

Rating: Buy
 S&P 500: 1378

CNOOC Limited

Future Growth in Natural Gas

<i>Symbol</i>	CEO	<i>Ebitda Twelve Months ending 12/30/07 (US\$mm)</i>	6,300
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	83.49	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/30/06	<i>Adjusted Reserves/Production NTM</i>	10.6
<i>Shares (mm)</i>	411	<i>EV/Ebitda</i>	5.5
<i>Market Capitalization (US\$mm)</i>	34,300	<i>PV/Ebitda</i>	6.4
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	51
<i>Enterprise Value (EV) (US\$mm)</i>	34,300	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	37.69
<i>Present Value (PV) (US\$mm)</i>	40,300	<i>Present Value Proven Reserves(US\$/boe)</i>	17.07
<i>Net Present Value (US\$/share)</i>	98	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.84
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.28
<i>McDep Ratio - EV/PV</i>	0.85	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	3.4	<i>Indicated Annual Dividend (US\$/sh)</i>	2.84

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.

The Peoples Republic of China holds 66% of the outstanding shares.

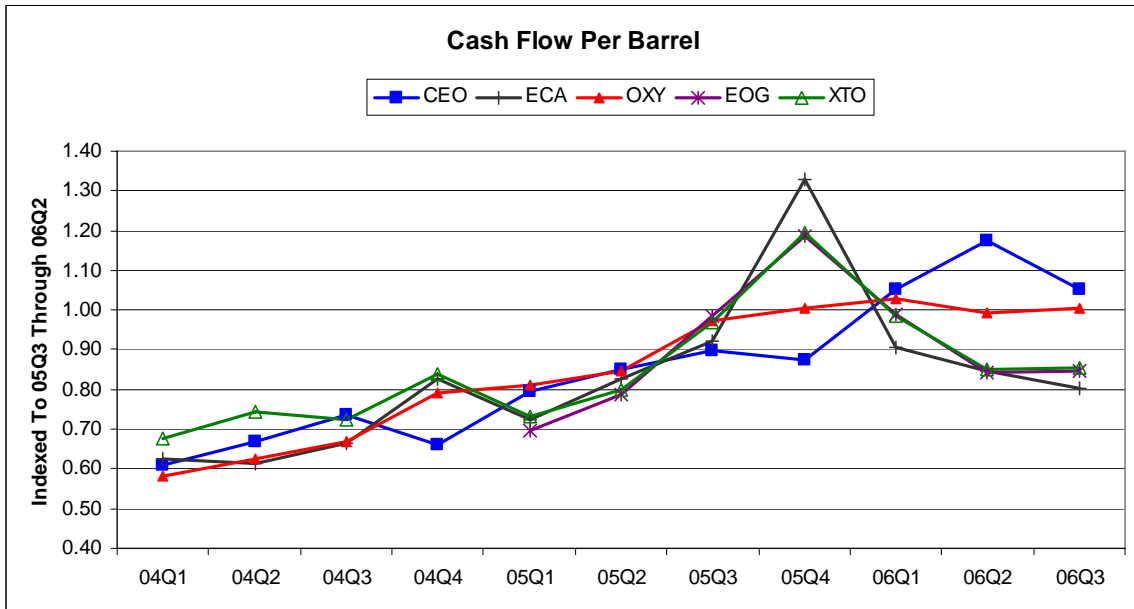
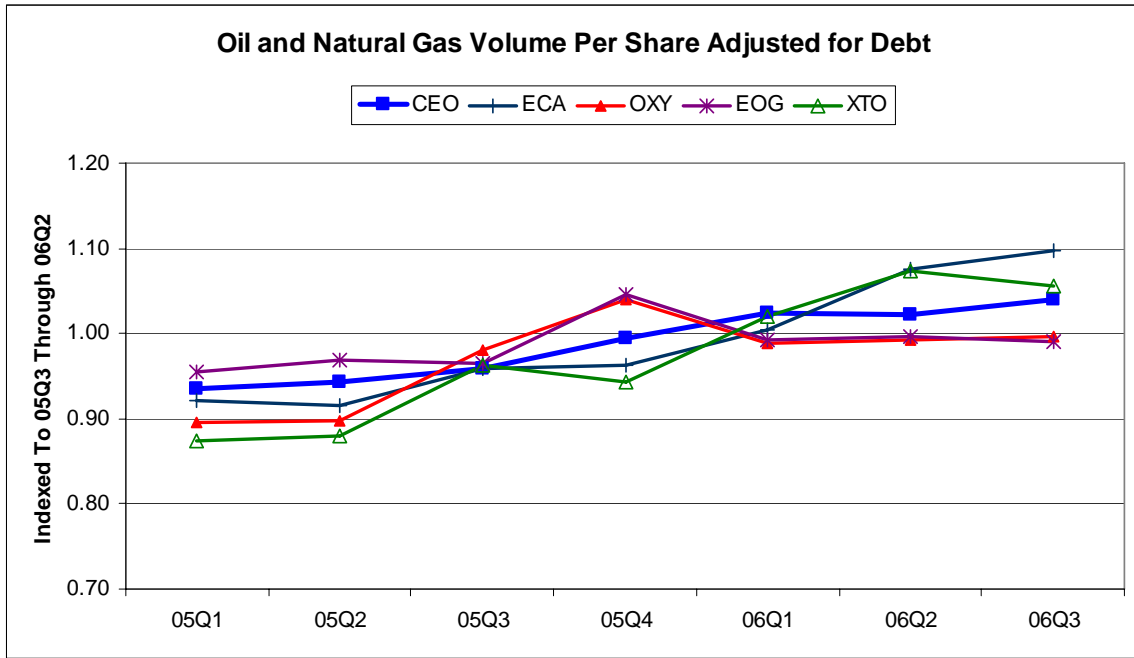
For historical research on this stock since 2001 see <http://www.mcdep.com/4ceo.htm>

Summary and Recommendation

Buy-recommended **CNOOC Limited (CEO)** at a McDep Ratio of 0.85 offers unlevered appreciation potential of 17% to estimated present value. Futures prices for oil averaging \$65 a barrel for delivery over the next six years seem to validate estimated present value. Third quarter operations reported on October 31 confirm that oil and gas production volume per share adjusted for debt advances at a median rate of growth among five peers (see chart). Most concentrated on oil revenue, CEO has outpaced peers in cash flow per barrel equivalent (see chart). Yet the future for CEO is in natural gas where a large recent discovery has been made by partner Husky in the South China Sea and reserve life is longest. Correlating the rate of production relative to reserves with present value as a multiple of cash flow makes our estimate for CEO look comparable to that for some thirty natural gas and oil producers (see table on page 3). Above the 200-day average price signifying positive momentum, CNOOC stock 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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CNOOC Limited
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>	
Natural Gas	470	21.9	9.1	4,300	11%
Oil	5,830	8.0	6.2	36,000	89%
	6,300	10.6	6.4	40,300	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					40,300
Shares (mm)					411
Net Present Value - Standard Estimate (US\$/sh)					98
Net Present Value - Approximation by Correlation (US\$/sh)					103

CNOOC Limited
Quarterly Operations

	<i>Q3</i> <i>9/30/05</i>	<i>Q2</i> <i>6/30/06</i>	<i>Q3</i> <i>9/30/06</i>	<i>Q4E</i> <i>12/31/06</i>	<i>Year</i> <i>2006E</i>	<i>Q1E</i> <i>3/31/07</i>	<i>Q2E</i> <i>6/30/07</i>	<i>Q3E</i> <i>9/30/07</i>	<i>Q4E</i> <i>12/31/07</i>	<i>Twelve</i> <i>Months</i> <i>12/31/07</i>
Volume										
Natural gas (bcf)	38	43	46	46	171	45	46	46	46	184
Natural Gas (mmcf)	410	467	505	505	467	505	505	505	505	505
Days	92	91	92	92	365	90	91	92	92	365
Oil (mmb)	33	34	34	34	137	33	34	34	34	136
Oil (mbd)	356	371	372	372	375	372	372	372	372	372
Total gas & oil (bcf)	234	245	252	252	991	246	249	252	252	999
Total gas & oil (mbd)	424	449	456	456	453	456	456	456	456	456
Price										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	8.56	6.81	6.58	6.39	7.19	8.46	7.77	7.96	8.54	8.18
Company	2.94	3.23	3.39	3.39	3.29	3.39	3.39	3.39	3.39	3.39
Oil (\$/bbl)										
WTI Cushing	62.52	70.47	70.42	59.22	65.86	63.02	65.19	66.49	67.31	65.50
Company	52.40	70.82	61.78	51.95	59.63	55.29	57.19	58.33	59.05	57.48
Total gas & oil (\$/mcf)	7.80	9.76	9.02	7.69	8.79	8.14	8.40	8.55	8.65	8.44
Revenue (\$mm)										
Natural Gas	111	137	157	157	561	154	156	157	157	625
Oil	1,716	2,252	2,114	1,778	8,154	1,851	1,936	1,996	2,021	7,804
Other										
Total	1,827	2,389	2,272	1,936	8,715	2,005	2,092	2,154	2,178	8,429
RMB/\$	8.14	8.01	7.97	7.87		7.87	7.87	7.87	7.87	
Revenue (RMB)										
Natural Gas	903	1,099	1,255	1,240	4,470	1,213	1,226	1,240	1,240	4,918
Oil	13,970	18,041	16,851	13,993	65,058	14,568	15,237	15,711	15,904	61,420
Other										
Total	14,873	19,139	18,107	15,233	69,527	15,780	16,463	16,951	17,144	66,338
Ebitda Margin	75%	78%	76%	76%		75%	75%	76%	76%	

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CNOOC Limited
Half-Year 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>
Revenue (mmRMB)								
Natural Gas (from Q table)	1,714	3,192	1,975	2,495	4,470	2,439	2,479	4,933
Oil (from Q table)	27,990	49,946	34,213	30,845	65,058	29,804	31,616	60,649
Other	762	2,062	(713)		(713)	-		-
Total	30,466	55,200	35,475	33,340	68,815	32,243	34,095	65,583
Expense								
Fixed	3,483	4,967	4,247	4,247	8,493	4,247	4,247	8,493
Variable	3,483	4,967	4,247	3,912	8,159	3,784	4,001	7,696
Ebitda	22,738	43,205	27,694	25,181	52,875	24,213	25,847	49,393
Exploration	600	1,211	709	709	1,418	709	709	1,418
Deprec., Deplet., & Amort.	2,732	5,519	3,366	3,366	6,732	3,366	3,366	6,732
Ebit	19,406	36,475	23,619	21,106	44,725	20,138	21,772	41,243
Interest	-	-	-	-	-	-	-	-
Ebt	19,406	36,475	23,619	21,106	44,725	20,138	21,772	41,243
Income Tax	5,835	10,978	7,581	7,387	14,968	7,048	7,620	14,435
Net Income	13,571	25,497	16,038	13,719	29,757	13,089	14,152	26,808
Shares (millions)	41,124	41,124	41,124	41,124	41,124	41,124	41,124	41,124
Per share (RMB)	0.33	0.62	0.39	0.33	0.72	0.32	0.34	0.65
Ebitda Margin	75%	78%	78%	76%	77%	75%	76%	75%
Tax Rate	30%	30%	32%	35%	33%	35%	35%	35%

Disclaimer: This analysis was prepared by Kurt Wulff doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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Research Methodology/Ratings Description: McDep Associates is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.

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