

PETROBRAS (ADR) NYSE-PBR

RECENT PRICE **18.43** P/E RATIO **4.1** (Trailing: 4.4 Median: NMF) RELATIVE P/E RATIO **0.40** DIV'D YLD **0.8%** VALUE LINE

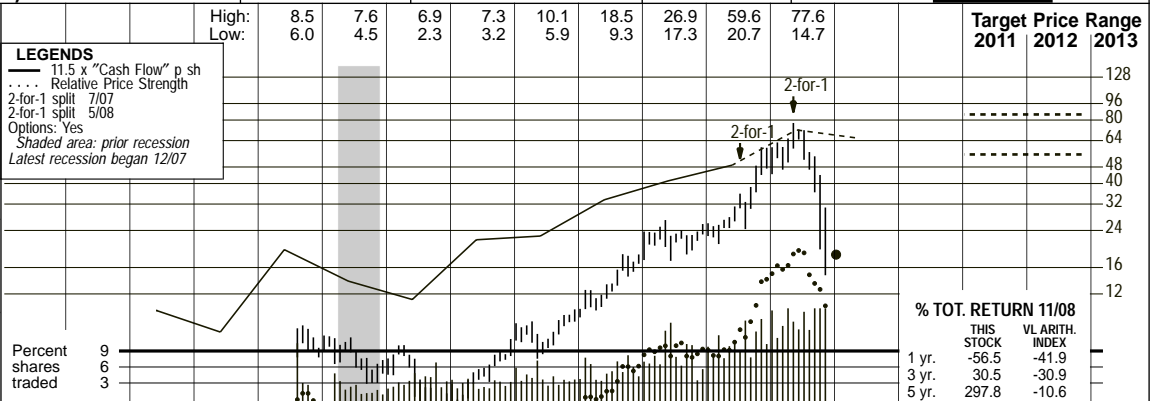
TIMELINESS 3 Lowered 9/26/08
SAFETY 3 New 12/22/00
TECHNICAL 4 Raised 10/3/08
BETA 1.75 (1.00 = Market)

LEGENDS
 --- 11.5 x "Cash Flow" p sh
 Relative Price Strength
 2-for-1 split 7/07
 2-for-1 split 5/08
 Options: Yes
 Shaded area: prior recession
 Latest recession began 12/07

2011-13 PROJECTIONS
 Ann'l Total
 Price Gain Return
 High 85 (+360%) 48%
 Low 55 (+200%) 33%

Insider Decisions
 J F M A M J J A S
 to Buy 0 0 0 0 0 0 0 0 0
 Options 0 0 0 0 0 0 0 0 0
 to Sell 0 0 0 0 0 0 0 0 0

Institutional Decisions
 1Q2008 2Q2008 3Q2008
 to Buy 282 317 265
 to Sell 175 210 296
 Hld's(000) 574201 570169 518262



Petroleo Brasileiro, commonly referred to as Petrobras, was established in 1953 as the Brazilian state petroleum monopoly. In recent years, a gradual deregulation and privatization program has lessened the state's authority over the industry, culminating in the elimination of statutory price controls on January 1, 2002. However, the government still owns a majority of Petrobras' common (voting) stock. On August 10, 2000, the government sold 153.5 million common shares to support an initial public offering (led by Merrill Lynch) of an equal number of ADR's.

CAPITAL STRUCTURE as of 9/30/08
 Total Debt \$24,812 mill. Due in 5 Yrs \$9,800 mill.
 LT Debt \$18,713 mill. LT Interest \$1,250 mill.
 (20% of Capital)

Stock 4,387,038,370 shares
 2,536,673,672 common shs. (voting)
 1,850,364,698 participating preferred shs. (nonvoting; ann'l div'd equal to 5% of paid-in cap'l).

MARKET CAP: \$80.9 billion (Large Cap)

CURRENT POSITION (\$MILL.)	2006	2007	9/30/08
Cash Assets	13034	7254	5876
Receivables	6311	6538	8926
Inventory (Avg Cst)	6573	9231	13701
Other	5037	6117	5719
Current Assets	30955	29140	34222
Accts Payable	5418	7816	9188
Debt Due	5812	4650	6099
Other	10556	12002	12323
Current Liab.	21786	24468	27610

ANNUAL RATES Past 10 Yrs. of change (per ADR)	Past 5 Yrs.	Est'd '05-'07 to '11-'13
Sales	23.5%	13.0%
"Cash Flow"	22.5%	10.5%
Earnings	25.5%	9.0%
Dividends	-5.0%	7.0%
Book Value	33.0%	12.5%

Cal-endar	QUARTERLY SALES (\$ mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2005	10734	12694	14633	18263	56324
2006	17557	17875	18958	17957	72347
2007	18400	20564	23447	25324	87735
2008	26342	33495	35580	34603	130020
2009	32000	32000	32000	32000	128000

Cal-endar	EARNINGS PER ADR ^B				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2005	.43	.46	.55	.82	2.26
2006	.71	.73	.74	.57	2.75
2007	.49	.99	.87	.64	2.99
2008	1.02	1.42	1.30	1.11	4.85
2009	1.05	1.05	1.05	1.00	4.15

Cal-endar	QUARTERLY DIVIDENDS PAID ^C				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2004	.221	.078	--	--	.30
2005	.250	--	--	--	.25
2006	--	.150	--	--	.15
2007	--	.190	--	--	.19
2008	--	.040	--	--	

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	VALUE LINE, INC. 11-13
Translation Rate (R/\$) A	1.21	1.81	1.95	2.40	3.54	2.90	2.66	2.33	2.14	1.77	1.85	1.90	1.92
Sales per ADR	3.55	3.77	6.20	5.65	5.20	7.02	9.27	12.84	16.49	20.00	29.65	29.20	34.20
"Cash Flow" per ADR	.87	.69	1.70	1.20	.98	1.88	1.96	2.92	3.59	4.26	6.25	5.70	6.55
Earnings per ADR B	.06	.17	1.23	.80	.53	1.48	1.40	2.26	2.75	2.99	4.85	4.15	4.50
Div's Decl'd per ADR C	.04	.07	.11	.36	.29	.34	.30	.25	.15	.19	.04	.15	.35
Cap'l Spending per ADR	1.38	1.00	.82	.98	1.13	1.49	1.76	2.36	3.34	4.78	5.45	5.65	6.30
Book Value per ADR	3.52	2.47	3.38	3.05	2.14	3.99	5.13	7.50	13.30	14.86	17.10	18.25	23.95
Equiv. ADRs Outst'g D	4344.4	4344.4	4344.4	4344.4	4344.4	4386.2	4386.2	4386.2	4387.0	4387.0	4387.0	4387.0	4387.0
Avg Ann'l P/E Ratio	--	--	5.8	7.6	8.7	3.4	5.7	6.0	8.1	11.1	11.1	11.1	15.5
Relative P/E Ratio	--	--	.38	.39	.48	.19	.30	.32	.44	.59	.59	.59	1.05
Avg Ann'l Div'd Yield	--	--	1.5%	5.9%	6.3%	6.8%	3.7%	1.8%	.7%	.6%	.6%	.6%	.5%
Sales (\$mill)	15411	16358	26955	24549	22612	30797	40677	56324	72347	87735	130020	128000	150000
Operating Margin	19.3%	37.6%	42.5%	38.5%	38.6%	40.8%	42.3%	35.3%	33.9%	33.5%	37.0%	36.0%	37.0%
Depreciation (\$mill)	3408.0	2262.0	2022.0	1729.0	1951.0	1785.0	2481.0	2926.0	3673.0	5544.0	6200	6800	9000
Net Profit (\$mill)	378.0	727.0	5342.0	3491.0	2311.0	6480.5	6129.7	9883.5	12064	13138	21275	18205	19750
Income Tax Rate	--	26.3%	32.3%	29.0%	35.7%	28.2%	25.0%	30.4%	29.7%	30.5%	31.0%	31.5%	35.0%
Net Profit Margin	2.5%	4.4%	19.8%	14.2%	10.2%	21.0%	15.1%	17.5%	16.7%	15.0%	16.4%	14.2%	13.2%
Working Cap'l (\$mill)	d1940	d1399	2886.0	6282.0	3252.0	6679.0	6048.0	7633.0	9169.0	4672.0	6600	6000	6200
Long-Term Debt (\$mill)	5684.0	5878.0	6203.0	7838.0	8894.0	18196	12145	15132	15526	17245	18700	18400	24500
Shr. Equity (\$mill)	15291	10722	14705	13247	9301.0	17519	22506	32917	58329	65179	75000	80000	105000
Return on Total Cap'l	2.5%	5.4%	26.6%	18.0%	14.6%	19.8%	19.9%	21.6%	17.1%	16.2%	23.5%	19.0%	16.0%
Return on Shr. Equity	2.5%	6.8%	36.3%	26.4%	24.8%	37.0%	27.2%	30.0%	20.7%	20.2%	28.5%	23.0%	19.0%
Retained to Com Eq	3%	3.9%	32.8%	13.5%	14.1%	28.4%	21.4%	26.7%	19.6%	18.9%	28.0%	22.0%	17.5%
All Div'd's to Net Prof	89%	43%	10%	49%	43%	23%	21%	11%	5%	6%	1%	4%	8%

BUSINESS: Petroleo Brasileiro S.A. (Petrobras) is an integrated petroleum company, primarily operating in Brazil and other parts of South America, but increasingly diversifying into North America and Europe. Daily production in 2007: 1.9 million barrels of oil and 2.3 billion cubic feet of natural gas. Production costs totaled \$13.9 billion in 2007; exploration costs were \$1.4 billion. Crude oil net

proved reserves at 12/31/07: 9.6 billion barrels. Natural gas net proved reserves at 12/31/07: 12.5 trillion cubic feet. It also owns and operates 11 refineries in Brazil. President and Chief Executive Officer: Jose Sergio Gabrielli, Inc.: Brazil. Address: Avenida Republica do Chile 65, Rio de Janeiro, RJ, 20035-900, Brazil. Telephone: 55 (21) 534-1510. Internet: www.petrobras.com.br.

Petrobras delivered very strong results through the first nine months of 2008. That was attributable, in part, to higher pricing for oil and oil products. Furthermore, production was boosted by the Espadarte, Golfinho, and Roncador operations. And by the end of this year, three new systems are scheduled to come on stream in the Jabuti, Marlim Sul, and Marlim Leste fields, which ought to lift production capacity by roughly 460,000 barrels per day. Reduced expenses from the company's pension plan and favorable exchange rate effects also helped Petrobras, to a certain degree.

Nonetheless, earnings per ADR could still jump 62% (to \$4.85) in 2008. But the bottom line stands to be substantially lower next year, since it appears that challenging business conditions will persist for a while.

"Pre-salt" areas located off the coast of Brazil provide a solid foundation for the company's future growth. Recently, oil production commenced from a well in the Jubarte field in the Campos Basin. Output here is expected to reach 18,000 barrels per day. What's more, a consortium established by Petrobras (which owns 65%) and other entities discovered an estimated three to four billion barrels of light oil and natural gas in the Santos Basin.

The neutrally ranked stock has taken a nosedive over the past several months, as oil prices have fallen sharply. Disruption in the equity market has made matters worse.

But we see compelling price-recovery possibilities here. Investors able to exercise patience may want to consider these shares.

Frederick L. Harris, III December 12, 2008

There have been some headwinds of late, though. For one thing, oil prices have dropped substantially from their peak levels last summer, reflecting a slowdown in economic growth. To further complicate matters, the global financial crisis has worsened, which seems to be hindering the company's ability to finance projects. Indeed, management announced recently that it is revising the "Strategic Plan". We note, however, that Petrobras has a good rating (A) for Financial Strength.

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(A) At yearend. (B) U.S. GAAP weighted average EPS based on a two-class method, with net income allocated evenly to common and participating preferred shares, provided preferred dividend requirement is met. Proforma prior to '00. Next earnings report due Feb.	(C) Net amt. Div. payment date(s) are scheduled at meeting held in late March. Excludes interest on capital and special cash dividend. (D) Sum of common and participating preferred shares, in millions. Includes split.	Company's Financial Strength	A
		Stock's Price Stability	30
		Price Growth Persistence	75
		Earnings Predictability	55

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