

Rating: Buy
S&P 500: 1382

ConocoPhillips

Volume Growth Adjusted for Debt and Shares

Symbol	COP	Ebitda Next Twelve Months ending 9/30/07 (US\$mm)	31,500
Rating	Buy	North American Natural Gas/Ebitda (%)	13
Price (US\$/sh)	62.75	Natural Gas and Oil Production/Ebitda (%)	70
Pricing Date	10/25/06	Adjusted Reserves/Production NTM	11.0
Shares (mm)	1676	EV/Ebitda	4.8
Market Capitalization (US\$mm)	105,200	PV/Ebitda	6.7
Debt (US\$mm)	45,000	Undeveloped Reserves (%)	28
Enterprise Value (EV) (US\$mm)	150,000	Natural Gas and Oil Ebitda (US\$/boe)	24.20
Present Value (PV) (US\$mm)	212,200	Present Value Proven Reserves(US\$/boe)	12.73
Net Present Value (US\$/share)	100	Present Value Proven Reserves(US\$/mcfe)	2.12
Debt/Present Value	0.21	Earnings Next Twelve Months (US\$/sh)	7.61
McDep Ratio - EV/PV	0.71	Price/Earnings Next Twelve Months	8
Dividend Yield (%/year)	2.3	Indicated Annual Dividend (US\$/sh)	1.44

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

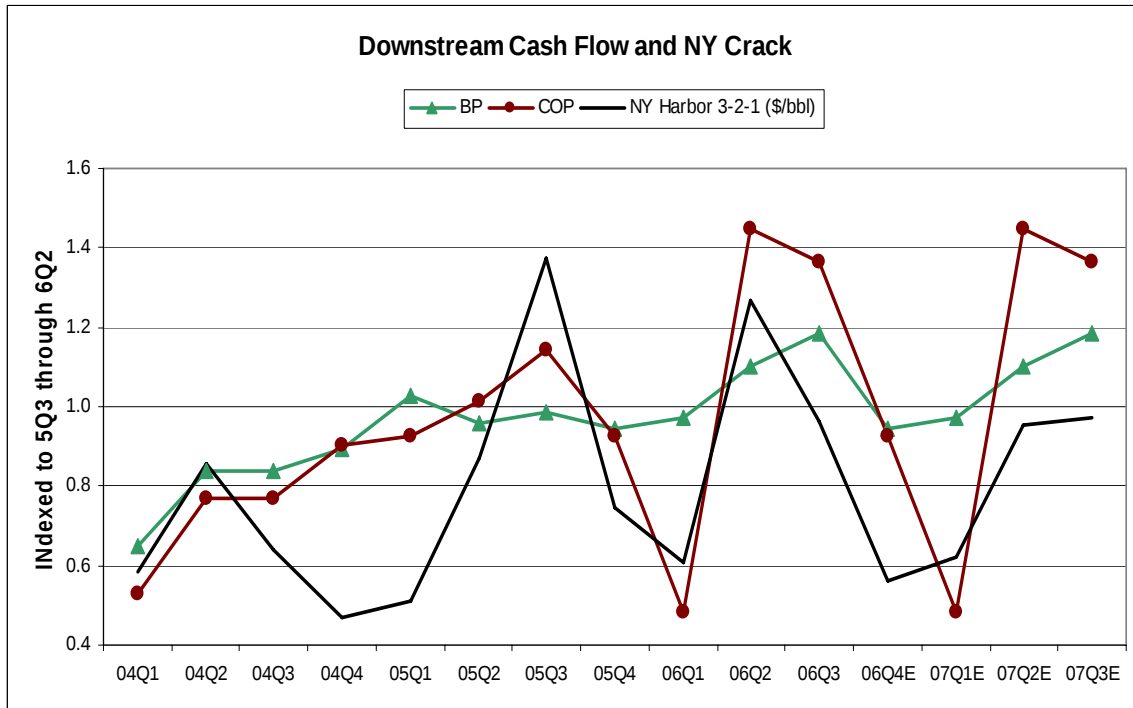
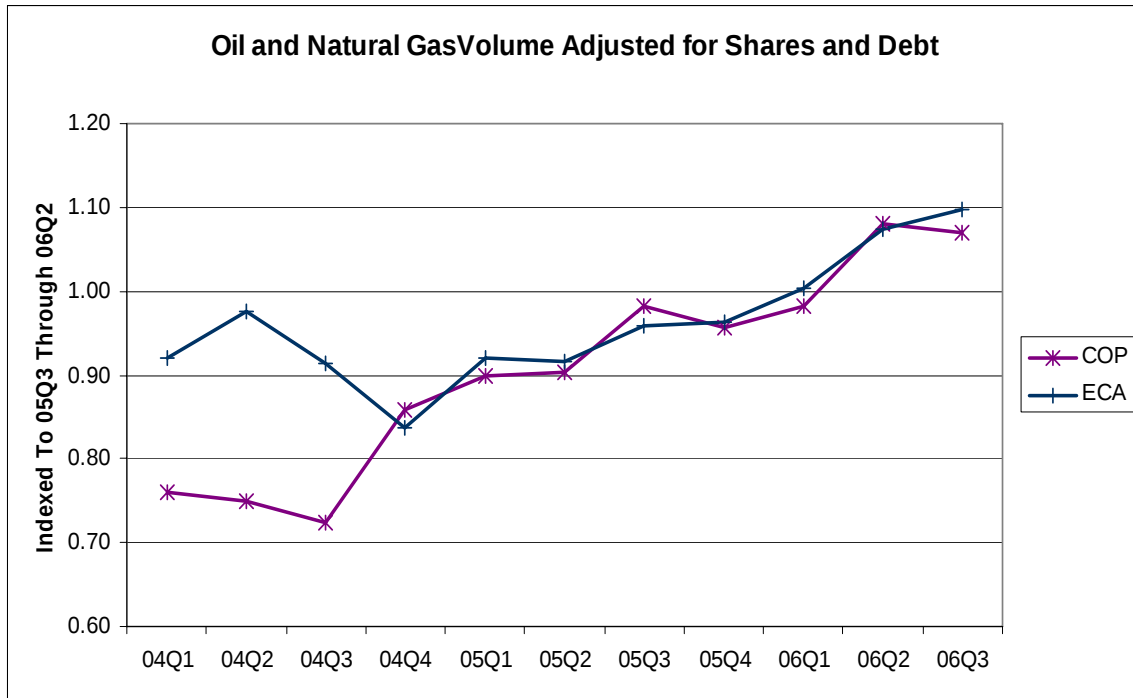
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Estimated present value presumes a long-term price for oil of US\$60 a barrel and natural gas, \$10 a million btu.

Summary and Recommendation

Buy-recommended **ConocoPhillips (COP)** at a McDep Ratio of 0.71 offers unlevered appreciation potential of 42% to estimated present value. Futures investors who price oil at \$67 a barrel for delivery over the next six years seem to validate estimated present value that presumes a long-term oil price of \$60 a barrel. Oil and gas production volume adjusted for shares and debt has been advancing sharply thanks to the investment in buy-recommended **Lukoil (LUKOY)** and the acquisition of Burlington Resources, but dipped in the third quarter reported on October 25 (see chart). Downstream cash flow though volatile appears to be in a rising trend (see chart). The cash flow implications of latest corporate results narrow the previous widely positive comparison of our estimate of present value with that from a correlation with some thirty natural gas and oil producers (see table on page 4). Stock price below the 200-day average confirms that COP is currently out of favor with investors. On the contrary, we favor COP stock at a double weighting in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean energy to support global growth.

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ConocoPhillips
Next Twelve Months Operating and Financial Estimates

	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	9/30/05	6/30/06	9/30/06	12/31/06	2006E	3/31/07	6/30/07	9/30/07	9/30/07
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	1,820	3,632	3,597	3,597	3,175	3,597	3,597	3,597	3,597
Overseas (or Int'l)	1,289	1,876	1,790	1,790	1,793	1,876	1,876	1,790	1,833
Total	3,109	5,508	5,387	5,387	4,968	5,473	5,473	5,387	5,430
Oil (mbd)	1,269	1,619	1,574	1,574	1,527	1,574	1,574	1,574	1,574
Total gas & oil (bcf)	987	1,385	1,364	1,364	5,157	1,343	1,357	1,364	5,429
Total gas & oil (mbd)	1,787	2,537	2,472	2,472	2,355	2,486	2,486	2,472	2,479
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.56	6.81	6.58	6.30	7.17	8.19	7.61	7.81	7.48
U.S. (or North America)	7.49	5.68	5.80	5.56	5.93	6.59	6.12	6.28	6.13
Overseas (or Int'l)	4.81	6.18	6.12	6.12	6.36	6.12	6.12	6.12	6.12
Total	6.38	5.85	5.91	5.74	6.08	6.43	6.12	6.23	6.13
Oil (\$/bbl)									
WTI Cushing	62.52	70.47	70.42	58.64	65.71	61.56	63.85	65.29	62.34
Worldwide	55.04	61.52	62.30	51.88	58.16	53.46	55.45	56.70	53.87
Total gas & oil (\$/mcf)	8.36	8.66	8.76	7.59	8.42	8.00	8.10	8.28	7.99
NY Harbor 3-2-1 (\$/bbl)	16.70	15.39	11.67	6.84	10.32	7.57	11.57	11.80	9.44
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	1,255	1,876	1,921	1,839	6,872	2,134	2,003	2,079	8,054
Overseas (or Int'l)	570	1,056	1,008	1,008	4,160	1,034	1,045	1,008	4,096
Total	1,825	2,932	2,929	2,847	11,031	3,168	3,048	3,088	12,151
Oil	6,426	9,063	9,021	7,512	32,416	7,573	7,943	8,210	31,238
Other	41,408	36,481	37,953	37,953	151,171	37,953	37,953	37,953	151,811
Total	49,659	48,476	49,903	48,312	194,618	48,694	48,944	49,251	195,200
Expense									
Fixed	923	1,200	1,540	1,540	5,224	1,050	1,050	1,050	4,690
Variable	2,770	3,599	4,621	4,006	15,058	4,153	4,250	4,369	16,777
Other	38,808	33,192	34,853	35,853	141,582	36,853	34,664	34,853	142,222
Ebitda (\$mm)									
Exploration and Production	4,558	7,197	5,789	4,813	23,165	5,538	5,691	5,880	21,922
Other	2,600	3,289	3,100	2,100	9,589	1,100	3,289	3,100	9,589
Total Ebitda	7,158	10,486	8,889	6,913	32,754	6,638	8,980	8,980	31,511
Exploration	140	134	197	197	640	200	200	200	797
Deprec., Deplet., & Amort.	1,049	1,965	2,211	2,211	7,567	2,211	2,211	2,211	8,844
Other non cash	-	50	217	217	484	150	150	150	667
Ebit	5,969	8,337	6,264	4,288	24,063	4,077	6,419	6,419	21,203
Interest	122	360	308	308	1,091	422	422	422	1,574
Ebt	5,847	7,977	5,956	3,980	22,972	3,655	5,997	5,997	19,629
Income Tax	2,046	2,792	2,085	1,393	8,040	1,279	2,099	2,099	6,870
Net Income (\$mm)									
Exploration and Production	2,555	3,290	2,391		8,483				
Other	1,491	1,907	1,775		4,339				
Unallocated	(246)	(12)	(294)		(478)				
Total	3,800	5,185	3,872	2,587	14,932	2,376	3,898	3,898	12,759
Shares (millions)	1,418	1,678	1,676	1,676	1,608	1,676	1,676	1,676	1,676
Per share (\$)	2.68	3.09	2.31	1.54	9.28	1.42	2.33	2.33	7.61
Ebitda Margin (E&P)	55%	60%	48%	46%	53%	52%	52%	52%	51%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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ConocoPhillips
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>	
North American Natural Gas	4,070	11.5	8.6	35,000	16%
Rest of World Natural Gas	2,070	13.2	7.7	16,000	8%
Oil	15,780	10.4	7.1	112,000	53%
Downstream	9,590		5.2	50,000	23%
	31,510	11.0	6.8	213,000	100%
Debt (US\$mm)				45,000	
Net Present Value (US\$mm)				168,000	
Shares (mm)				1,676	
Net Present Value - Standard Estimate (US\$/sh)				100	
Net Present Value - Approximation by Correlation (US\$/sh)				108	

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