

Rating: Buy
 S&P 500: 1302

CNOOC Limited Burst of Cash Flow

<i>Symbol</i>	CEO	<i>Ebitda Next Twelve Months ending 6/30/07 (US\$mm)</i>	9,200
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	84.09	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	4/25/06	<i>Adjusted Reserves/Production NTM</i>	10.0
<i>Shares (mm)</i>	411	<i>EV/Ebitda</i>	3.8
<i>Market Capitalization (US\$mm)</i>	34,600	<i>PV/Ebitda</i>	3.8
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	51
<i>Enterprise Value (EV) (US\$mm)</i>	34,600	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	52.14
<i>Present Value (PV) (US\$mm)</i>	34,500	<i>Present Value Proven Reserves(US\$/boe)</i>	14.61
<i>Net Present Value (US\$/share)</i>	84	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.44
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/sh)</i>	12.96
<i>McDep Ratio - EV/PV</i>	1.00	<i>Price/Earnings Next Twelve Months</i>	6
<i>Dividend Yield (%/year)</i>	3.1	<i>Indicated Annual Dividend (US\$/sh)</i>	2.58

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 71% of the outstanding shares.

Summary and Recommendation

Buy-recommended **CNOOC Limited (CEO)** is currently producing record volumes of oil offshore China at record oil price. Strong revenues for the first quarter of 2006 reported on April 25 point to higher estimates of future cash flow and present value. By our correlation of present value with adjusted reserve life and twelve months cash flow, our estimate of net present value of \$84 a share may be low. The estimate also presumes a long-term oil price of \$50 a barrel. Meanwhile the futures price for oil delivered over the next six years continues in a multi-year uptrend with the current quote at \$72. Present value is concentrated 88% on oil for the leading independent producer in a country consuming the most incremental global supply.

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	400	26.4	10.8	4,300	12%
Oil	8,800	7.2	3.4	30,200	88%
	9,200	10.0	3.8	34,500	100%
Debt (US\$mm)				-	
Net Present Value (US\$mm)				34,500	
Shares (mm)				411	
Net Present Value - Standard Estimate (US\$/sh)				84	
Net Present Value - Approximation by Correlation (US\$/sh)				99	

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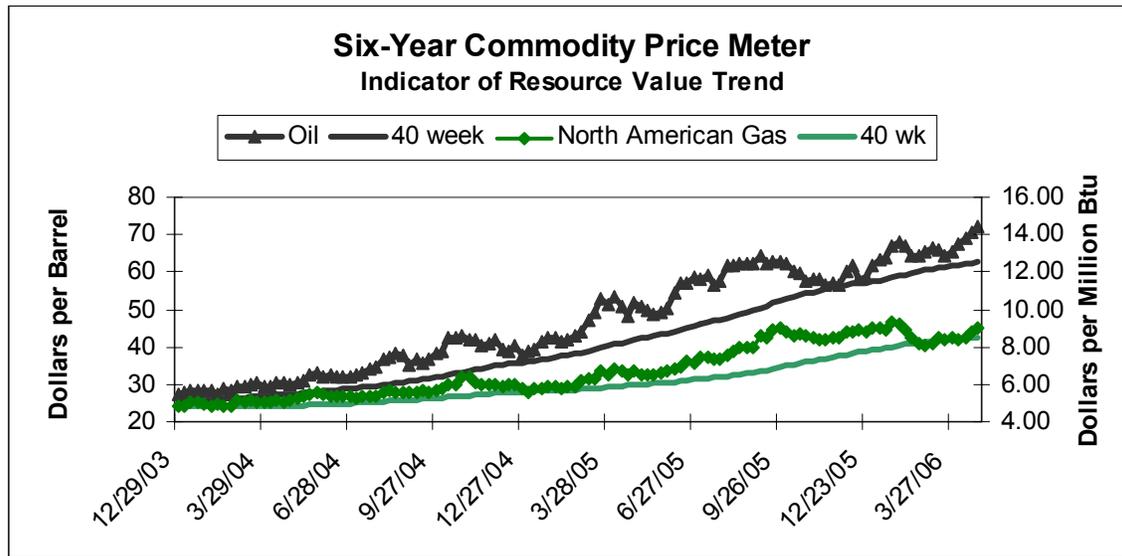
CNOOC Limited
Quarterly Operations

	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Twelve</i>
	<i>3/31/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>2006E</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>Months</i>
									<i>6/30/07</i>
Volume									
Natural gas (bcf)	31	40	142	35	36	147	38	39	153
Natural Gas (mmcf)	348	433	390	390	398	402	422	431	418
Days	90	92	365	90	91	365	90	91	365
Oil (mmb)	32	34	130	35	36	144	37	39	150
Oil (mbd)	352	365	358	384	392	396	416	424	412
Total gas & oil (bcf)	221	241	925	242	250	1,013	262	271	1,054
Total gas & oil (mbd)	410	437	423	449	458	463	486	496	481
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.27	13.00	8.65	8.97	7.53	8.68	11.99	9.67	9.97
Company	2.69	2.52	2.77	3.10	3.10	3.10	3.10	3.10	3.10
Oil (\$/bbl)									
WTI Cushing	49.65	60.02	56.31	63.33	72.20	71.66	75.97	75.68	75.69
Company	40.91	51.67	47.31	58.13	66.27	65.91	69.73	69.46	69.48
Total gas & oil (\$/mcf)	6.23	7.61	7.10	8.73	9.90	9.84	10.39	10.35	10.35
Revenue (\$mm)									
Natural Gas	84	100	395	109	112	455	118	121	473
Oil	1,296	1,735	6,174	2,009	2,362	9,521	2,608	2,680	10,438
Other									
Total	1,380	1,836	6,569	2,118	2,474	9,976	2,726	2,801	10,911
RMB/\$	8.28			8.06					

CNOOC Limited
Half-Year Financial Results

	<i>H1</i>	<i>H2</i>	<i>Year</i>	<i>H1E</i>	<i>H2E</i>	<i>Year</i>	<i>H1E</i>	<i>Twelve</i>
	<i>6/30/05</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>Months</i>
								<i>6/30/07</i>
Revenue (mmRMB)								
Natural Gas (from Q table)	1,478	1,704	3,182	1,782	1,885	3,668	1,929	3,815
Oil (from Q table)	21,956	27,833	49,790	35,251	41,531	76,782	42,649	84,180
Other	1,300	929	2,228	929	929	1,857	929	1,857
Total	24,734	30,466	55,200	37,962	44,345	82,307	45,507	89,851
Expense								
Fixed	1,484	3,400	4,883	3,400	3,400	6,800	3,400	6,800
Variable	1,484	3,400	4,883	4,263	4,997	9,260	5,131	10,128
Ebitda	20,467	22,738	43,205	29,371	35,019	64,390	36,047	71,067
Exploration	611	600	1,211	1,000	1,000	2,000	1,000	2,000
Deprec., Deplet., & Amort.	2,787	2,732	5,519	2,732	2,732	5,464	2,732	5,464
Ebit	17,069	19,406	36,475	25,639	31,287	56,926	32,315	63,603
Interest	-	-	-	-	-	-	-	-
Ebt	17,069	19,406	36,475	25,639	31,287	56,926	32,315	63,603
Income Tax	5,143	5,835	10,978	8,974	10,951	19,924	11,310	22,261
Net Income	11,926	13,571	25,497	16,665	20,337	37,002	21,005	41,342
Shares (millions)	41,124	41,124	41,124	41,124	41,124	41,124	41,124	41,124
Per share (RMB)	0.29	0.33	0.62	0.41	0.49	0.90	0.51	1.01
Ebitda Margin	83%	75%	78%	77%	79%	78%	79%	79%
Tax Rate	30%	30%	30%	35%	35%	35%	35%	35%

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