

Rating: Buy
 S&P 500: 1316

PetroChina Company Ltd.

Future Natural Gas and Downstream Profits

<i>Symbol</i>	PTR	<i>Ebitda Twelve Months ending 12/30/07 (US\$m)</i>	41,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	106.15	<i>Natural Gas and Oil Production/Ebitda (%)</i>	91
<i>Pricing Date</i>	9/14/06	<i>Adjusted Reserves/Production NTM</i>	14.7
<i>Shares (mm)</i>	1790	<i>EV/Ebitda</i>	4.8
<i>Market Capitalization (US\$m)</i>	190,000	<i>PV/Ebitda</i>	6.3
<i>Debt (US\$m)</i>	10,000	<i>Undeveloped Reserves (%)</i>	36
<i>Enterprise Value (EV) (US\$m)</i>	200,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	34.25
<i>Present Value (PV) (US\$m)</i>	260,000	<i>Present Value Proven Reserves(US\$/boe)</i>	12.08
<i>Net Present Value (US\$/share)</i>	140	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.01
<i>Debt/Present Value</i>	0.04	<i>Earnings Next Twelve Months (US\$/sh)</i>	11.35
<i>McDep Ratio - EV/PV</i>	0.77	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	4.5	<i>Indicated Annual Dividend (US\$/sh)</i>	4.82

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.

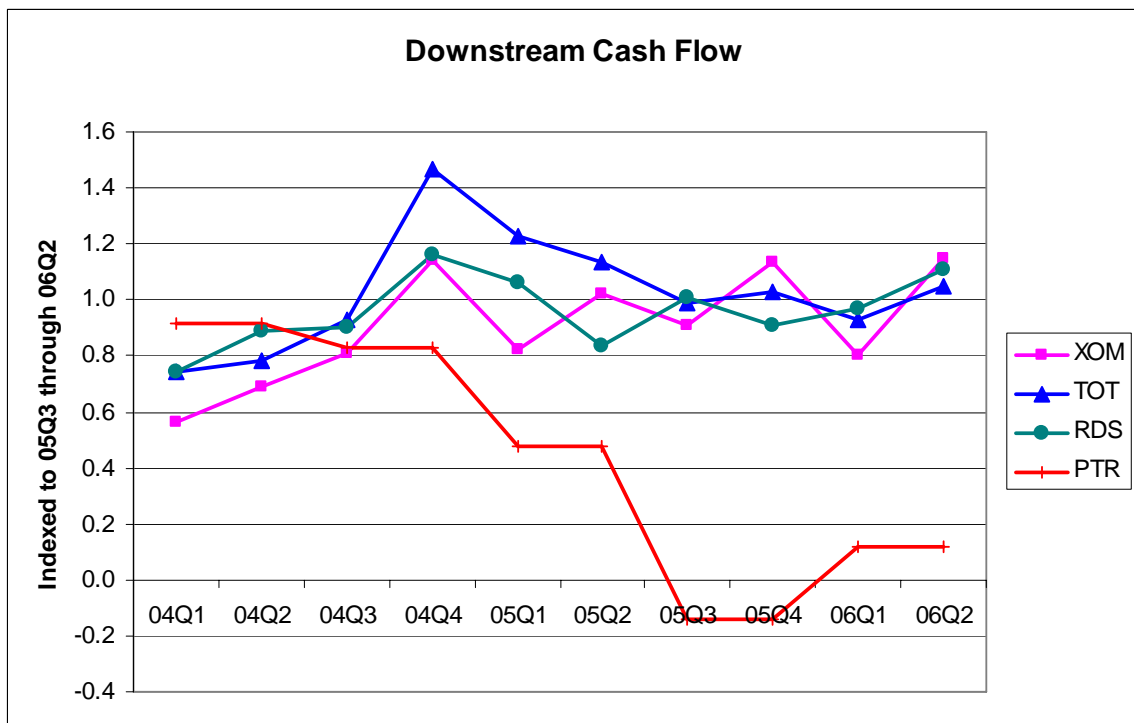
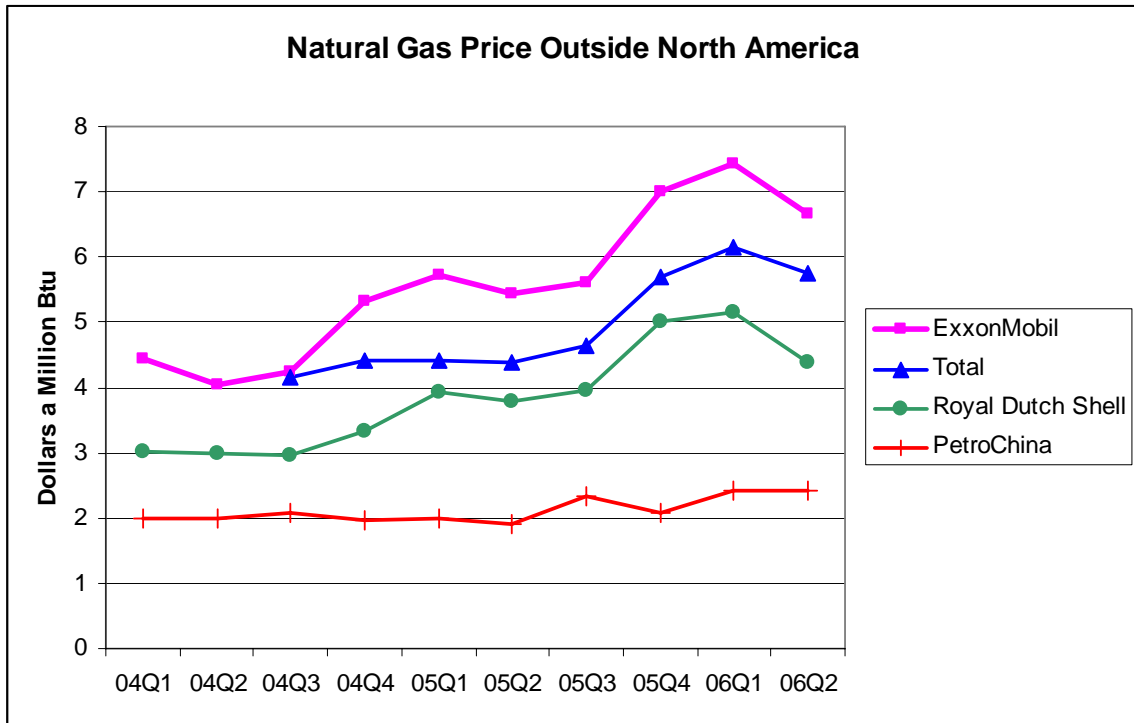
The Peoples Republic of China holds 90% of the outstanding shares.

Summary and Recommendation

Projected 2007 cash flow for buy-recommended **PetroChina Company Ltd. (PTR)** could be some 20% higher, about half from natural gas and half from downstream, if we credited the company with a competitive natural gas price and normal refining margins. The 90% government-owned company reports a natural gas price of just a third to a half of the amount reported by mega cap producers (see chart). Downstream cash flow that ought to be perhaps 20% of crude oil cash flow has declined to almost nil from two years ago (see chart). Price controls on natural gas and oil products may meet short-term political demands, but are likely to be lifted ultimately. Meanwhile crude oil production has provided ample cash flow to justify the company's stock price performance despite an excise tax expected to be temporary. Volumes, primarily from the giant Daqing field, have been surprisingly strong and oil reserves apparently are growing. The stock offers prospective 32% appreciation to estimated net present value (NPV) of \$140 a share that presumes a long-term benchmark crude oil price of \$60 a barrel as well as continued natural gas and downstream profits below the global norm.

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PetroChina
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
Natural Gas	2,400	23.1	8.8	21,000	8%
Oil	35,000	12.2	6.2	218,000	84%
Downstream	3,800		5.8	22,000	8%
	41,200	14.7	6.3	261,000	100%
Debt (US\$mm)					10,000
Net Present Value (US\$mm)					251,000
Shares (mm)					1,790
Net Present Value - Standard Estimate (US\$/sh)					140
Net Present Value - Approximation by Correlation (US\$/sh)					154

PetroChina Company Limited
Half-Yearly Financial Results

	<i>H2</i>	<i>Year</i>	<i>H1</i>	<i>H2E</i>	<i>Year</i>	<i>H1E</i>	<i>H2E</i>	<i>Twelve</i>
	<i>12/31/05</i>	<i>2005</i>	<i>6/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>6/30/07</i>	<i>12/31/07</i>	<i>Months</i>
								<i>12/31/07</i>
NY Harbor 3-2-1 (\$/bbl)	12.88	10.63	11.39	8.45	9.92	10.25	11.46	9.35
Revenue (RMB)								
Upstream (from quarterly table)	205,481	355,958	215,275	217,961	433,236	215,189	224,894	433,150
Downstream Value Added	94,259	196,271	111,270	126,270	237,540	126,270	126,270	252,540
Total	299,740	552,229	326,545	344,231	670,776	341,459	351,164	685,689
Expense	162,939	295,054	175,640	179,732	355,372	178,346	183,199	358,079
Ebitda (RMB)								
Exploration and Production	140,029	249,194	148,156	149,498	297,654	148,112	152,965	297,611
Other	(3,228)	7,981	2,749	15,000	17,749	15,000	15,000	30,000
Total	136,801	257,175	150,905	164,498	315,403	163,112	167,965	327,611
Exploration	7,038	15,566	8,750	8,750	17,500	8,750	8,750	17,500
Deprec., Deplet., & Amort.	25,514	51,305	29,910	29,910	59,820	29,910	29,910	59,820
Other non cash								
Ebit	104,249	190,304	112,245	125,838	238,083	124,452	129,305	250,291
Interest	1,577	2,762	889	889	1,778	889	889	1,778
Ebt	102,672	187,542	111,356	124,949	236,305	123,563	128,416	248,513
Income Tax	30,934	54,180	30,675	43,732	74,407	43,247	44,946	86,979
Net Income (RMB)								
Exploration and Production	123,387	208,080	124,452		124,452			
Other	(13,565)	(12,721)	(9,159)		(9,159)			
Unallocated	(38,084)	(61,997)	(34,612)		(34,612)			
Total	71,738	133,362	80,681	81,217	161,898	80,316	83,470	161,533
Shares (millions)	1,778	1,769	1,790	1,790	1,790	1,790	1,790	1,790
Earnings per share (RMB)	40.35	75.40	45.07	45.37	90.45	44.87	46.63	90.24
Ebitda Margin (E&P)	68%	70%	69%	69%	69%	69%	68%	69%
Tax Rate	30%	29%	28%	35%	31%	35%	35%	35%

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PetroChina Company Limited
Quarterly Operations

	<i>Q3</i>	<i>Year</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Twelve</i>
	<i>9/30/05</i>	<i>2005</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>Months</i>
									<i>12/31/07</i>
Volume									
Natural gas (bcf)	257	1,152	325	340	389	1,413	359	389	1,470
Natural Gas (mmcf)	2,793	3,156	3,566	3,694	4,225	3,872	3,900	4,225	4,028
Days	92	365	91	92	92	365	92	92	365
Oil (mmb)	199	842	211	214	214	846	214	214	848
Oil (mbd)	2,161	2,307	2,323	2,323	2,323	2,319	2,323	2,323	2,323
Total gas & oil (mmb)	242	1,034	265	270	279	1,082	274	279	1,093
Total gas & oil (mbd)	2,626	2,833	2,917	2,939	3,027	2,964	2,973	3,027	2,994
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.56	8.65	6.81	6.58	6.47	7.21	7.44	8.61	7.99
Company	2.34	2.08	2.43	2.43	2.43	2.43	2.43	2.43	2.43
Oil (\$/bbl)									
WTI Cushing	62.52	56.31	70.47	70.66	64.18	67.16	69.35	69.83	68.61
Company	55.19	48.88	62.71	62.88	57.11	59.48	61.72	62.14	61.07
Total gas & oil (\$/bbl)	47.89	42.12	52.91	52.76	47.22	49.71	51.42	51.08	50.65
Revenue (\$mm)									
Natural Gas	600	2,396	789	826	945	3,434	872	945	3,573
Oil	10,972	41,157	13,257	13,440	12,206	50,350	13,191	13,281	51,784
Total	11,572	43,553	14,046	14,265	13,151	53,785	14,063	14,226	55,356
Total(RMB)	94,155	355,958	116,080	113,410	104,551	433,236	111,800	113,094	440,083
RMB/\$US	8.14	8.17	8.01	7.95	7.95	8.06	7.95	7.95	7.95

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