

Rating: None
S&P 500: 1475

Petrobras Bonanza Offshore Brazil

<i>Symbol</i>	PBR	<i>Ebitda Next Twelve Months ending 9/30/08 (US\$mm)</i>	36,300
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	116.77	<i>Natural Gas and Oil Production/Ebitda (%)</i>	81
<i>Pricing Date</i>	11/8/07	<i>Adjusted Reserves/Production NTM</i>	9.8
<i>Shares (mm)</i>	2194	<i>EV/Ebitda</i>	7.8
<i>Market Capitalization (US\$mm)</i>	256,000	<i>PV/Ebitda</i>	7.1
<i>Debt (US\$mm)</i>	27,000	<i>Undeveloped Reserves (%)</i>	55
<i>Enterprise Value (EV) (US\$mm)</i>	283,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	34.90
<i>Present Value (PV) (US\$mm)</i>	258,000	<i>Present Value Proven Reserves(US\$/boe)</i>	18.40
<i>Net Present Value (US\$/share)</i>	105	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.07
<i>Debt/Present Value</i>	0.11	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.42
<i>McDep Ratio - EV/PV</i>	1.10	<i>Price/Earnings Next Twelve Months</i>	14
<i>Dividend Yield (%/year)</i>	1.5	<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

We raise our estimate of net present value (NPV) for **Petrobras (PBR)** by \$50 billion to \$105 a share, up from \$80 on the basis of a 5-8 billion barrel discovery, named Tupi, in ultra-deep water offshore Brazil. The significance of the Petrobras announcement today appears as important as the news of Prudhoe Bay in Alaska in the 1960s, Cantarell in Mexico and Ekofisk in Norway in the 1970s and Kashagan in Kazakhstan in the 2000s. Defined by four wells, Tupi may lead to more discoveries in a new “pre-salt” petroleum province under water as deep as 10,000 feet and requiring total well depth of 30,000 feet. Our \$50 billion estimate corresponds to value in the ground of \$13 a barrel for the midpoint of 4.2 billion barrels for PBR’s 65% share of Tupi oil production that may start in the middle of the next decade. In similar circumstances for two other companies we raised NPV in September 2006 for **Devon Energy (DVN)** to \$115 a share from \$102 for the deep water Gulf of Mexico and we raised NPV in May 2007 for **PetroChina (PTR)** to \$150 from \$140 for Jidong Nanpu in Bohai Bay. Meanwhile, our updated financial analysis for all of Petrobras awaits imminent disclosure of latest quarterly results.

Kurt H. Wulff, CFA

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at www.mcdep.com. Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.