



Rating: Buy
 S&P 500: 1391

Petroleo Brasileiro SA
Raise Net Present Value to \$75 a Share

<i>Symbol</i>	PBR	<i>Ebitda Next Twelve Months ending 3/31/09 (US\$mm)</i>	41,500
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	75.19	<i>Natural Gas and Oil Production/Ebitda (%)</i>	90
<i>Pricing Date</i>	5/21/08	<i>Adjusted Reserves/Production NTM</i>	10.4
<i>Shares (mm)</i>	4387	<i>EV/Ebitda</i>	8.8
<i>Market Capitalization (US\$mm)</i>	330,000	<i>PV/Ebitda</i>	8.8
<i>Debt (US\$mm)</i>	35,000	<i>Undeveloped Reserves (%)</i>	43
<i>Enterprise Value (EV) (US\$mm)</i>	365,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	43.00
<i>Present Value (PV) (US\$mm)</i>	364,000	<i>Present Value Proven Reserves(US\$/boe)</i>	28.81
<i>Net Present Value (US\$/share)</i>	75	<i>Present Value Proven Reserves(US\$/mcfe)</i>	4.80
<i>Debt/Present Value</i>	0.10	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.92
<i>McDep Ratio - EV/PV</i>	1.00	<i>Price/Earnings Next Twelve Months</i>	15
<i>Dividend Yield (%/year)</i>	1.1	<i>Indicated Annual Dividend (US\$/sh)</i>	0.86
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\$100 a barrel and natural gas, \$14 a million btu.			
The Brazilian Government has voting control and with public sector entities owns 40% of Petrobras' equity.			

Summary

When we raised oil price for calculation purposes to \$100 a barrel on May 13, we raised estimated Net Present Value (NPV) for the common stock of **Petrobras (PBR)** to \$75 a share from \$61, adjusted for a 2:1 split. First quarter results according to Brazilian accounting reported the previous day chalked up strong gains in oil production cash flow offset by that old nemesis of price controls on refined products. Nonetheless, we project a high level of unlevered cash flow (Ebitda) (see table Next Twelve Months Operating and Financial Estimates). Projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) supports present value of current oil and gas production (see table Functional Cash Flow and Present Value). Separately we add a cool \$100 billion for potential production in the newly discovered Pre-Salt petroleum province where the company has a dominant lease position (see graphics from Petrobras presentations). In addition to the Tupi discovery announced last fall and Jupiter announced in early 2008, there may be a huge oil field several times the size of Tupi extending from the Carioca block. Since our analysis of two months ago, Petrobras stock has added more than \$100 billion of stock market value to become the world's fifth largest company according to *Bloomberg*. Investors willing to give up voting rights may be interested in the preferred stock with the same pro-rata ownership. Making up 42% of shares outstanding, the preferred was quoted most recently at 84% of the price of the common we use in our analysis.

Kurt H. Wulff, CFA

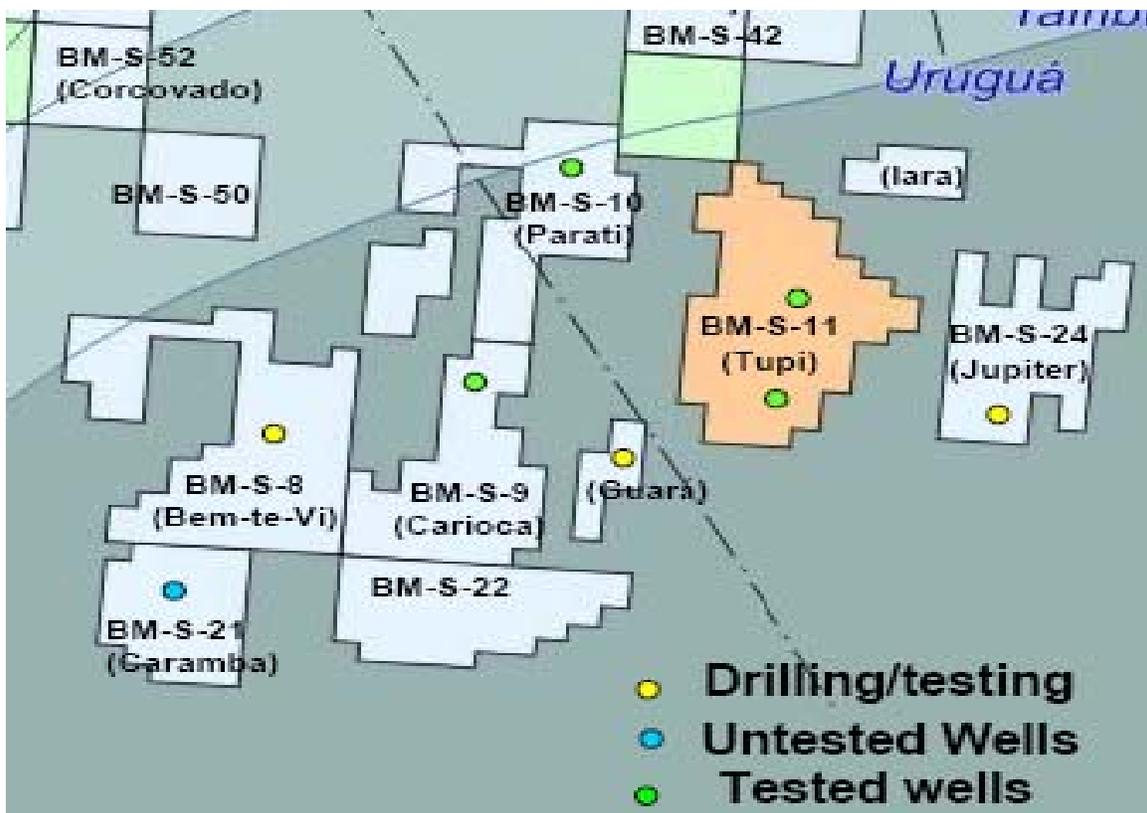


Next Twelve Months Operating and Financial Estimates									
(U.S. Accounting, US\$)									
				Brazil Acctg					Next
	Q3	Q4	Year	Q1	Q2E	Q3E	Q4E	Year	Twelve
	9/30/07	12/31/07	2007	3/31/08	6/30/08	9/30/08	12/31/08	2008E	Months
									3/31/09
Volume									
Natural Gas (mmcf)	2,310	2,280	2,285	2,442	2,286	2,310	2,310	2,337	2,304
Days	92	92	365	91	91	92	92	366	365
Oil (mbd)	1,908	1,905	1,907	1,938	2,000	2,000	2,000	1,985	2,000
Total gas & oil (mmb)	211	210	835	213	217	219	219	869	870
Total gas & oil (mbd)	2,293	2,285	2,288	2,345	2,381	2,385	2,385	2,374	2,384
Price									
Natural gas (\$/mcf)	5.13	4.99	4.92	5.34	5.34	5.34	5.34	5.34	5.34
Oil (\$/bbl)									
WTI Cushing	75.48	90.67	72.28	97.94	121.35	126.65	126.51	118.11	125.23
Brent	74.87	88.69	72.52	96.90	120.06	125.30	125.17	116.86	123.89
Company	63.82	75.63	60.89	84.18	104.29	108.84	108.73	101.69	107.63
Total gas & oil (\$/bbl)	58.27	68.04	55.68	75.13	92.73	96.45	96.35	90.26	95.45
NY Harbor 3-2-1 (\$/bbl)	12.64	8.19	14.37	7.57	14.24	15.01	11.26	12.02	13.07
Revenue (mm\$)									
Natural gas	1,090	1,048	4,106	1,187	1,111	1,135	1,135	4,567	4,490
Oil	11,203	13,255	42,395	14,845	18,981	20,027	20,006	73,860	78,568
Total production	12,293	14,303	46,502	16,032	20,092	21,162	21,141	78,427	83,058
Other	11,154	11,021	22,175	10,936	10,936	10,936	10,936	43,745	43,745
Total	23,447	25,324	48,771	26,968	31,028	32,099	32,077	122,172	126,804
Expense									
Production			25,451	7,697	11,051	11,639	11,628	42,015	45,682
Other			16,699	10,920	9,567	9,567	9,567	39,623	39,623
Ebitda (mm\$)									
Production			21,050	8,334	9,041	9,523	9,513	36,412	37,376
Other			5,476	16	1,369	1,369	1,369	4,123	4,123
Total Ebitda	7,081	6,846	26,526	8,350	10,410	10,892	10,882	40,535	41,499
Exploration	283	634	1,423	394	394	394	394	1,576	1,576
Deprec., Deplet., & Amort.	1,277	1,728	5,544	1,456	1,456	1,456	1,456	5,825	5,825
Ebit	5,521	4,484	19,559	6,500	8,560	9,042	9,032	33,135	34,098
Interest	115	(21)	554	230	230	230	230	920	920
Ebt	5,406	4,505	19,005	6,270	8,330	8,812	8,802	32,214	33,178
Income Tax	1,589	1,697	5,888	2,284	2,916	3,084	3,081	11,364	11,612
Net Income (mm\$)	3,817	2,808	13,117	3,986	5,415	5,728	5,721	20,850	21,566
Shares (millions)	4,387	4,387	4,387	4,387	4,387	4,387	4,387	4,387	4,387
Per share (\$)	0.87	0.64	2.99	0.91	1.23	1.31	1.30	4.75	4.92
Ebitda Margin (E&P)			45%	52%	45%	45%	45%	46%	45%
Tax Rate	29%	38%	31%	36%	35%	35%	35%	35%	35%

Petrobras					
Functional Cash Flow and Present Value					
					Present
	NTM Ebitda	Adjusted	PV/		Value
	(US\$mm)	R/P	Ebitda		(US\$mm)
Rest of World Natural Gas	2,021	11.2	8.9		5%
Oil	35,355	10.3	6.3		61%
Downstream	4,123		5.3		6%
Pre Salt Deep Water Oil				102,000	28%
	41,499	10.4	8.8	364,000	100%
Debt (US\$mm)					35,000
Net Present Value (US\$mm)					329,000
Shares (mm)					4,387
Net Present Value - Standard Estimate (US\$/sh)					75
Net Present Value - Approximation by Correlation (US\$/sh)					75



BR PETROBRAS		Consortia for the Pre-salt blocks
Bloco	Appraisal Plan	Consortium
BM-S-8		BR (66%), SHELL (20%), PETROGAL (14%)
BM-S-9	SPS-50 Area	BR (45%), BG (30%), REPSOL (25%)
BM-S-10	RJS-617 Area	BR (65%), BG (25%), PARTEX (10%)
BM-S-11	RJS-628 Area	BR (65%), BG (25%), PETROGAL (10%)
BM-S-17		BR (100%)
BM-S-21		BR (80%), PETROGAL (20%)
BM-S-22		ESSO (40%), AMERADA (40%), BR (20%)
BM-S-24		BR (80%), PETROGAL (20%)
BM-S-42		BR (100%)
BM-S-50		BR (60%), BG (20%), REPSOL (20%)
BM-S-52		BR (60%), BG (40%)



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May 22, 2008



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