Moody's Investors Service

Global Credit Research
Announcement
2 FEB 2009

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Moody's Comments on Petrobras Capital Plan

New York, February 02, 2009 -- Moody's Investors Service commented that Petrobras's A2 GLCR and Baa1 FCBR will not be affected by the company's announced increase in its five-year spending plan and its substantial projected debt financing needs in 2009 and 2010. Petrobras recently announced a revised long-term capital plan for 2009-2013 totaling US$174.4 billion, a 55% increase over the prior plan. The increase is primarily driven by higher exploration and development spending for large pre-salt discoveries. Accompanying the increased spending plan is a much larger projected financing need which, on a preliminary basis, the company estimates could reach more than $18 billion per year in each of 2009 and 2010, including debt amortizations and new debt incurred.

We have not changed Petrobras's BCA of 8 (equivalent to Baa1) over a period of substantial and successful growth in reserves, production and oil exports, as well as debt reduction by the company. We believe that a large portion of the debt increase can be accommodated within the company's current BCA. In addition, Petrobras expects to show sizable increases in production from large developments currently underway, which at least for the next few years exclude any major contribution from pre-salt production. The elements of government support that underpin the company's A2 GLCR and Baa1 FCBR also continue to be in effect. Petrobras's resources are of national strategic importance to Brazil and the government, in addition to stepping in with support via long-term BNDES financing, will continue to play a major role managing the development of Petrobras's reserves and evolution of the pre-salt resources.

In a highly uncertain oil and gas pricing environment, the $174.4 billion capital investment plan for the next five years reflects significant proportional increases in almost every area of Petrobras's operations. New projects account for almost $50 billion of the increase, the bulk of which are in upstream exploration and production, but sizable investments are also planned in the downstream. Total estimated upstream spending is increased by 60% over the prior 2008 plan to almost $105 billion, which includes for the first time some $60 billion in exploration and development for the Tupi pilot system and three other pre-salt systems in the Tupi, Iara and Guare fields in the Santos and Campos basins.

Capital spending is budgeted at approximately $28 billion in 2009 and higher in 2010. The cash flow deficits and implied financing needs will be large and well in excess of our earlier estimates of $8-$10 billion in incremental debt financing for Petrobras in 2009. We estimate that the additional debt could push Petrobras's proforma TD/Capitalization to over 40% by year-end 2010 (using Moody's standard debt adjustments). The company views the projected leverage increases at the upper end of its targeted leverage comfort range of 25%-35%.

The potential leverage increase are substantial and Petrobras faces sizable challenges both in arranging financing and relating to geology, technology, access to materials, rigs and services, staging of development, and the political environment. However, Moody's believes it is too early to determine the potential negative impact on Petrobras's A2 GLCR and Baa1 FCBR, given the uncertainty over commodity prices and the evolution of capital spending and debt levels, particularly in the next two to three years. In addition, the company has the flexibility to adjust capital spending and other means to manage leverage in response to changing industry conditions.

Moody's will continue to closely monitor Petrobras's capital spending and debt levels, its record on meeting its production and development targets, and the larger operating and political environment as development of the pre-salt progresses in the coming years.

The last rating action affecting Petrobras was on August 23, 2007, when its forein currency bond rating was upgraded to Baa1. The principal methodologies used in rating Petrobras are Moody's Global Integrate Oil rating methodology and The Application of Joint Default Analysis to Government-Related Issuers, both of which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered can also be found in the Credit Policy & Methodologies directory.

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