

Rating: None
 S&P 500: 1453

Petrobras

Cash Flow Restored in Second Quarter

| | | | |
|---------------------------------------|---------|--|--------|
| <i>Symbol</i> | PBR | <i>Ebitda Next Twelve Months ending 6/30/08 (US\$mm)</i> | 30,500 |
| <i>Rating</i> | | <i>North American Natural Gas/Ebitda (%)</i> | 0 |
| <i>Price (US\$/sh)</i> | 60.15 | <i>Natural Gas and Oil Production/Ebitda (%)</i> | 77 |
| <i>Pricing Date</i> | 8/13/07 | <i>Adjusted Reserves/Production NTM</i> | 9.8 |
| <i>Shares (mm)</i> | 2194 | <i>EV/Ebitda</i> | 5.2 |
| <i>Market Capitalization (US\$mm)</i> | 131,900 | <i>PV/Ebitda</i> | 6.7 |
| <i>Debt (US\$mm)</i> | 27,000 | <i>Undeveloped Reserves (%)</i> | 55 |
| <i>Enterprise Value (EV) (US\$mm)</i> | 159,000 | <i>Natural Gas and Oil Ebitda (US\$/boe)</i> | 27.90 |
| <i>Present Value (PV) (US\$mm)</i> | 202,800 | <i>Present Value Proven Reserves(US\$/boe)</i> | 13.73 |
| <i>Net Present Value (US\$/share)</i> | 80 | <i>Present Value Proven Reserves(US\$/mcf)</i> | 2.29 |
| <i>Debt/Present Value</i> | 0.13 | <i>Earnings Next Twelve Months (US\$/sh)</i> | 6.61 |
| <i>McDep Ratio - EV/PV</i> | 0.79 | <i>Price/Earnings Next Twelve Months</i> | 9 |
| <i>Dividend Yield (%/year)</i> | 2.8 | <i>Indicated Annual Dividend (US\$/sh)</i> | 1.70 |

Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.

Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Estimated present value presumes a long-term price for oil of US\$66 a barrel and natural gas, \$11 a million btu.

The Brazilian Government has voting control and with public sector entities owns 40% of Petrobras' equity.

Summary

After the general equity market declines of the past month, we feel better about the immediate investment appeal of the stock of **Petrobras (PBR)** for its oil production from leading deep water basins. Second quarter 2007 results reported after the market close on August 13 by Brazilian accounting principles appear to confirm our expected restoration of cash flow and earnings after a dip in the first quarter (see table Next Twelve Months Operating and Financial Estimates). Until results are released by U.S. accounting principles in a few more days we keep an "E" for estimate at the head of the column for the quarter just reported. Oil revenue benefited from price gain greater than for the WTI standard as it did for many companies mostly because the standard was less representative of industry conditions in the quarter just ended. Our preliminary interpretation of the company's operating progress supports our estimate of Net Present Value (NPV) of US\$80 a share (see table Functional Cash Flow and Present Value).

Kurt H. Wulff, CFA

Petrobras
Next Twelve Months Operating and Financial Estimates

| | <i>Year</i> | <i>Q1</i> | <i>Q2E</i> | <i>Q3E</i> | <i>Q4E</i> | <i>Year</i> | <i>Q1E</i> | <i>Q2E</i> | <i>Next Twelve Months</i> |
|----------------------------|----------------|----------------|----------------|----------------|-----------------|---------------|----------------|----------------|-----------------------------------|
| | <i>2006</i> | <i>3/31/07</i> | <i>6/30/07</i> | <i>9/30/07</i> | <i>12/31/07</i> | <i>2007E</i> | <i>3/31/08</i> | <i>6/30/08</i> | <i>6/30/08</i> |
| Volume | | | | | | | | | |
| Natural Gas (mmcf) | 2,267 | 2,274 | 2,298 | 2,298 | 2,298 | 2,292 | 2,298 | 2,298 | 2,298 |
| Oil (mbd) | 1,920 | 1,926 | 1,920 | 1,920 | 1,920 | 1,921 | 1,920 | 1,920 | 1,920 |
| Total gas & oil (bcf) | 5,032 | 1,245 | 1,257 | 1,271 | 1,271 | 5,045 | 1,244 | 1,257 | 5,044 |
| Total gas & oil (mbd) | 2,298 | 2,305 | 2,303 | 2,303 | 2,303 | 2,303 | 2,303 | 2,303 | 2,303 |
| Price | | | | | | | | | |
| Natural gas (\$/mcf) | | | | | | | | | |
| Henry Hub (\$/mmbtu) | 7.23 | 6.81 | 7.56 | 6.61 | 7.82 | 7.20 | 8.87 | 7.99 | 7.82 |
| Company | 2.49 | 4.62 | 4.94 | 4.32 | 5.11 | 4.75 | 5.80 | 5.22 | 5.11 |
| Oil (\$/bbl) | | | | | | | | | |
| WTI Cushing | 66.05 | 58.08 | 64.91 | 72.67 | 70.94 | 66.65 | 69.89 | 69.42 | 70.73 |
| Company | 53.98 | 47.48 | 56.34 | 63.08 | 61.57 | 57.16 | 59.67 | 59.26 | 61.00 |
| Total gas & oil (\$/mcf) | 7.93 | 7.37 | 8.65 | 9.48 | 9.41 | 8.73 | 9.26 | 9.10 | 9.31 |
| NY Harbor 3-2-1 (\$/bbl) | 10.50 | 11.68 | 24.96 | 12.70 | 9.22 | 14.64 | 11.24 | 15.15 | 12.08 |
| Revenue (\$mm) | | | | | | | | | |
| Natural Gas | 2,057 | 945 | 1,033 | 914 | 1,080 | 3,972 | 1,200 | 1,092 | 4,286 |
| Oil | 37,830 | 8,230 | 9,843 | 11,142 | 10,876 | 40,091 | 10,310 | 10,354 | 42,682 |
| Other | 32,460 | 9,225 | 10,145 | 10,145 | 10,145 | 39,660 | 10,145 | 10,145 | 40,580 |
| Total | 72,347 | 18,400 | 21,021 | 22,200 | 22,102 | 83,724 | 21,655 | 21,592 | 87,549 |
| Expense (\$mm) | | | | | | | | | |
| | 45,944 | 12,848 | 13,237 | 14,621 | 14,572 | 55,277 | 14,348 | 13,522 | 57,063 |
| Ebitda (\$mm) | | | | | | | | | |
| Exploration and Production | 21,959 | 4,000 | 5,438 | 6,028 | 5,978 | 21,444 | 5,755 | 5,723 | 23,484 |
| Other | 4,444 | 1,552 | 2,346 | 1,552 | 1,552 | 7,002 | 1,552 | 2,346 | 7,002 |
| Total Ebitda | 26,403 | 5,552 | 7,784 | 7,579 | 7,530 | 28,446 | 7,307 | 8,070 | 30,486 |
| Exploration | 955 | 302 | 192 | 250 | 250 | 994 | 250 | 250 | 1,000 |
| Deprec., Deplet., & Amort. | 3,673 | 1,157 | 1,354 | 1,354 | 1,354 | 5,220 | 1,354 | 1,354 | 5,418 |
| Other non cash | 727 | 680 | 290 | 290 | 290 | 1,551 | 290 | 290 | 1,162 |
| Ebit | 21,048 | 3,413 | 5,948 | 5,684 | 5,635 | 20,681 | 5,412 | 6,175 | 22,906 |
| Interest | 1,340 | 106 | 151 | 151 | 151 | 558 | 151 | 151 | 602 |
| Ebt | 19,708 | 3,307 | 5,797 | 5,534 | 5,485 | 20,123 | 5,261 | 6,024 | 22,304 |
| Income Tax | 6,898 | 1,157 | 2,029 | 1,937 | 1,920 | 7,043 | 1,841 | 2,108 | 7,806 |
| Net Income (\$mm) | | | | | | | | | |
| Exploration and Production | 12,184 | 2,321 | 3,114 | | | | | | |
| Other | 2,434 | 933 | 1,399 | | | | | | |
| Unallocated | (1,808) | (1,104) | (746) | | | | | | |
| Total | 12,810 | 2,150 | 3,768 | 3,597 | 3,565 | 13,080 | 3,420 | 3,916 | 14,497 |
| Shares (millions) | | | | | | | | | |
| | 2,194 | 2,194 | 2,194 | 2,194 | 2,194 | 2,194 | 2,194 | 2,194 | 2,194 |
| Per share (\$) | 5.84 | 0.98 | 1.72 | 1.64 | 1.63 | 5.96 | 1.56 | 1.79 | 6.61 |
| Ebitda Margin (E&P) | 55% | 44% | 50% | 50% | 50% | 49% | 50% | 50% | 50% |
| Tax Rate | 35% | 35% | 35% | 35% | 35% | 35% | 35% | 35% | 35% |

Petrobras
Functional Cash Flow and Present Value

| | <i>NTM Ebitda</i> <i>(US\$mm)</i> | <i>Adjusted</i> <i>R/P</i> | <i>PV/</i> <i>Ebitda</i> | <i>Present</i> <i>Value</i> <i>(US\$mm)</i> | |
|--|--------------------------------------|-------------------------------|-----------------------------|---|---------|
| Rest of World Natural Gas | 2,140 | 10.5 | 7.5 | 16,000 | 8% |
| Oil | 21,350 | 9.7 | 7.3 | 156,000 | 77% |
| Downstream | 7,000 | | 4.3 | 30,000 | 15% |
| | 30,490 | 9.8 | 6.6 | 202,000 | 100% |
| Debt (US\$mm) | | | | | 27,000 |
| Net Present Value (US\$mm) | | | | | 175,000 |
| Shares (mm) | | | | | 2,194 |
| Net Present Value - Standard Estimate (US\$/sh) | | | | | 80 |
| Net Present Value - Approximation by Correlation (US\$/sh) | | | | | 81 |