.

Third parties have in the past infringed or misappropriated the Company's intellectual property or similar proprietary rights. The Company believes infringements and misappropriations will continue to occur in the future. The Company intends to police against infringement and misappropriation. However, the Company cannot guarantee it will be able to enforce its rights and enjoin the alleged infringers from their use of confusingly similar trademarks, service marks, telephone numbers and domain names.

In addition, third parties may assert infringement claims against the Company. The Company cannot be certain that its technologies or its products and services do not infringe valid patents, trademarks, copyrights or other proprietary rights held by third parties. The Company may be subject to legal proceedings and claims from time to time relating to its intellectual property and the intellectual property of others in the ordinary course of its business. Intellectual property litigation is expensive and time-consuming and could divert management resources away from running the Company's business.

Employees

As of June 29, 2008, the Company had a total of approximately 4,000 full and part-time employees. During peak periods, the Company substantially increases the number of customer service, manufacturing and retail and fulfillment personnel. The Company's personnel are not represented under collective bargaining agreements and the Company considers its relations with its employees to be good.

Item 1A. Risk Factors

Cautionary Statements Under the Private Securities Litigation Reform Act of 1995

Our disclosures and analysis in this Form 10-K contain some forward-looking statements that set forth anticipated results based on management's plans and assumptions. From time to time, we also provide forward-looking statements in other statements we release to the public as well as oral forward-looking statements. Such statements give our current expectations or forecasts of future events; they do not relate strictly to historical or current facts. We have tried, wherever possible, to identify such statements by using words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe" and similar expressions in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions; the effectiveness of our marketing programs; the performance of our existing products and services; our ability to attract and retain customers and expand our customer base; our ability to enter into or renew online marketing agreements; our ability to respond to competitive pressures; expenses, including shipping costs and the costs of marketing our current and future products and services; the outcome of contingencies, including legal proceedings in the normal course of business; and our ability to integrate acquisitions.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risk, uncertainties and potentially inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. You should bear this in mind as you consider forward looking statements.

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our 10-Q and 8-K reports to the SEC. Also note we provide the following cautionary discussion of risks, uncertainties and possibly inaccurate assumptions relevant to our business. These are factors that, individually or in the aggregate, we think could cause our actual results to differ materially from expected and historical results. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider the following to be a complete discussion of all potential risks and uncertainties.

The Company's operating results may fluctuate, and this fluctuation could cause financial results to be below expectations. The Company's operating results may fluctuate from period to period for a number of reasons. In budgeting the Company's operating expenses for the foreseeable future, the Company assumes that revenues will continue to grow; however, some of the Company's operating expenses are fixed in the short term. Sales of the Company's products are seasonal, concentrated in the fourth calendar quarter, due to the Thanksgiving and Christmas-time holidays, and the second calendar quarter, due to Mother's Day and Administrative Professionals' Week. In anticipation of increased sales activity during these periods, the Company hires a significant number of temporary employees to supplement its permanent staff and the Company increases its inventory levels. If revenues during these periods do not meet the Company's expectations, it may not generate sufficient revenue to offset these increased costs and its operating results may suffer.

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The Company's quarterly operating results may significantly fluctuate and you should not rely on them as an indication of its future results. The Company's future revenues and results of operations may significantly fluctuate due to a combination of factors, many of which are outside of management's control. The most important of these factors include:

- o seasonality;
- o the retail economy;
- o the timing and effectiveness of marketing programs;
- o the timing of the introduction of new products and services;
- o the Company's ability to find and maintain reliable sources for certain of its products;

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- o the timing and effectiveness of capital expenditures;
- o the Company's ability to enter into or renew online marketing agreements; and
- o competition.

The Company may be unable to reduce operating expenses quickly enough to offset any unexpected revenue shortfall. If the Company has a shortfall in revenue without a corresponding reduction to its expenses, operating results may suffer. The Company's operating results for any particular quarter may not be indicative of future operating results. You should not rely on quarter-to-quarter comparisons of results of operations as an indication of the Company's future performance. It is possible that results of operations may be below the expectations of public market analysts and investors, which could cause the trading price of the Company's Class A common stock to fall.

Consumer spending on flowers, gifts and other products sold by the Company may vary with general economic conditions. If general economic conditions continue to deteriorate and the Company's customers have less disposable income, consumers may spend less on its products and its quarterly operating results may suffer.

During peak periods, the Company utilizes temporary employees and outsourced staff, who may not be as well-trained or committed to its customers as its permanent employees, and if they fail to provide the Company's customers with high quality customer service the customers may not return, which could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. The Company depends on its customer service department to respond to its customers should they have questions or problems with their orders. During peak periods, the Company relies on its permanent employees, as well as temporary employees and outsourced staff to respond to customer inquiries. These temporary employees and outsourced staff may not have the same level of commitment to the Company's customers or be as well trained as its permanent employees. If the Company's customers are dissatisfied with the quality of the customer service they receive, they may not shop with the Company again, which could have a material adverse effect on its business, financial condition, results of operations and cash flows.

If the Company's customers do not find its expanded product lines appealing, revenues may not grow and net income may decrease. The Company's business historically has focused on offering floral and floral-related gift products. Although the Company has been successful in its expanded product lines including plants, gift baskets, popcorn, gourmet food and wine, unique or specialty gifts, home and garden accessories, and children's gifts, it expects to continue to incur significant costs in marketing these products. If the Company's customers do not continue to find its product lines appealing, the Company may not

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generate sufficient revenue to offset its related costs and its results of operations may be negatively impacted.

If the Company fails to develop and maintain its brands, it may not increase or maintain its customer base or its revenues. The Company must continue to develop and maintain the 1-800-FLOWERS.COM brands to expand its customer base and its revenues. In addition, the Company has introduced and acquired other brands in the past, and may continue to do so in the future. The Company believes that the importance of brand recognition will increase as it expands its product offerings. Many of the Company's customers may not be aware of the Company's non-floral products. If the Company fails to advertise and market its products effectively, it may not succeed in establishing its brands and may lose customers leading to a reduction of revenues.

The Company's success in promoting and enhancing the 1-800-FLOWERS.COM brands will also depend on its success in providing its customers high-quality products and a high level of customer service. If the Company's customers do not perceive its products and services to be of high quality, the value of the 1-800-FLOWERS.COM brands would be diminished and the Company may lose customers and its revenues may decline.

A failure to establish and maintain strategic online relationships that generate a significant amount of traffic could limit the growth of the Company's business. Although the Company expects a significant portion of its online customers will continue to come directly to its website, it will also rely on third party web sites, search engines and affiliates with which the Company has strategic relationships for traffic. If these third-parties do not attract a significant number of visitors, the Company may not receive a significant number of online customers from these relationships and its revenues from these

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relationships may decrease or remain flat. There continues to be strong competition to establish or maintain relationships with leading Internet companies, and the Company may not successfully enter into additional relationships, or renew existing ones beyond their current terms. The Company may also be required to pay significant fees to maintain and expand existing relationships. The Company's online revenues may suffer if it does not enter into new relationships or maintain existing relationships or if these relationships do not result in traffic sufficient to justify their costs.

If local florists and other third-party vendors do not fulfill orders to the Company's customers' satisfaction, customers may not shop with the Company again. In many cases, floral orders placed by the Company's customers are fulfilled by local independent florists, a majority of which are members of BloomNet. The Company does not directly control any of these florists. In addition, many of the non-floral products sold by the Company are manufactured and delivered to its customers by independent third-party vendors. If customers are dissatisfied with the performance of the local florist or other third-party vendors, they may not utilize the Company's services when placing future orders and its revenues may decrease.

If a florist discontinues its relationship with the Company, the Company's customers may experience delays in service or declines in quality and may not shop with the Company again. Many of the Company's arrangements with local florists for order fulfillment may be terminated by either party with 10 days notice. If a florist discontinues its relationship with the Company, the Company will be required to obtain a suitable replacement located in the same geographic area, which may cause delays in delivery or a decline in quality, leading to customer dissatisfaction and loss of customers.

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If a significant number of customers are not satisfied with their purchase, the Company will be required to incur substantial costs to issue refunds, credits or replacement products. The Company offers its customers a 100% satisfaction guarantee on its products. If customers are not satisfied with the products they receive, the Company will either replace the product for the customer or issue the customer a refund or credit. The Company's net income would decrease if a significant number of customers request replacement products, refunds or credits and the Company is unable to pass such costs onto the supplier.

Increased shipping costs and labor stoppages may adversely affect sales of the Company's products. Many of the Company's products are delivered to customers either directly from the manufacturer or from the Company's fulfillment centers located in California, Illinois, New York, Nevada, Ohio and Virginia. The Company has established relationships with Federal Express, UPS and other common carriers for the delivery of these products. If these carriers were to increase the prices they charge to ship the Company's goods, and the Company passes these increases on to its customers, its customers might choose to buy comparable products locally to avoid shipping charges. In addition, these carriers may experience labor stoppages, which could impact the Company's ability to deliver products on a timely basis to our customers and adversely affect its customer relationships.

If the Company fails to continuously improve its web site, it may not attract or retain customers. If potential or existing customers do not find the Company's web site a convenient place to shop, the Company may not attract or retain customers and its sales may suffer. To encourage the use of the Company's web site, it must continuously improve its accessibility, content and ease of use. Customer traffic and the Company's business would be adversely affected if competitors' web sites are perceived as easier to use or better able to satisfy customer needs.

Competition in the floral, plant, gift basket, gourmet food and wine, specialty gift, children's toys and games and home and garden industries is intense and a failure to respond to competitive pressure could result in lost revenues. There are many companies that offer products in these categories. In the floral category, the Company's competitors include:

- o retail floral shops, some of which maintain toll-free telephone numbers, and web sites;
- o online floral retailers;
- o catalog companies that offer floral products;
- o floral telemarketers and wire services; and
- o supermarkets, mass merchants and specialty gift retailers with floral departments.

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Similarly, the plant, gift basket, gourmet food, cookie, candy, wine, specialty gift, children's toys and home and garden categories are highly competitive. Each of these categories encompasses a wide range of products and is highly fragmented. Products in these categories may be purchased from a number of outlets, including mass merchants, retail shops, online retailers and mail-order catalogs.

Competition is intense and the Company expects it to increase. Increased competition could result in:

- o price reductions, decreased revenue and lower profit margins;
- o loss of market share; and
- o increased marketing expenditures.

These and other competitive factors could materially and adversely affect the

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Company's results of operations.

If the Company does not accurately predict customer demand for its products, it may lose customers or experience increased costs. In the past, the Company did not need to maintain a significant inventory of products. However, as the Company expands the volume of non-floral products offered to its customers, the Company will be required to increase inventory levels and the number of products maintained in its warehouses. If the Company overestimates customer demand for its products, excess inventory and outdated merchandise could accumulate, tying up working capital and potentially resulting in reduced warehouse capacity and inventory losses due to damage, theft and obsolescence. If the Company underestimates customer demand, it may disappoint customers who may turn to its competitors. Moreover, the strength of the 1-800-FLOWERS.COM brands could be diminished due to misjudgments in merchandise selection.

If the supply of flowers for sale becomes limited, the price of flowers could rise or flowers may be unavailable and the Company's revenues and gross margins could decline. A variety of factors affect the supply of flowers in the United States and the price of the Company's floral products. If the supply of flowers available for sale is limited due to weather conditions, farm closures, economic conditions, or other factors, prices for flowers could rise and customer demand for the Company's floral products may be reduced, causing revenues and gross margins to decline. Alternatively, the Company may not be able to obtain high quality flowers in an amount sufficient to meet customer demand. Even if available, flowers from alternative sources may be of lesser quality and/or may be more expensive than those currently offered by the Company.

Most of the flowers sold in the United States are grown by farmers located abroad, primarily in Colombia, Ecuador and Holland, and the Company expects that this will continue in the future. The availability and price of flowers could be affected by a number of factors affecting these regions, including:

- o import duties and quotas;
- o agricultural limitations and restrictions to manage pests and disease;
- o changes in trading status;
- o economic uncertainties and currency fluctuations;
- o severe weather;
- o work stoppages;
- o foreign government regulations and political unrest; and
- o trade restrictions, including United States retaliation against foreign trade practices.

The Company's franchisees may damage its brands or increase its costs by failing to comply with its franchise agreements or its operating standards. The Company's franchise business is governed by its Uniform Franchise Offering Circulars, franchise agreements and applicable franchise law. If the Company's franchisees do not comply with its established operating standards or the terms of the franchise agreements, the 1-800-FLOWERS.COM brands may be damaged. The Company may incur significant additional costs, including time-consuming and expensive litigation, to enforce its rights under the franchise agreements. Additionally, the Company is the primary tenant on certain leases, which the franchisees sublease from the Company. If a franchisee fails to meet its obligations as subtenant, the Company could incur significant costs to avoid default under the primary lease. Furthermore, as a franchiser, the Company has obligations to its franchisees. Franchisees may challenge the performance of the

Company's obligations under the franchise agreements and subject it to costs in defending these claims and, if the claims are successful, costs in connection with their compliance.

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If third parties acquire rights to use similar domain names or phone numbers or if the Company loses the right to use its phone numbers, its brands may be damaged and it may lose sales. The Company's Internet domain names are an important aspect of its brand recognition. The Company cannot practically acquire rights to all domain names similar to www.1800flowers.com, or its other brands, whether under existing top level domains or those issued in the future. If third parties obtain rights to similar domain names, these third parties may confuse the Company's customers and cause its customers to inadvertently place orders with these third parties, which could result in lost sales and could damage its brands.

Likewise, the phone number that spells 1-800-FLOWERS is important to the Company's brand and its business. While the Company has obtained the right to use the phone numbers 1-800-FLOWERS, 1-888-FLOWERS and 1-877-FLOWERS, as well as common toll-free "FLOWERS" misdials, it may not be able to obtain rights to use the FLOWERS phone number as new toll-free prefixes are issued, or the rights to all similar and potentially confusing numbers. If third parties obtain the phone number which spells "FLOWERS" with a different prefix or a toll-free number similar to FLOWERS, these parties may also confuse the Company's customers and cause lost sales and potential damage to its brands. In addition, under applicable FCC rules, ownership rights to phone numbers cannot be acquired. Accordingly, the FCC may rescind the Company's right to use any of its phone numbers, including 1-800-FLOWERS (1-800-356-9377).

A lack of security over the Internet may cause Internet usage to decline and cause the Company to expend capital and resources to protect against security breaches. A significant barrier to electronic commerce over the Internet has been the need for secure transmission of confidential information and transaction information. Internet usage could decline if any well-publicized compromise of security occurred. Additionally, computer "viruses" may cause the Company's systems to incur delays or experience other service interruptions. Such interruptions may materially impact the Company's ability to operate its business. If a computer virus affecting the Internet in general is highly publicized or particularly damaging, the Company's customers may not use the Internet or may be prevented from using the Internet, which would have an adverse effect on its revenues. As a result, the Company may be required to expend capital and resources to protect against or to alleviate these problems.

The Company's business could be injured by significant credit card or debit card fraud. Customers typically pay for their on-line or telephone orders with debit or credit cards. The Company's revenues and gross margins could decrease if it experienced significant credit card or debit card fraud. Failure to adequately detect and avoid fraudulent credit card or debit card transactions could cause the Company to lose its ability to accept credit cards or debit cards as forms of payment and result in charge-backs of the fraudulently charged amounts. Furthermore, widespread credit card or debit card fraud may lessen the Company's customers' willingness to purchase products through the Company's web sites or toll-free telephone numbers. For this reason, such failure could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Unexpected system interruptions caused by system failures may result in reduced revenues and harm to the Company's brand. In the past, particularly during peak holiday periods, the Company has experienced significant increases in traffic on its web site and in its toll-free customer service centers. The Company's operations are dependent on its ability to maintain its computer and telecommunications systems in effective working order and to protect its systems against damage from fire, natural disaster, power loss, telecommunications failure or similar events. The Company's systems have in the past, and may in the future, experience:

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- o system interruptions;
- o long response times; and
- o degradation in service.

The Company's business depends on customers making purchases on its systems. Its revenues may decrease and its reputation could be harmed if it experiences frequent or long system delays or interruptions or if a disruption occurs during a peak holiday season.

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If AT&T and Verizon do not adequately maintain the Company's telephone service, the Company may experience system failures and its revenues may decrease. The Company is dependent on AT&T and Verizon to provide telephone services to its customer service centers. Although the Company maintains redundant telecommunications systems, if AT&T and Verizon experience system failures or fail to adequately maintain the Company's systems, the Company may experience interruptions and its customers might not continue to utilize its services. If the Company loses its telephone service, it will be unable to generate revenue. The Company's future success depends upon these third-party relationships because it does not have the resources to maintain its telephone service without these or other third parties. Failure to maintain these relationships or replace them on financially attractive terms may disrupt the Company's operations or require it to incur significant unanticipated costs.

Interruptions in Teleflora's Dove System or a reduction in the Company's access to this system may disrupt order fulfillment and create customer dissatisfaction. A minimal portion of the Company's customers' orders are communicated to the fulfilling florist through a third party system. This system is an order processing and messaging network used to facilitate the transmission of floral orders between florists. If this system experiences interruptions in the future, the Company could experience difficulties in fulfilling some of its customers' orders and those customers might not continue to shop with the Company.

The Company's operating results may suffer due to economic, political and social unrest or disturbances. Like other American businesses, the Company is unable to predict what long-term effect acts of terrorism, war, or similar unforeseen events may have on its business. The Company's results of operations and financial condition could be adversely impacted if such events cause an economic slowdown in the United States, or other negative effects that cannot now be anticipated.

If the Company is unable to hire and retain key personnel, its business may suffer. The Company's success is dependent on its ability to hire, retain and motivate highly qualified personnel. In particular, the Company's success depends on the continued efforts of its Chairman and Chief Executive Officer, James F. McCann, and its President, Christopher G. McCann, as well as its senior management team which help manage its business. The loss of the services of any of the Company's executive management or key personnel or its inability to attract qualified additional personnel could cause its business to suffer and force it to expend time and resources in locating and training additional personnel.

Many governmental regulations may impact the Internet, which could affect the Company's ability to conduct business. Any new law or regulation, or the application or interpretation of existing laws, may decrease the growth in the use of the Internet or the Company's web site. The Company expects there will be an increasing number of laws and regulations pertaining to the Internet in the United States and throughout the world. These laws or regulations may relate to liability for information received from or transmitted over the Internet, online

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content regulation, user privacy, taxation and quality of products and services sold over the Internet. Moreover, the applicability to the Internet of existing laws governing intellectual property ownership and infringement, copyright, trademark, trade secret, obscenity, libel, employment, personal privacy and other issues is uncertain and developing. This could decrease the demand for the Company's products, increase its costs or otherwise adversely affect its business.

Regulations imposed by the Federal Trade Commission may adversely affect the growth of the Company's Internet business or its marketing efforts. The Federal Trade Commission has proposed regulations regarding the collection and use of personal identifying information obtained from individuals when accessing web sites, with particular emphasis on access by minors. These regulations may include requirements that the Company establish procedures to disclose and notify users of privacy and security policies, obtain consent from users for collection and use of information and provide users with the ability to access, correct and delete personal information stored by the Company. These regulations may also include enforcement and redress provisions. Moreover, even in the absence of those regulations, the Federal Trade Commission has begun investigations into the privacy practices of other companies that collect information on the Internet. One investigation resulted in a consent decree under which an Internet company agreed to establish programs to implement the principles noted above. The Company may become a party to a similar investigation, or the Federal Trade Commission's regulatory and enforcement efforts, or those of other governmental bodies, may adversely affect its ability to collect demographic and personal information from users, which could adversely affect its marketing efforts.

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Unauthorized use of the Company's intellectual property by third parties may damage its brands. Unauthorized use of the Company's intellectual property by third parties may damage its brands and its reputation and may likely result in a loss of customers. It may be possible for third parties to obtain and use the Company's intellectual property without authorization. Third parties have in the past infringed or misappropriated the Company's intellectual property or similar proprietary rights. The Company believes infringements and misappropriations will continue to occur in the future. Furthermore, the validity, enforceability and scope of protection of intellectual property in Internet-related industries is uncertain and still evolving. The Company has been unable to register certain of its intellectual property in some foreign countries and furthermore, the laws of some foreign countries are uncertain or do not protect intellectual property rights to the same extent as do the laws of the United States.

Defending against intellectual property infringement claims could be expensive and, if the Company is not successful, could disrupt its ability to conduct business. The Company has been unable to register certain of its intellectual property in some foreign countries, including, "1-800-Flowers.com", "1-800-Flowers" and "800-Flowers". The Company cannot be certain that any of its intellectual property and the products it sells, or services it offers, do not or will not infringe valid patents, trademarks, copyrights or other intellectual property rights held by third parties. The Company may be a party to legal proceedings and claims relating to the intellectual property of others from time to time in the ordinary course of its business. The Company may incur substantial expense in defending against these third-party infringement claims, regardless of their merit. Successful infringement claims against the Company may result in substantial monetary liability or may materially disrupt its ability to conduct business.

The Company may lose sales or incur significant expenses should states be successful in imposing broader guidelines to state sales and use taxes. In addition to the Company's retail store operations, the Company collects sales or

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other similar taxes in states where the Company's ecommerce channel has applicable nexus. Our customer service and fulfillment networks, and any further expansion of those networks, along with other aspects of our evolving business, may result in additional sales and use tax obligations. A successful assertion by one or more states that we should collect sales or other taxes on the sale of merchandise could result in substantial tax liabilities for past sales, decrease our ability to compete with traditional retailers, and otherwise harm our business.

Currently, decisions of the U.S. Supreme Court restrict the imposition of obligations to collect state and local sales and use taxes with respect to sales made over the Internet. However, a number of states, as well as the U.S. Congress, have been considering and/or implementing various initiatives that could limit or supersede the Supreme Court's position regarding sales and use taxes on Internet sales. If any of these initiatives addressed the Supreme Court's constitutional concerns and resulted in a reversal of its current position, we could be required to collect additional sales and use taxes. The imposition by state and local governments of various taxes upon Internet commerce could create administrative burdens for us and could decrease our future sales.

A failure to integrate our acquisitions may cause the results of the acquired company as well as the results of the Company to suffer. The Company has opportunistically acquired a number of companies over the past several years. Additionally the Company may look to acquire additional companies in the future. As part of the acquisition process, the Company embarks upon a project management effort to integrate the acquisition onto our information technology systems and management processes. If we are unsuccessful in integrating our acquisitions, the results of our acquisitions may suffer, management may have to divert valuable resources to oversee and manage the acquisitions, the Company may have to expend additional investments in the acquired company to upgrade personnel and/or information technology systems and the results of the Company may suffer.

Product liability claims may subject the Company to increased costs. Several of the products the Company sells, including perishable food and alcoholic beverage products, home and garden products, or children's toys may expose it to product liability claims in the event that the use or consumption of these products results in personal injury or property damage. Although the Company has not experienced any material losses due to product liability claims to date, it may be a party to product liability claims in the future and incur significant costs in their defense. Product liability claims often create negative publicity, which could materially damage the Company's reputation and its brands. Although the Company maintains insurance against product liability claims, its coverage may be inadequate to cover any liabilities it may incur.

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The wine industry is subject to governmental regulation. The alcoholic beverage industry is subject to extensive specialized regulation under state and federal laws and regulations, including the following matters: licensing; the payment of excise taxes; advertising, trade and pricing practices; product labeling; sales to minors and intoxicated persons; changes in officers, directors, ownership or control; and, relationships among product producers, importers, wholesalers and retailers. While the Company believes that it is in material compliance with all applicable laws and regulations, in the event that it should be determined that the Company is not in compliance with any applicable laws or regulations, the Company could become subject to cease and desist orders, injunctive proceedings, civil fines, license revocations and other penalties which could have a material adverse effect on the Company's business and its results of operations.

In addition, the alcoholic beverage industry is subject to potential legislation

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and regulation on a continuous basis including in such areas as direct and Internet sales of alcohol. Certain states still prohibit the sale of alcohol into their jurisdictions from out of state wineries and/or retailers. There can be no assurance that new or revised laws or regulations, increased licensing fees, specialized taxes or other regulatory requirements will not have a material adverse effect on the Company's business and its results of operations. While, to date, the Company has been able to obtain and retain licenses necessary to sell wine at retail, the failure to obtain renewals or otherwise retain such licenses in one or more of the states in which the Company operates would have a material adverse effect on the Company's business and its results of operations. The Company's growth strategy for its wine business includes expansion into additional states; however, there can be no assurance that the Company will be successful in obtaining the required permits or licenses in any additional states. From time to time, the Company may introduce new marketing initiatives, which may be expected to undergo regulatory scrutiny. There can be no assurance that such initiatives will not be stymied by regulatory criticism.

The Company is dependent on common carriers to deliver its wine shipments. The company uses UPS and FedEx to deliver its wine shipments. If UPS or FedEx were to terminate delivery services for alcoholic beverages in certain states, as it did in 1999 in Florida, Nevada and Connecticut, the Company would likely incur significantly higher shipping rates that would have a material adverse effect on the Company's business and its results of operations. If any state prohibits or limits intrastate shipping of alcoholic beverages by third party couriers, the Company would likely incur significantly higher shipping rates that would have a material adverse effect on the Company's business and its results of operations.

There are various health issues regarding wine consumption. Since 1989, federal law has required health-warning labels on all alcoholic beverages. Although an increasing number of research studies suggest that health benefits may result from the moderate consumption of wine, these suggestions have been widely challenged and a number of groups advocate increased governmental action to restrict consumption of alcoholic beverages. Restrictions on the sale and consumption of wine or increases in the taxes imposed on wine in response to concerns regarding health issues may have a material adverse effect on the Company's business and operating results. There can be no assurance that there will not be legal or regulatory challenges to the industry as a whole, and any such legal or regulatory challenge may have a material adverse effect on the Company's business and results of operations.

The price at which the Company's Class A common stock will trade may be highly volatile and may fluctuate substantially. The stock market has from time to time experienced price and volume fluctuations that have affected the market prices of securities, particularly securities of companies with Internet operations. As a result, investors may experience a material decline in the market price of the Company's Class A common stock, regardless of the Company's operating performance. In the past, following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against that company. The Company may become involved in this type of litigation in the future. Litigation of this type is often expensive and diverts management's attention and resources and could have a material adverse effect on the Company's business and its results of operations.

Additional Information

The Company's internet address is www.1800flowers.com. We make available, through the investor relations tab located on our website at

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www.1800flowers.com, access to our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission. All such filings on our investor relations website are available free of charge. (The information posted on the Company's website is not incorporated into this Annual Report of Form 10-K.)

A copy of this annual report on Form 10-K is available without charge upon written request to: Investor Relations, 1-800-FLOWERS.COM, Inc., One Old Country Road, Suite 500, Carle Place, NY 11514. In addition, the SEC maintains a website (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1B. Unresolved Staff Comments

We have received no written comments regarding our current or periodic reports from the staff of the SEC that were issued 180 days or more preceding the end of our fiscal year ended June 29, 2008 that remain unresolved.

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Item 2. PROPERTIES

Location	Type	Principal Use
Napa, CA	Office and warehouse	Distribution, administrative and customer service
Chicago, IL	Office	Administrative and customer service
Lake Forest, IL	Office, plant and warehouse	Manufacturing, distribution and administrative
Melrose Park, IL	Office and warehouse	Distribution, administrative and customer service
Reno, NV	Warehouse	Distribution
Alamogordo, NM	Office	Customer service
Albany, NY	Warehouse	Distribution
Carle Place, NY	Office	Headquarters and customer service
Akron, OH	Office, plant and warehouse	Manufacturing, distribution and administrative
Bethpage, NY	Warehouse	Distribution
Obetz, OH	Warehouse	Distribution
Vandalia, OH	Warehouse	Distribution
Westerville, OH	Office and warehouse	Distribution and customer service
Westerville, OH	Office, plant and warehouse	Manufacturing, distribution and administrative
Ardmore, OK (*)	Office	Customer service
Madison, VA	Office and warehouse	Distribution, administrative and customer service

(*) Facility was closed during July 2008.

(**) In July 2008, the Company acquired selected assets of Napco Marketing Corp. (Napco), a wholesale merchandiser and marketer of products designed primarily for the floral industry. The purchase price of approximately \$9.5 million included the acquisition of a 180,000 square foot

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administrative and fulfillment center located in Jacksonville, FL.

In addition to the above properties, the Company leases approximately 315,000 square feet for owned or franchised retail stores and local fulfillment centers with lease terms typically ranging from 5 to 20 years. Some of its leases provide for a minimum rent plus a percentage rent based upon sales after certain minimum thresholds are achieved. The leases generally require the Company to pay insurance, utilities, real estate taxes and repair and maintenance expenses. In general, our properties are well maintained, adequate and suitable for their purposes.

Item 3. LEGAL PROCEEDINGS

There are various claims, lawsuits, and pending actions against the Company and its subsidiaries incident to the operations of its businesses. It is the opinion of management, after consultation with counsel, that the ultimate resolution of such claims, lawsuits and pending actions will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

In the Company's Form 10Q for the quarterly period ended March 30, 2008, the Company disclosed that in October 2007, 1-800-Flowers.Com., Inc. and its subsidiary, 1-800-Flowers Retail, Inc., (collectively "the Company"), were served with a purported nationwide class action lawsuit filed in the United States District Court, in and for the Southern District of Florida (Grabein v. 1-800-Flowers.Com., Inc., et al; Case No. 07-22235). The Complaint alleged violation of the Federal Fair and Accurate Credit Transaction Act ("FACTA") based upon the allegation that the Company printed/provided receipts to consumers at the point of sale or transaction on which receipts appeared more than the last five digits of customers' credit or debit card numbers and/or the expiration dates of such cards. The Complaint did not specify any actual damages for any member of the purported class. However, the Complaint sought statutory damages of \$100 to \$1,000 for each alleged willful violation of the statute, as well as, attorneys' fees, costs, punitive damages and a permanent injunction. The Company vigorously defended the action and on June 13, 2008, the presiding Judge issued a Final Order of Dismissal whereby the case was dismissed with prejudice and no payment of any kind was made by the Company or its subsidiary.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our security holders during the last quarter of our fiscal year ended June 29, 2008.

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EXECUTIVE OFFICERS OF THE REGISTRANT

The following individuals were serving as executive officers of the Company and certain of its subsidiaries on September 4, 2008:

Name	Age	Position with the Company
James F. McCann.....	57	Chairman of the Board and Chief Executive Officer
Christopher G. McCann.....	47	Director and President
Gerard M. Gallagher.....	55	Senior Vice President of Business Affairs

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		General Counsel, and Corporate Secretary
Thomas G. Hartnett.....	45	Chief Operating Officer of Consumer
Tim Hopkins.....	54	President of Madison Brands
Stephen J. Bozzo.....	53	Senior Vice President and Chief Information Officer
William E. Shea.....	49	Senior Vice President, Treasurer, and Chief Financial Officer
David Taiclet.....	45	Chief Executive Officer - Fannie Mae

James F. McCann has served as the Company's Chairman of the Board and Chief Executive Officer since inception. Mr. McCann has been in the floral industry since 1976 when he began a retail chain of flower shops in the New York metropolitan area. Mr. McCann is a member of the board of directors of Lottomatica S.p.A and Willis Holdings Group. James F. McCann is the brother of Christopher G. McCann, a Director and the President of the Company.

Christopher G. McCann has been the Company's President since September 2000 and prior to that had served as the Company's Senior Vice President. Mr. McCann has been a Director of the Company since inception. Mr. McCann serves on the board of directors of Bluefly, Inc. and is a member of the Board of Trustees of Marist College. Christopher G. McCann is the brother of James F. McCann, the Company's Chairman of the Board and Chief Executive Officer.

Gerard M. Gallagher has been our Senior Vice President, General Counsel and Corporate Secretary since August 1999 and has been providing legal services to the Company since its inception. Mr. Gallagher is the founder and a managing partner in the law firm Gallagher, Walker, Bianco and Plastaras, based in Mineola, New York, specializing in corporate, litigation and intellectual property matters since 1993. Mr. Gallagher is duly admitted to practice before the New York State Courts and the United States District Courts of both the Eastern District and Southern District of New York.

Thomas G. Hartnett has been Chief Operating Officer of the 1-800-Flowers.com Consumer Floral brand since July 2006. Before holding this position, Mr. Hartnett held various positions within the Company since joining the Company in 1991, including Senior Vice President of Retail and Fulfillment, Controller, Director of Store Operations, Vice President of Retail Operations and Vice President of Strategic Development.

Timothy J. Hopkins has been President of the Madison Brands division since January 2007 and prior to that served as President of Specialty Brands since joining the Company in March 2005. Immediately before joining the Company, Mr. Hopkins consulted for various retail companies after serving as Chief Executive Officer and Director of Sur La Table, Inc., a multi-channel upscale specialty retailer of gourmet culinary and serveware products where he was employed from

2001-2004. From 2000-2001 he was the CEO at LeGourmet Chef, a specialty retailer of housewares and from 1995-2000, Mr. Hopkins was President, Corporate Merchandising and Logistics Worldwide for BORDERS Group, Inc, a multi-channel retailer of books and multi-media. Before this position Mr. Hopkins held other senior level positions in the multi-channel retailing sector.

Stephen J. Bozzo has been our Chief Information Officer since May 2007. Prior to

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joining the Company, Mr. Bozzo served as Chief Information Officer for the International Division of MetLife Insurance Company since 2001. Mr. Bozzo's business background includes senior executive positions at Bear Stearns Inc. as Managing Director Principal, AIG as Senior Vice President Telecommunications and Technical Services and Chase Manhattan Bank, where he was Senior Vice President Global Telecommunications.

David Taiclet has been our Chief Executive Officer of th

any certain events of bankruptcy, liquidation or insolvency of PifCo, Petrobras or

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material subsidiary;

certain events relating to the unenforceability of the notes, the indenture or the guaranty for such series of the notes against PifCo or Petrobras; and

Petrobras ceasing to own at least 51% of PifCo's outstanding voting shares.

The events of default are subject to a number of important qualifications and limitations. See [Description of the Notes](#) [Events of Default](#).

Further Issuances

PifCo reserves the right, from time to time, without the consent of the holders of the notes, to issue additional notes on terms and conditions identical to those of the notes, which additional notes shall increase the aggregate principal amount of, and shall be consolidated and form a single series with, the series of notes offered hereby. PifCo may also issue other securities under the indenture which have different terms and conditions from the notes. See [Description of the Notes](#).

Modification of Notes, Indenture
and
Guaranties

The terms of the indenture may be modified by PifCo and the trustee, and the terms of the guaranties may be modified by Petrobras and the trustee, in some cases without the consent of the holders of the relevant series of the notes. See [Description of Debt Securities](#) [Special Situations](#) [Modification and Waiver](#) in the accompanying prospectus.

Clearance and Settlement

The notes will be issued as global notes registered in the name of The Bank of New York Depository (Nominee) Limited, as common depository for Euroclear System and Clearstream Banking, *société anonyme*, for the accounts of its direct and indirect participants. Beneficial interests in notes held in book-entry form will not be entitled to receive physical delivery of certificated notes except in certain limited circumstances. For a description of certain factors relating to clearance and settlement, see [Clearance and Settlement](#).

Withholding Taxes; Additional
Amounts

Any and all payments of principal, premium, if any, and interest in respect of the notes will be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments, levies, imposts or charges whatsoever imposed, levied, collected, withheld or assessed by Brazil, the jurisdiction of PifCo's incorporation or any other jurisdiction in which PifCo appoints a paying agent under the indenture, or any political subdivision or any taxing authority thereof or therein, unless such withholding or deduction is required by law. If PifCo is required by law to make such withholding or deduction, it will pay such additional amounts as are necessary to ensure that the holders receive the same amount as they would have received without such withholding or deduction, subject to certain exceptions. In the event Petrobras is obligated to make payments to the holders under the guaranties, Petrobras will pay such additional amounts as are necessary to ensure that the holders receive the same amount as they would have received without

such withholding or deduction, subject to certain exceptions. See
Description of the Notes Covenants Additional Amounts.

Governing Law

The indenture, the notes, and the guaranties will be governed by, and construed in accordance with, the laws of the State of New York.

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.

Risk Factors

You should carefully consider the risk factors discussed beginning on page S-15 and the other information included or incorporated by reference in this prospectus supplement, before purchasing any notes.

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RECENT DEVELOPMENTS

For a discussion of our results of operations for the nine months ended September 30, 2011 and recent material developments, see our report on Form 6-K furnished to the U.S. Securities and Exchange Commission on November 22, 2011, which is incorporated by reference in this prospectus supplement and other reports on Form 6-K listed under Incorporation of Certain Documents by Reference . For a discussion of Petrobras' results of operations for the nine months ended September 30, 2011 and recent material developments, see Petrobras' reports on Form 6-K, furnished to the U.S. Securities and Exchange Commission on November 22, 2011, which are incorporated by reference in this prospectus supplement and other reports on Form 6-K listed under Incorporation of Certain Documents by Reference .

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RISK FACTORS

Our annual report on Form 20-F for the year ended December 31, 2010, which is incorporated by reference herein, includes extensive risk factors relating to our business and to Brazil. You should carefully consider those risks and the risks described below, as well as the other information included or incorporated by reference into this prospectus supplement and the accompanying prospectus, before making a decision to invest in the notes.

Risks Relating to PifCo's Debt Securities

The market for the notes may not be liquid.

The notes are an issuance of new securities with no established trading market. 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. We can make no assurance as to the liquidity of or trading markets for the notes offered by this prospectus supplement. We cannot guarantee that holders will be able to sell their notes in the future. If a market for the notes does not develop, holders may not be able to resell the notes for an extended period of time, if at all.

Restrictions on the movement of capital out of Brazil may impair your ability to receive payments on the guaranties and restrict Petrobras' ability to make payments to PifCo in euros.

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

The Brazilian government imposed remittance restrictions for approximately six months in 1990. The Brazilian government could decide to take similar measures in the future. Similar restrictions, if imposed, could impair or prevent the conversion of payments under the guaranties from *reais* into euros and the remittance of euros abroad. In the case that the PifCo noteholders receive payments in *reais* corresponding to the equivalent euro amounts due under PifCo's notes, it may not be possible to convert these amounts into euros. These restrictions, if imposed, could also prevent Petrobras from making funds available to PifCo in euros abroad, in which case PifCo may not have sufficient euro funds available to make payment on its debt obligations.

In addition, payments by Petrobras under the guaranties in connection with PifCo's notes do not currently require approval by or registration with the Central Bank of Brazil. The Central Bank of Brazil may nonetheless impose prior approval requirements on the remittance of euros abroad, which could cause delays in such payments.

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

If proceedings were brought in Brazil seeking to enforce Petrobras' obligations in respect of the guaranties, Petrobras would be required to discharge its obligations only in *reais*. Under Brazilian exchange control regulations, an obligation to pay amounts denominated in a currency other than *reais*, which is payable in Brazil pursuant to a decision of a Brazilian court, may be satisfied in *reais* at the rate of exchange, as determined by the Central Bank of Brazil, in effect on the date of payment.

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A finding that Petrobras is subject to U.S. bankruptcy laws and that any of the guaranties executed by it was a fraudulent conveyance could result in the relevant PifCo holders losing their legal claim against Petrobras.

PifCo's obligation to make payments on the notes is guaranteed by Petrobras. Petrobras has been advised by its external U.S. counsel that the guaranties are valid and enforceable in accordance with the laws of the State of New York.

In addition, Petrobras has been advised by its general counsel that the laws of Brazil do not prevent the guaranties from being valid, binding and enforceable against Petrobras in accordance with their terms. In the event that U.S. federal fraudulent conveyance or similar laws are applied to a guaranty, and Petrobras, at the time it issued the relevant guaranty:

was or is insolvent or rendered insolvent by reason of its entry into such guaranty;

was or is engaged in business or transactions for which the assets remaining with it constituted unreasonably small capital; or

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

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

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

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.

Austria and Luxembourg have opted out of certain provisions of an EU Directive regarding taxation of savings income and are instead, during a transitional period, applying a withholding tax on payments of interest, at a rate of up to 35%. Neither we nor the paying agent (nor any other person) would be required to pay additional amounts in respect of the notes as a result of the imposition of withholding tax by any member state of the European Union or another country or territory which has opted for a withholding system. For more information, see Description of the Notes Additional Amounts in the accompanying prospectus and under Taxation European Union Savings Directive. An investor should consult a tax adviser to determine the tax consequences of holding the notes for such investor.

Market perceptions concerning the instability of the euro, the potential re-introduction of individual currencies within the Eurozone, or the potential dissolution of the euro entirely, could adversely affect the value of the euro notes.

As a result of the credit crisis in Europe, in particular in Greece, Italy, Ireland, Portugal and Spain, the European Commission created the European Financial Stability Facility (the EFSF) and the European Financial Stability Mechanism (the EFSM) to provide funding to Eurozone countries in financial difficulties that seek such support. In March 2011, the European Council agreed on the need for Eurozone countries to establish a permanent stability mechanism, the European Stability Mechanism (the ESM), which will be activated by mutual agreement, to assume the role of the EFSF and the EFSM in providing external financial assistance to Eurozone countries after June 2013. Despite these measures, concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations, the overall stability of the euro and the suitability of the euro as a single currency given the diverse economic and political circumstances in individual Member States. These and other concerns could lead to the re-introduction of individual currencies in one or more Member States, or, in more extreme circumstances,

the possible dissolution of the euro entirely. Should the euro dissolve entirely, the legal and contractual consequences for holders of Euro-denominated obligations would be determined by laws in effect at such time. These potential developments, or market perceptions concerning these and related issues, could adversely affect the value of the euro notes.

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A holder of a principal amount of Notes of less than 100,000 will be unable to transfer such stub amount.

The Notes are issued and may be transferred only in principal amounts of 100,000 and integral multiples of 1,000 in excess thereof. As a result, it is possible that the Notes may be traded in amounts in excess of 100,000 that are not integral multiples of 100,000 and a holder may hold a principal amount of Notes of less than the minimum 100,000. The holder of a stub amount of Notes of less than 100,000 will be unable to transfer such stub amount so long as the Notes are held in Euroclear or Clearstream and may not receive a definitive Note in respect of such holding should Notes be issued in certificated form.

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USE OF PROCEEDS

The net proceeds from the sale of the notes, after payment of underwriting discounts and estimated transaction expenses, are expected to be approximately million for the 20 Notes and the 20 Notes. PifCo intends to use the net proceeds from the sale of the notes for general corporate purposes and to finance Petrobras' planned capital expenditure under its 2011-2015 Business Plan while maintaining an adequate capital structure and staying within Petrobras' targeted financial leverage ratios in accordance with its 2011-2015 Business Plan.

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Table of Contents**SELECTED FINANCIAL AND OPERATING INFORMATION**

This prospectus supplement incorporates by reference the audited consolidated financial statements of PifCo and Petrobras as of and for the years ended December 31, 2010, 2009 and 2008. PifCo's and Petrobras' audited consolidated financial statements have been prepared in accordance with U.S. GAAP.

This prospectus supplement incorporates by reference the unaudited consolidated financial statements of PifCo and Petrobras as of and for the nine-month period ended September 30, 2011 and September 30, 2010 prepared in accordance with U.S. GAAP.

PifCo

The selected financial and operating information presented in the tables below have been derived from our audited consolidated financial statements, which were audited by KPMG Auditores Independientes for the years ended December 31, 2010, 2009 and 2008. The data at September 30, 2011 and 2010 and for the nine months ended September 30, 2011 and 2010 have been derived from our unaudited interim financial statements, incorporated by reference into this prospectus supplement, which in the opinion of management, reflect all adjustments which are of a normal recurring nature necessary for a fair presentation of the results for such periods. The results of operations for the nine months ended September 30, 2011 are not necessarily indicative of the operating results to be expected for the entire year. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, PifCo's audited and unaudited consolidated financial statements and the accompanying notes incorporated by reference in this prospectus supplement.

Balance Sheet Data

	As of December 31,			As of September 30,	
	2010	2009	2008	2011	2010
	(U.S.\$ million)				
Assets:					
Total current assets	14,438	22,986	30,383	12,985	14,986
Property and equipment, net	1	2	2		1
Total other assets	3,543	3,377	2,918	8,230	3,687
Total assets	17,982	26,365	33,303	21,215	18,674
Liabilities and stockholder's deficit:					
Total current liabilities	5,893	13,175	28,012	4,301	6,552
Total long-term liabilities(1)					
Long-term debt(2)	12,431	13,269	5,884	17,588	12,472
Total liabilities	18,324	26,444	33,896	21,889	19,024
Total stockholder's deficit	(342)	(79)	(593)	(674)	(350)
Total liabilities and stockholder's deficit	17,982	26,365	33,303	21,215	18,674

(1) Excludes long-term debt.

(2) Excludes current portion of long-term debt.

Income Statement Data

	For the Year Ended December 31,			For the Nine Months Ended	
	2010	2009	2008	September 30,	2010
	(U.S.\$ million)				
Net operating revenue	34,759	28,850	42,443		
Operating income (loss)	(1)	578	(927)		
Financial, net	(258)	(93)	155	(442)	(575)
Net (loss)/income for the year	(262)	487	(772)	(320)	(256)

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Table of Contents**Petrobras**

The selected financial and operating information presented in the tables below have been derived from Petrobras audited consolidated financial statements, which were audited by KPMG Auditores Independentes for the years ended December 31, 2010, 2009 and 2008. The data at September 30, 2011 and 2010 and for the nine months ended September 30, 2011 and 2010 have been derived from Petrobras unaudited interim financial statements, incorporated by reference into this prospectus supplement, which in the opinion of management, reflect all adjustments which are of a normal recurring nature necessary for a fair presentation of the results for such periods. The results of operations for the nine months ended September 30, 2011 are not necessarily indicative of the operating results to be expected for the entire year. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, Petrobras audited and unaudited consolidated financial statements and the accompanying notes incorporated by reference in this prospectus supplement.

Balance Sheet Data

	As of December 31,			As of September 30,	
	2010	2009	2008	2011	2010
	(U.S.\$ million)				
Assets:					
Total current assets	63,863	42,644	26,758	64,799	65,972
Property, plant and equipment, net	218,567	136,167	84,719	220,306	206,278
Investments in non-consolidated companies and other investments	6,312	4,350	3,198	5,266	5,951
Total non-current assets	19,941	17,109	11,020	18,585	19,935
Total assets	308,683	200,270	125,695	308,956	298,136
Liabilities and shareholders equity:					
Total current liabilities	33,552	30,965	24,756	35,831	37,481
Total long-term liabilities(1)	31,263	24,844	17,731	30,133	29,710
Long-term debt(2)	60,471	49,041	20,640	67,528	54,131
Total liabilities	125,286	104,850	63,127	133,492	121,322
Shareholders equity					
Shares authorized and issued:					
Preferred share	45,840	15,106	15,106	45,846	44,514
Common share	63,906	21,088	21,088	63,914	62,141
Capital reserve and other comprehensive income	71,748	57,864	25,715	64,404	67,925
Petrobras shareholders equity	181,494	94,058	61,909	174,164	174,580
Non-controlling interest	1,903	1,362	659	1,300	2,234
Total equity	183,397	95,420	62,568	175,464	176,814
Total liabilities and shareholders equity	308,683	200,270	125,695	308,956	298,136

(1) Excludes long-term debt.

(2) Excludes current portion of long-term debt.

Income Statement Data

	For the Year Ended December 31,			For the Nine Months Ended	
	2010	2009	2008	September 30, 2011	2010
	(U.S.\$ million, except for share and per share data, which are expressed in U.S.\$)				
Net operating revenues	120,052	91,869	118,257	109,795	88,064
Operating income(1)	24,158	21,869	25,294	21,874	18,250
Net income for the year attributable to Petrobras(2)	19,184	15,504	18,879	17,031	13,288
Weighted average number of shares outstanding:(3)					
Common	5,683,061,43	5,073,347,344	5,073,347,344	7,442,454,142	5,090,152,531
Preferred	4,189,764,63	3,700,729,396	3,700,729,396	5,602,042,788	3,713,832,071
Operating income per:(1)(3)					
Common and Preferred Shares	2.45	2.49	2.88	1.68	2.07
Common and Preferred ADSs(4)	4.90	4.98	5.76	3.36	4.14
Basic and diluted earnings per:(2)(3)					
Common and Preferred Shares	1.94	1.77	2.15	1.31	1.51
Common and Preferred ADSs(4)	3.88	3.54	4.30	2.62	3.02
Cash dividends per:(3)(5)					
Common and Preferred shares	0.69	0.59	0.47	0.36	0.34
Common and Preferred ADSs(4)	1.38	1.18	0.94	0.72	0.68

(1) Beginning in 2008, we have accounted for employee benefit expenses for non-active participants as part of operating expenses rather than non-operating expenses. This reclassification had no effect on our consolidated net income, other than disclosure of our consolidated statements of income. Operating income amounts for all periods give effect to this reclassification.

(2) Our net income represents our income from continuing operations.

(3) We carried out a two-for-one stock split on April 25, 2008. Share and per share amounts for all periods give effect to the stock split.

(4) We carried out a four-for-one reverse stock split in July 2007 that changed the ratio of underlying shares to ADSs from four shares for each ADS to two shares for each ADS. Per share amounts for all periods give effect to the stock split.

(5) Represents dividends paid during the year.

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PifCo**

The following table sets out the consolidated debt and capitalization of PifCo under U.S. GAAP at September 30, 2011, excluding accrued interest, and as adjusted to give effect to the issue of the notes offered hereby.

	As of September 30, 2011	
	Actual⁽¹⁾	As Adjusted for this Offering⁽²⁾
	(Unaudited)	
	(U.S.\$ thousand)	
Short-term debt:		
Short-term financing	1,979,271	1,979,271
Current portion of long-term debt	691,638	691,638
Total	2,670,909	2,670,909
Long-term debt:		
Total long-term debt (less current portion)	17,588,690	
Stockholder's deficit:		
Capital stock ⁽³⁾	300,050	300,050
Additional paid in capital	266,394	266,394
Accumulated deficit	(1,214,230)	(1,214,230)
Other comprehensive income (loss)	(26,684)	(26,684)
Total stockholder's deficit	(674,470)	(674,470)
Total capitalization	19,585,129	

- (1) As part of PifCo's transition into a finance subsidiary of Petrobras, on August 12, 2011, PifCo transferred to Petrobras International Braspetro B.V., also a subsidiary of Petrobras, two of its wholly-owned subsidiaries, Petrobras Europe Limited and Petrobras Singapore Private Limited. In addition, on September 1, 2011, PifCo terminated the financing program carried out by its subsidiary Petrobras Finance Limited. See Summary PifCo.
- (2) Amounts in euros were converted into U.S. dollars based on an exchange rate of U.S.\$ 1.00 to 1.00, which was the exchange rate in effect as of December 31, 2011.
- (3) Comprising 300,050,000 shares of common stock, par value U.S.\$1.00, which have been authorized and issued.

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Table of Contents**Petrobras**

The following table sets out the consolidated debt and capitalization of Petrobras under U.S. GAAP at September 30, 2011, excluding accrued interest, and as adjusted to give effect to the issue of the notes offered hereby.

As of September 30, 2011
As Adjusted
for
this Offering⁽¹⁾
Actual
(Unaudited)
(U.S.\$ million)

Short-Term Debt:		
Short-term debt	10,257	10,257
Current portion of capital lease obligations	76	76
Total	10,333	10,333
Long-term debt:		
Foreign currency denominated	37,924	
Local currency denominated	29,604	29,604
Total long-term debt	67,528	
Capital lease obligations (less current portion)	85	85
Non-controlling interest	1,300	1,300
Petrobras shareholders equity	174,164	174,164
Total capitalization	253,410	

(1) Amounts in euros were converted into U.S. dollars based on an exchange rate of U.S.\$ to 1.00, which was the exchange rate in effect as of December , 2011.

(2) Comprising (a) 7,442,454,142 shares of common stock and (b) 5,602,042,788 shares of preferred stock, in each case with no par value and in each case which have been authorized and issued. These figures include the common shares (including common shares in the form of American Depositary Shares (ADSs)) and preferred shares (including preferred shares in the form of ADSs) issued by Petrobras on September 29, 2010 in connection with Petrobras global public offering.

Table of Contents**DESCRIPTION OF THE NOTES**

*The following description of the terms of the notes supplements and modifies the description of the general terms and provisions of debt securities and the indenture set forth in the accompanying prospectus, which you should read in conjunction with this prospectus supplement. In addition, we urge you to read the indenture, the eighth supplemental indenture in connection with the 20 Notes and the ninth supplemental indenture in connection with the 20 Notes, because they will define your rights as holders of the 20 Notes and the 20 Notes, respectively. If the description of the terms of the notes in this prospectus supplement differs in any way from that in the accompanying prospectus, you should rely on the information contained in this prospectus supplement. You may obtain copies of the indenture, the eighth supplemental indenture and the ninth supplemental indenture upon written request to the trustee or with the SEC at the addresses set forth under *Where You Can Find More Information*.*

The Eighth Supplemental Indenture and the Ninth Supplemental Indenture

PifCo will issue the notes under an indenture dated as of December 15, 2006 between PifCo and The Bank of New York Mellon, a New York banking corporation, as trustee, as supplemented by the eighth supplemental indenture in the case of the 20 Notes and the ninth supplemental indenture in the case of the 20 Notes, each dated as of the closing date, among PifCo, Petrobras, and The Bank of New York Mellon, as trustee, The Bank of New York Mellon, London Branch, as principal paying agent, and The Bank of New York (Luxembourg) S.A., as Luxembourg paying agent, which provide the specific terms of the notes offered by this prospectus supplement, including granting holders rights against Petrobras under the respective guaranties. Whenever we refer to the indenture in this prospectus supplement, we are referring to the indenture as supplemented by the eighth supplemental indenture in the case of the 20 Notes and the ninth supplemental indenture in the case of the 20 Notes.

General***The 20 Notes***

The 20 Notes will be general, senior, unsecured and unsubordinated obligations of PifCo having the following basic terms:

The title of the 20 Notes will be the % Global Notes due 20 ;

The 20 Notes will:

be issued in an aggregate principal amount of ;

mature on , 20 ;

bear interest at a rate of % per annum from December , 2011, the date of issuance of the 20 Notes, until maturity or early redemption and until all required amounts due in respect of the 20 Notes have been paid;

be issued in global registered form without interest coupons attached;

be issued and may be transferred only in principal amounts of 100,000 and in integral multiples of 1,000 in excess thereof; and

be unconditionally guaranteed by Petrobras pursuant to a guaranty described below under *Guaranties*. All payments of principal and interest on the 20 Notes will be paid in euros;

Interest on the 20 Notes will be paid annually on of each year (each of which we refer to as an interest payment date), commencing on , 2012 and the regular record date in the International Central Securities Depositories (ICSDs) for any interest payment date will be the business day preceding that date;

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PifCo will pay interest on the notes on the interest payment dates stated above and at maturity. Each payment of interest due on an interest payment date or at maturity will include interest accrued from and including the last date to which interest has been paid or made available for payment, or from the issue date, if none has been paid or made available for payment, to but excluding the relevant payment date. PifCo will compute interest on the notes on the basis of a 365-day year or a 366-day year, as applicable, and the actual number of days elapsed; and

In the case of amounts not paid by PifCo under the indenture and the 20 Notes (or Petrobras under the guaranty for the 20 Notes), interest will continue to accrue on such amounts at a default rate equal to 0.5% in excess of the interest rate on the 20 Notes, from and including the date when such amounts were due and owing and through and excluding the date of payment of such amounts by PifCo or Petrobras.

Despite the Brazilian government's ownership interest in Petrobras, the Brazilian government is not responsible in any manner for PifCo's obligations under the 20 Notes and Petrobras' obligations under the guaranty for the 20 Notes.

The 20 Notes

The 20 Notes will be general, senior, unsecured and unsubordinated obligations of PifCo having the following basic terms:

The title of the 20 Notes will be the % Global Notes due 20 ;

The 20 Notes will:

be issued in an aggregate principal amount of ;

mature on , 20 ;

bear interest at a rate of % per annum from December , 2011, the date of issuance of the 20 Notes, until maturity or early redemption and until all required amounts due in respect of the 20 Notes have been paid;

be issued in global registered form without interest coupons attached;

be issued and may be transferred only in principal amounts of 100,000 and in integral multiples of 1,000 in excess thereof; and

be unconditionally guaranteed by Petrobras pursuant to a guaranty described below under Guaranties. All payments of principal and interest on the 20 Notes will be paid in euros;

Interest on the 20 Notes will be paid annually on of each year (each of which we refer to as an interest payment date), commencing on , 2012 and the regular record date in the ICSDs for any interest payment date will be the business day preceding that date;

PifCo will pay interest on the notes on the interest payment dates stated above and at maturity. Each payment of interest due on an interest payment date or at maturity will include interest accrued from and including the last date to which interest has been paid or made available for payment, or from the issue date, if none has been paid or made available for payment, to but excluding the relevant payment date. PifCo will compute interest on the notes on the basis of a 365-day year or a 366-day year, as applicable, and the actual number of days elapsed; and

In the case of amounts not paid by PifCo under the indenture and the 20 Notes (or Petrobras under the guaranty for the 20 Notes), interest will continue to accrue on such amounts at a default rate equal to 0.5% in excess of the interest rate on the 20 Notes, from and including the date when such amounts were due and owing and through and excluding the date of payment of such amounts by PifCo or Petrobras.

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Despite the Brazilian government's ownership interest in Petrobras, the Brazilian government is not responsible in any manner for PifCo's obligations under the 20 Notes and Petrobras' obligations under the guaranty for the 20 Notes.

Guaranties

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 or otherwise. The guaranties will be unsecured and will rank equally with all of Petrobras' other existing and future unsecured and unsubordinated debt including guaranties previously issued by Petrobras in connection with prior issuances of indebtedness. See Description of the Guaranties.

Depository with Respect to Global Notes

The notes will be issued as global notes registered in the name of The Bank of New York Depository (Nominees) Limited, as common depository for Clearstream, Luxembourg and Euroclear. For further information in this regard, see Clearance and Settlement.

Events of Default

The following events will be events of default with respect to each series of the notes:

PifCo does not pay the principal on the notes of such series within three calendar days of its due date and the trustee has not received such amounts from Petrobras under the relevant guaranty by the end of that three-day period.

PifCo does not pay interest or other amounts, including any additional amounts, on the notes within 30 calendar days of their due date and the trustee has not received such amounts from Petrobras under the relevant guaranty by the end of that thirty-day period.

PifCo or Petrobras remains in breach of any covenant or any other term of the indenture or guaranty for such series for 60 calendar days (inclusive of any cure period contained in any such covenant or other term for compliance thereunder) after receiving a notice of default stating that it is in breach. The notice must be sent by either the trustee or holders of 25% of the principal amount of such series of the notes.

The maturity of any indebtedness of PifCo or Petrobras or a material subsidiary in a total aggregate principal amount of U.S.\$150,000,000 (or its equivalent in another currency), or more is accelerated in accordance with the terms of that indebtedness, it being understood that prepayment or redemption by us or the material subsidiary of any indebtedness is not acceleration for this purpose.

One or more final and non-appealable judgments or final decrees is entered against PifCo, Petrobras or a material subsidiary involving in the aggregate a liability (not paid or fully covered by insurance) of U.S.\$150,000,000 (or its equivalent in another currency) or more, and all such judgments or decrees have not been vacated, discharged or stayed within 120 calendar days after rendering of that judgment.

PifCo, Petrobras or any material subsidiary stop paying or admits that it is generally unable to pay its debts as they become due, is adjudicated or found bankrupt or insolvent or is ordered by a court or passes a resolution to dissolve.

PifCo, Petrobras or any material subsidiary commences voluntarily proceedings under any applicable liquidation, insolvency, composition, reorganization or any other similar laws, or files an application for the appointment of an administrator, receiver or other similar official in relation to PifCo, Petrobras or any material subsidiary, or any events occur or action is taken that has effects similar to those events or actions described in this paragraph.

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PifCo, Petrobras or any material subsidiary enters into any composition or other similar arrangement with its creditors (such as a *concordata*, which is a type of liquidation agreement), or proceedings are initiated against PifCo, Petrobras or any material subsidiary under applicable bankruptcy, insolvency or intervention law or law with similar effect and is not discharged or removed within 90 calendar days, or an administrator, receiver or similar official is appointed in relation to, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against, the whole or a substantial part of the undertakings or assets of PifCo, Petrobras or any material subsidiary and is not discharged or removed within 90 calendar days, or any events occur or action is taken that has effects similar to those events or actions described in this paragraph.

The notes of such series, the indenture, the relevant guaranty, or any part of those documents, ceases to be in full force and effect or binding and enforceable against PifCo or Petrobras, or it becomes unlawful for PifCo or Petrobras to perform any material obligation under any of the foregoing documents to which it is a party.

PifCo or Petrobras contests the enforceability of the notes, the indenture or the guaranties, or denies that it has liability under any of the foregoing documents to which it is a party.

Petrobras fails to retain at least 51% direct or indirect ownership of the outstanding voting and economic interests (equity or otherwise) of and in PifCo.

For purposes of the events of default:

indebtedness means any obligation (whether present or future, actual or contingent and including 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 United States, would be a capital lease obligation); and

material subsidiary means a subsidiary of PifCo or Petrobras which on any given date of determination accounts for more than 10% of Petrobras' total consolidated assets (as set forth on Petrobras' most recent balance sheet prepared in accordance with U.S. GAAP or IFRS).

Covenants

PifCo will be subject to the following covenants with respect to the notes:

Payment of Principal and Interest

PifCo will duly and punctually pay the principal of and any premium and interest and other amounts (including any additional amounts in the event withholding and other taxes are imposed in Brazil or the jurisdiction of incorporation of PifCo) on the notes in accordance with the notes and the indenture.

Maintenance of Corporate Existence

PifCo will maintain its corporate existence and take all reasonable actions to maintain all rights, privileges and the like necessary or desirable in the normal conduct of business, activities or operations, unless PifCo's board of directors determines that preserving PifCo's corporate existence is no longer desirable in the conduct of PifCo's business and is not disadvantageous in any material respect to holders.

Maintenance of Office or Agency

So long as notes are outstanding, PifCo will maintain in the Borough of Manhattan, the City of New York, an office or agency where notices to and demands upon it in respect of the indenture and the notes may be served.

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Initially, this office will be located at 570 Lexington Avenue, New York, New York 10022-6837. PifCo will not change the designation of the office without prior written notice to the trustee and designating a replacement office in the same general location.

Ranking

PifCo will ensure that the notes will at all times constitute its general senior, unsecured and unsubordinated obligations and will rank *pari passu*, without any preferences among themselves, with all of its other present and future unsecured and unsubordinated obligations (other than obligations preferred by statute or by operation of law).

Use of Proceeds

PifCo intends to use the net proceeds from the sale of the notes for general corporate purposes and to finance Petrobras planned capital expenditure under its 2011-2015 Business Plan while maintaining an adequate capital structure and staying within Petrobras targeted financial leverage ratios in accordance with its 2011-2015 Business Plan.

Statement by Officers as to Default and Notices of Events of Default

PifCo will deliver to the trustee, within 90 calendar days after the end of its fiscal year, an officer's certificate, stating whether or not to the best knowledge of its signers PifCo is in default on any of the terms, provisions and conditions of the indenture or the notes (without regard to any period of grace or requirement of notice provided under the indenture) and, if PifCo (or any obligor) are in default, specifying all the defaults and their nature and status of which the signers may have knowledge. Within 30 calendar days (or promptly with respect to certain events of default relating to PifCo's insolvency and in any event no later than 30 calendar days) after PifCo becomes aware or should reasonably become aware of the occurrence of any default or event of default under the indenture or the notes, it will notify the trustee in writing of the occurrence of such default or event of default.

Provision of Financial Statements and Reports

In the event that PifCo files any financial statements or reports with the SEC or publishes or otherwise makes such statements or reports publicly available in Brazil, the United States or elsewhere, PifCo will furnish a copy of the statements or reports to the trustee within 15 calendar days of the date of filing or the date the information is published or otherwise made publicly available.

PifCo will provide, together with each of the financial statements delivered as described in the preceding paragraph, an officer's certificate stating (i) that a review of PifCo's activities has been made during the period covered by such financial statements with a view to determining whether PifCo has kept, observed, performed and fulfilled its covenants and agreements under this indenture; and (ii) that no event of default, or event which with the giving of notice or passage of time or both would become an event of default, has occurred during that period or, if one or more have actually occurred, specifying all those events and what actions have been taken and will be taken with respect to that event of default or other event.

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

Appointment to Fill a Vacancy in Office of Trustee

PifCo, whenever necessary to avoid or fill a vacancy in the office of trustee, will appoint a successor trustee in the manner provided in the indenture so that there will at all times be a trustee with respect to the notes.

Payments and Paying Agents

PifCo will, prior to 12:00 p.m., London time, on the business day preceding any payment date of the principal of or interest on the notes or other amounts (including additional amounts), deposit with the trustee a sum sufficient to pay such principal, interest or other amounts (including additional amounts) so becoming due.

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If any payment is due on the notes on a day that is not a business day, PifCo will make the payment on the day that is the next business day. Payments postponed to the next business day in this situation will be treated under the indenture as if they were made on the original due date. Postponement of this kind will not result in a default under the notes or the indenture, and no interest will accrue on the postponed amount from the original due date to the next day that is a business day.

Business day means, for purposes of the 20 Notes and the 20 Notes, each Target System Day. A Target System Day is any day in which the Trans-European Automated Real Time Gross Settlement Express Transfer (TARGET2) System (or any successor thereto) is open for business and a day on which commercial banks are open for dealings in euro deposits in the London interbank market. With respect to notes in certificated form, the reference to business day will also mean a day on which banking institutions generally are open for business in the location of each office of a transfer agent, but only with respect to a payment or other action to occur at that office.

Additional Amounts

Except as provided below, PifCo or Petrobras, as applicable, will make all payments of amounts due under the notes and the indenture and each other document entered into in connection with the notes and the indenture without withholding or deducting any present or future taxes, levies, deductions or other governmental charges of any nature imposed by Brazil, the jurisdiction of PifCo's incorporation or any jurisdiction in which PifCo appoints a paying agent under the indenture, or any political subdivision of such jurisdictions (the taxing jurisdictions). If PifCo or Petrobras, as applicable, is required by law to withhold or deduct any taxes, levies, deductions or other governmental charges, PifCo or Petrobras, as applicable, will make such deduction or withholding, make payment of the amount so withheld to the appropriate governmental authority and pay the holders any additional amounts necessary to ensure that they receive the same amount as they would have received without such withholding or deduction. For the avoidance of doubt, the foregoing obligations shall extend to payments under the guaranties.

All references to principal, premium, if any, and interest in respect of the notes will be deemed to refer to any additional amounts which may be payable as set forth in the indenture or in the notes.

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 20 Notes and as of the date of the ninth supplemental indenture in the case of the 20 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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Table of Contents***Optional Redemption With Make-Whole Amount for the 20 Notes and the 20 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 basis points with respect to the 20 Notes and plus basis points with respect to the 20 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 depository 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.

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 Depository (Nominees) Limited (having a mailing address of 30 Cannon Street, London, EC4M6XH); as common depository 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 20 Notes and the 20 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 depository 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 Depository (Nominees) Limited will not be permitted unless (i) Euroclear or Clearstream, Luxembourg has notified us that it is unwilling or unable to continue as depository for the notes in global form and we do not or cannot appoint a successor depository 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 20 Notes and the 20 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 20 Notes or the 20 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 20 Notes or the 20 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 20 Notes or the 20 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 20 Notes or the 20 Notes, as applicable, and the indenture, Petrobras will be obligated to make such payments pursuant to the relevant guaranty.

Table of Contents**Covenants**

For so long as any of the 20 Notes or the 20 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 20 Notes or the 20 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 20 Notes and as of the date of the ninth supplemental indenture in the case of the 20 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 20 Notes or the 20 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 20 Notes or the 20 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 20 Notes or the 20 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 20 Notes or 20 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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Table of Contents**PLAN OF DISTRIBUTION**

Under the terms and subject to the conditions contained in the underwriting agreement dated December , 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, Pinnars 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 20 Notes	Principal Amount of the 20 Notes
Banco Bradesco BBI S.A.		
Banco Santander, S.A.		
BB Securities Ltd.		
Crédit Agricole Corporate and Investment Bank		
Deutsche Bank AG, London Branch		
HSBC Securities (USA) Inc.		
Banca IMI S.p.A.		
Mitsubishi UFJ Securities International plc		
Total		

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.

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.

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.

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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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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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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 United States, and at any time all of their executive officers and directors, and certain advisors named in this prospectus supplement, may reside outside the United States. As a result, it may not be possible for you to effect service of process on any of those persons within the United States. In addition, it may not be possible for you to enforce a judgment of a United States court for civil liability based upon the United States federal securities laws against any of those persons outside the United States.

For further information on potential difficulties in effecting service of process on any of those persons or enforcing judgments against any of them outside the United States, see **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
20 Notes		
20 Notes		

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 December , 2011, authorized the issuance of the notes. Resolutions of Petrobras' board of directors, dated December , 2011, 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.

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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.

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