

Rating: Buy
S&P 500: 1385

Anadarko Petroleum Corporation

Hedging and Deleveraging

<i>Symbol</i>	APC	<i>Ebitda Next Twelve Months ending 9/30/07 (US\$mm)</i>	7,500
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	47
<i>Price (US\$/sh)</i>	46.99	<i>Natural Gas and Oil Production/Ebitda (%)</i>	95
<i>Pricing Date</i>	11/7/06	<i>Adjusted Reserves/Production NTM</i>	11.5
<i>Shares (mm)</i>	463	<i>EV/Ebitda</i>	6.2
<i>Market Capitalization (US\$mm)</i>	21,800	<i>PV/Ebitda</i>	7.9
<i>Debt (US\$mm)</i>	24,900	<i>Undeveloped Reserves (%)</i>	37
<i>Enterprise Value (EV) (US\$mm)</i>	46,600	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	31.34
<i>Present Value (PV) (US\$mm)</i>	59,600	<i>Present Value Proven Reserves(US\$/boe)</i>	16.75
<i>Net Present Value (US\$/share)</i>	75	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.79
<i>Debt/Present Value</i>	0.42	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.13
<i>McDep Ratio - EV/PV</i>	0.78	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	1.5	<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.

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

For historical analysis of APC since 2003 see www.mcdep.com/1apc.htm

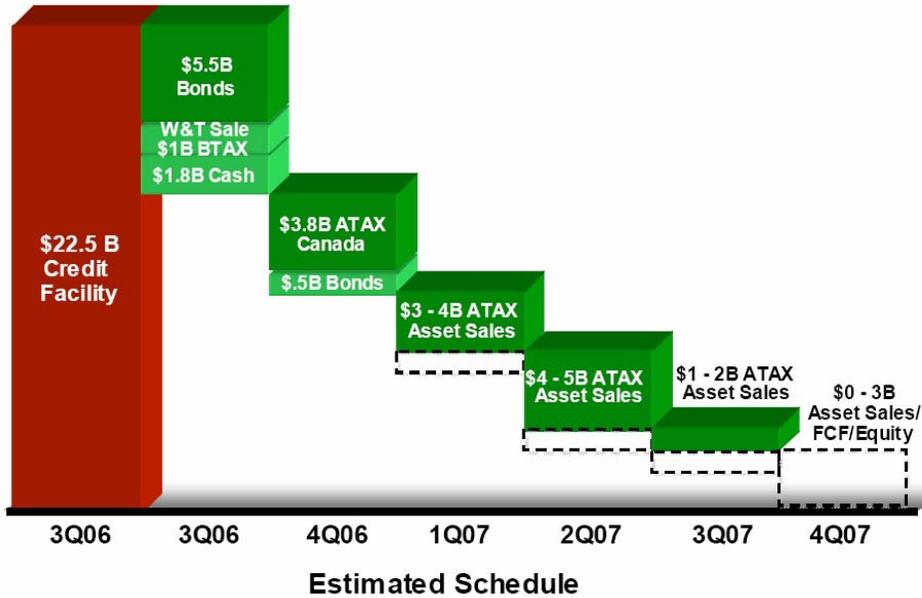
Summary and Recommendation

Buy-recommended **Anadarko Petroleum (APC)** at a McDep Ratio of 0.78 offers unlevered appreciation potential of 28% to estimated present value. Reporting on November 7, Anadarko disclosed more than a billion dollars in profits from financial and operating oil and gas commodity hedges in the third quarter. Those gains combined with achieved and projected asset sales help reassure investors that the company can navigate safely through its high risk repositioning (see graphic [Financing Plan](#)). The lack of a consistent trend in volume per share adjusted for debt is a consequence of trading assets of different characteristics to find the mix that eventually translates to a steady pattern (see chart [Oil and Natural Gas Volume](#)). Making broad assumptions in our projections and comparisons we see that our standard estimate of Net Present Value is exceeded by that from correlating the rate of production relative to reserves with present value as a multiple of cash flow for some thirty natural gas and oil producers (see table [Functional Cash Flow and Present Value](#)). Nearing the 200-day average price signifying a stock that may be returning to favor, APC has a full weighting in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean fuel for global growth.

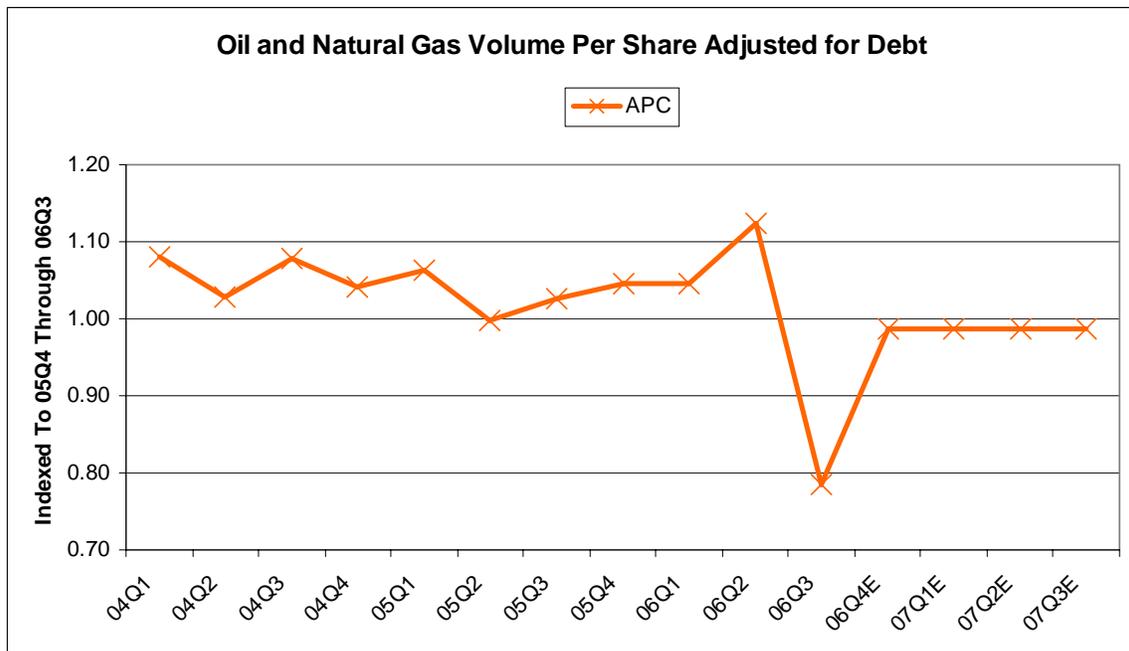
Kurt H. Wulff, CFA

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3 quarter **Review** **De-Leveraging / Re- Financing Plan** ANADARKO PETROLEUM CORPORATION



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Anadarko Petroleum Corporation
Next Twelve Months Operating and Financial Estimates

	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>9/30/05</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>6/30/07</i>	<i>9/30/07</i>	<i>9/30/07</i>
Volume									
Natural Gas (mmcf)	1,382	1,375	1,639	2,199	1,647	2,199	2,199	2,199	2,199
Oil (mbd)	196	218	248	289	237	289	289	289	289
Total gas & oil (bcf)	235	244	288	362	1,120	354	358	362	1,436
Total gas & oil (mmcf)	2,558	2,683	3,127	3,933	3,068	3,933	3,933	3,933	3,933
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.56	6.81	6.58	6.29	7.16	8.01	7.54	7.75	7.40
Company (\$/mcf)	7.15	6.26	6.03	5.76	6.03	8.07	7.60	7.81	6.36
Oil (\$/bbl)									
WTI Cushing	62.52	70.47	70.42	59.63	65.96	62.91	65.38	66.80	63.68
Worldwide	48.51	60.17	60.99	51.64	56.70	54.48	56.63	57.86	55.15
Total gas & oil (\$/mcf)	7.69	7.89	7.80	6.82	7.62	7.85	7.79	7.98	7.61
Revenue (\$mm)									
Natural Gas	936	732	853	1,093	3,627	1,362	1,297	1,349	5,101
Oil	875	1,194	1,392	1,373	4,901	1,417	1,489	1,538	5,818
Other	(55)		1,253	1,253	2,569	1,253	1,253	1,253	5,013
Total	1,756	1,926	3,498	3,720	11,098	4,032	4,040	4,140	15,932
Expense									
Fixed	226	241	493	493	1,486	493	493	493	1,974
Variable	226	241	1,480	1,536	3,516	1,614	1,616	1,641	6,407
Ebitda (\$mm)									
Exploration and Production	1,303	1,444	1,459	1,603	5,944	1,806	1,811	1,876	7,097
Other			65	100	165	100	100	100	400
Ebitda (\$mm)	1,303	1,444	1,524	1,703	6,109	1,906	1,911	1,976	7,497
Deprec., Deplet., & Amort.	334	362	546	600	1,868	600	600	600	2,400
Hedging and other		5	(388)		(370)	-	-	-	-
Ebit	969	1,077	1,367	1,103	4,611	1,306	1,311	1,376	5,097
Interest	50	51	209	360	671	360	360	360	1,440
Ebt	919	1,026	1,158	743	3,940	946	951	1,016	3,657
Income Tax	322	359	347	260	1,321	331	333	356	1,280
Net Income (\$mm)	597	667	810	483	2,619	615	618	661	2,377
Shares (millions)	476	463	463	463	463	463	463	463	463
Per share (\$)	1.26	1.44	1.75	1.04	5.65	1.33	1.34	1.43	5.13
Ebitda Margin (E&P)	72%	75%	65%	65%	55%	65%	65%	65%	47%
Tax Rate	35%	35%	30%	35%	34%	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	3,500	11.8	9.4	33,000	55%
Oil	3,600	11.1	6.8	24,600	41%
Downstream	400		5.0	2,000	3%
	7,500	11.5	7.9	59,600	100%
Debt (US\$mm)					24,900
Net Present Value (US\$mm)					34,700
Shares (mm)					463
Net Present Value - Standard Estimate (US\$/sh)					75
Net Present Value - Approximation by Correlation (US\$/sh)					82

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