

Rating: Buy
S&P 500: 1278
Intraday

Anadarko Petroleum Corporation **Favorable Volume Trend**

| | | | |
|---------------------------------------|---------|--|-------|
| <i>Symbol</i> | APC | <i>Ebitda Next Twelve Months ending 6/30/07 (US\$mm)</i> | 9,870 |
| <i>Rating</i> | Buy | <i>North American Natural Gas/Ebitda (%)</i> | 49 |
| <i>Price (US\$/sh)</i> | 44.52 | <i>Natural Gas and Oil Production/Ebitda (%)</i> | 97 |
| <i>Pricing Date</i> | 7/28/06 | <i>Adjusted Reserves/Production NTM</i> | 11.2 |
| <i>Shares (mm)</i> | 463 | <i>EV/Ebitda</i> | 5.2 |
| <i>Market Capitalization (US\$mm)</i> | 20,600 | <i>PV/Ebitda</i> | 6.7 |
| <i>Debt (US\$mm)</i> | 30,400 | <i>Undeveloped Reserves (%)</i> | 36 |
| <i>Enterprise Value (EV) (US\$mm)</i> | 51,000 | <i>Natural Gas and Oil Ebitda (US\$/boe)</i> | 38.00 |
| <i>Present Value (PV) (US\$mm)</i> | 66,100 | <i>Present Value Proven Reserves(US\$/boe)</i> | 18.03 |
| <i>Net Present Value (US\$/share)</i> | 77 | <i>Present Value Proven Reserves(US\$/mcf)</i> | 3.01 |
| <i>Debt/Present Value</i> | 0.46 | <i>Earnings Next Twelve Months (US\$/sh)</i> | 6.98 |
| <i>McDep Ratio - EV/PV</i> | 0.77 | <i>Price/Earnings Next Twelve Months</i> | 6 |
| <i>Dividend Yield (%/year)</i> | 1.6 | <i>Indicated Annual Dividend (US\$/sh)</i> | 0.72 |

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

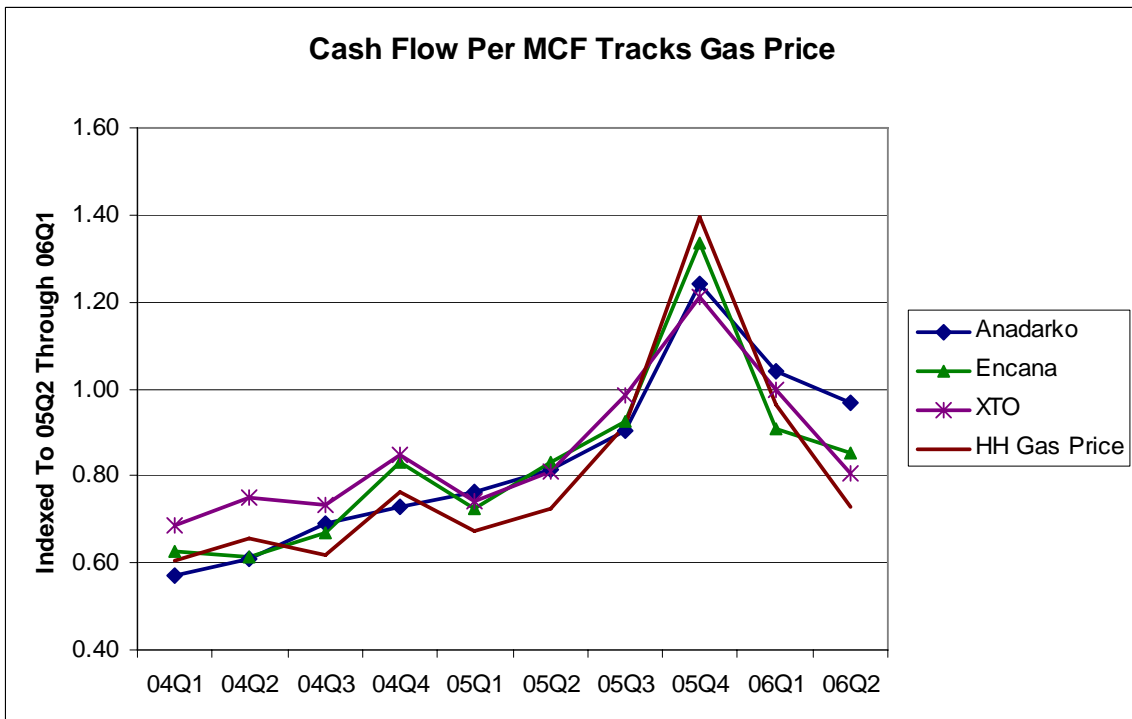
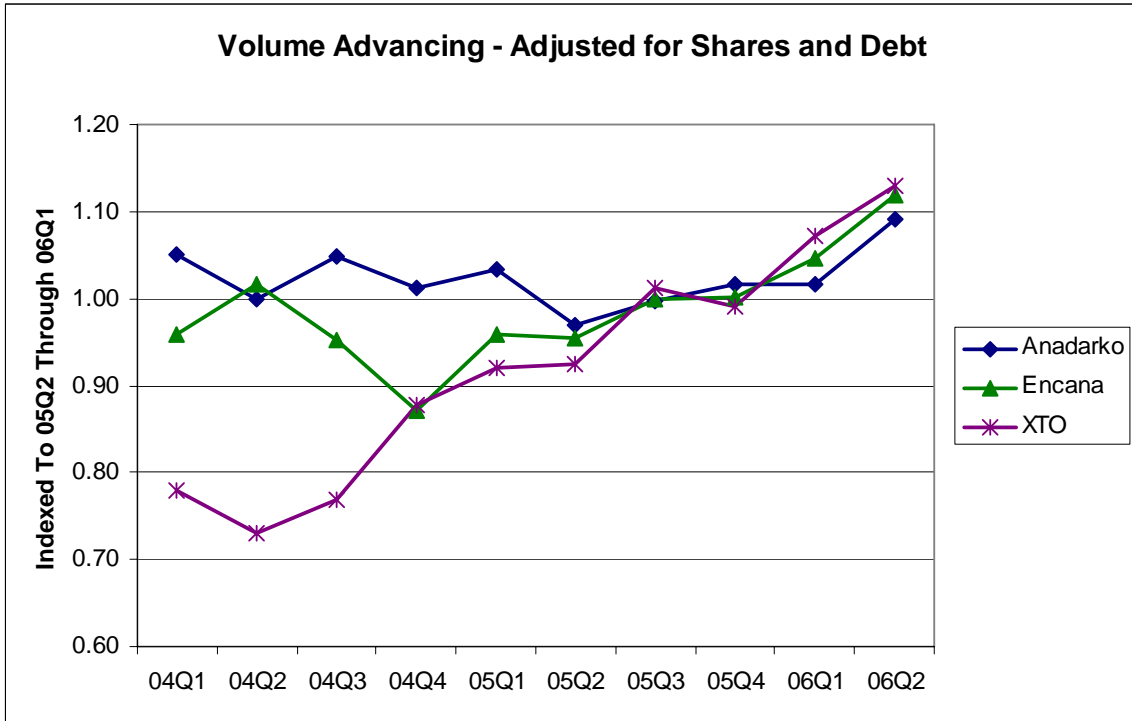
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Summary and Recommendation

Newly producing wells in the deep water Gulf of Mexico helped second quarter 2006 oil volume advance 14% from the first quarter for buy-rated **Anadarko Petroleum (APC)**. Continued volume increases could put the company on the growth track adjusted for shares and debt registered by strong peers (see chart). Concentration on oil at about 40% of value moderates the sensitivity of cash flow to natural gas price (see chart). Meanwhile the quarter just ended is likely the last before the pending acquisitions of **Kerr-McGee (KMG)** and **Western Gas Resources (WGR)** add about 50% in present value. Stock price appreciation potential of 73% to estimated net present value of \$77 a share presuming a long-term oil price of \$60 a barrel could be misleading because the company's high degree of leverage poses high financial risk until acquisitions, divestitures and eventual deleveraging are achieved.

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Anadarko Petroleum Corporation
Next Twelve Months Operating and Financial Estimates

| | <i>Q2</i> | <i>Year</i> | <i>Q1</i> | <i>Q2</i> | <i>Q3E</i> | <i>Q4E</i> | <i>Year</i> | <i>Q1E</i> | <i>Next</i> |
|----------------------------|----------------|--------------|----------------|----------------|----------------|-----------------|---------------|----------------|----------------|
| | <i>6/30/05</i> | <i>2005</i> | <i>3/31/06</i> | <i>6/30/06</i> | <i>9/30/06</i> | <i>12/31/06</i> | <i>2006E</i> | <i>3/31/07</i> | <i>Twelve</i> |
| | | | | | | | | | <i>Months</i> |
| | | | | | | | | | <i>6/30/07</i> |
| Volume | | | | | | | | | |
| Natural Gas (mmcf) | 1,434 | 1,414 | 1,366 | 1,375 | 2,488 | 2,488 | 1,934 | 2,488 | 2,488 |
| Oil (mbd) | 188 | 199 | 191 | 218 | 297 | 297 | 251 | 297 | 297 |
| Total gas & oil (bcf) | 233 | 951 | 226 | 244 | 393 | 393 | 1,256 | 384 | 1,558 |
| Total gas & oil (mmcf) | 2,562 | 2,606 | 2,512 | 2,683 | 4,270 | 4,270 | 3,441 | 4,270 | 4,270 |
| Price | | | | | | | | | |
| Natural gas (\$/mcf) | | | | | | | | | |
| Henry Hub (\$/mmbtu) | 6.76 | 8.65 | 8.97 | 6.81 | 6.71 | 8.82 | 7.83 | 10.79 | 8.72 |
| Company (\$/mcf) | 6.07 | 7.45 | 7.62 | 6.26 | 5.84 | 7.68 | 6.71 | 10.33 | 7.49 |
| Oil (\$/bbl) | | | | | | | | | |
| WTI Cushing | 53.05 | 56.31 | 63.33 | 70.47 | 74.56 | 76.42 | 71.19 | 77.76 | 76.72 |
| Worldwide | 44.43 | 46.28 | 54.85 | 60.17 | 64.12 | 65.72 | 62.00 | 66.87 | 65.97 |
| Total gas & oil (\$/mcf) | 6.51 | 7.49 | 8.36 | 7.89 | 7.82 | 8.99 | 8.45 | 10.06 | 9.12 |
| Revenue (\$mm) | | | | | | | | | |
| Natural Gas | 758 | 3,844 | 948 | 732 | 1,320 | 1,736 | 4,737 | 2,077 | 6,800 |
| Oil | 760 | 3,357 | 943 | 1,194 | 1,752 | 1,796 | 5,684 | 1,787 | 7,152 |
| Other | 72 | (79) | 63 | | 65 | 65 | 193 | 65 | 260 |
| Total | 1,590 | 7,121 | 1,954 | 1,926 | 3,138 | 3,597 | 10,614 | 3,930 | 14,212 |
| Expense | | | | | | | | | |
| Fixed | 215 | 856 | 258 | 241 | 491 | 491 | 1,481 | 491 | 1,963 |
| Variable | 215 | 856 | 258 | 241 | 491 | 606 | 1,596 | 689 | 2,378 |
| Ebitda (\$mm) | | | | | | | | | |
| Exploration and Production | 1,159 | 5,409 | 1,438 | 1,444 | 2,091 | 2,436 | 7,408 | 2,685 | 9,611 |
| Other | | - | | | 65 | 65 | 130 | 65 | 260 |
| Ebitda (\$mm) | 1,159 | 5,409 | 1,438 | 1,444 | 2,156 | 2,501 | 7,538 | 2,750 | 9,871 |
| Deprec., Deplet., & Amort. | 333 | 1,343 | 360 | 362 | 650 | 650 | 2,022 | 650 | 2,600 |
| Hedging and other | | 19 | 13 | 5 | 40 | 42 | 100 | 44 | 174 |
| Ebit | 826 | 4,047 | 1,065 | 1,077 | 1,466 | 1,809 | 5,416 | 2,056 | 7,097 |
| Interest | 50 | 201 | 51 | 51 | 532 | 532 | 1,166 | 532 | 2,128 |
| Ebt | 776 | 3,846 | 1,014 | 1,026 | 934 | 1,277 | 4,250 | 1,524 | 4,969 |
| Income Tax | 272 | 1,346 | 355 | 359 | 327 | 447 | 1,488 | 533 | 1,739 |
| Net Income (\$mm) | 505 | 2,500 | 659 | 667 | 607 | 830 | 2,763 | 991 | 3,230 |
| Shares (millions) | 476 | 473 | 464 | 463 | 463 | 463 | 463 | 463 | 463 |
| Per share (\$) | 1.06 | 5.28 | 1.42 | 1.44 | 1.31 | 1.79 | 5.96 | 2.14 | 6.98 |
| Ebitda Margin | 73% | 76% | 74% | 75% | 69% | 70% | 71% | 70% | 69% |
| Tax Rate | 35% | 35% | 35% | 35% | 35% | 35% | 35% | 35% | 35% |

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Anadarko Petroleum Corporation
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> | |
| North American Natural Gas | 4,810 | 11.6 | 7.8 | 37,400 | 57% |
| Oil | 4,800 | 10.8 | 5.6 | 26,700 | 40% |
| Downstream | 260 | | 7.7 | 2,000 | |
| | 9,870 | 11.2 | 6.7 | 66,100 | 100% |
| Debt (US\$mm) | | | | | 30,400 |
| Net Present Value (US\$mm) | | | | | 35,700 |
| Shares (mm) | | | | | 463 |
| Net Present Value - Standard Estimate (US\$/sh) | | | | | 77 |
| Net Present Value - Approximation by Correlation (US\$/sh) | | | | | 78 |

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