

Rating: Buy
 S&P 500: 1230

ConocoPhillips Refining and Natural Gas Event

<i>Symbol</i>	COP	<i>Ebitda Next Twelve Months ending 9/30/06 (US\$mm)</i>	30,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	12
<i>Price (US\$/sh)</i>	66.39	<i>Natural Gas and Oil Production/Ebitda (%)</i>	69
<i>Pricing Date</i>	9/6/05	<i>Adjusted Reserves/Production NTM</i>	11.2
<i>Shares (mm)</i>	1419	<i>EV/Ebitda</i>	4.0
<i>Market Capitalization (US\$mm)</i>	94,200	<i>PV/Ebitda</i>	5.6
<i>Debt (US\$mm)</i>	25,000	<i>Undeveloped Reserves (%)</i>	29
<i>Enterprise Value (EV) (US\$mm)</i>	119,200	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	32.20
<i>Present Value (PV) (US\$mm)</i>	166,900	<i>Present Value Proven Reserves(US\$/boe)</i>	13.63
<i>Net Present Value (US\$/share)</i>	100	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.27
<i>Debt/Present Value</i>	0.15	<i>Earnings Next Twelve Months (US\$/sh)</i>	11.47
<i>McDep Ratio - EV/PV</i>	0.71	<i>Price/Earnings Next Twelve Months</i>	6
<i>Dividend Yield (%/year)</i>	1.9	<i>Indicated Annual Dividend (US\$/sh)</i>	1.24

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

Aside from the regrettable human tragedy, Hurricane Katrina appears to have stronger short-term investment implications for the refining and natural gas business of buy-recommended **ConocoPhillips (COP)** than for oil production. One-year futures prices are up 37%, 13% and 2% respectively for the N.Y Harbor refining crack, Louisiana natural gas and Light, Sweet crude oil compared to three weeks ago. Refining margins may be temporarily high, natural gas appears underpriced and crude oil seems likely to continue its upward price trend as long as economic growth continues. COP appears priced for long-term oil at about \$35 a barrel while the futures price for delivery over the next six years is about \$64. The stock has 51% appreciation potential to net present value. Risk is moderate with globally diversified, integrated operations and low debt.

Refining Cash Flow Estimate May be Understated

Though we boosted our estimate of the long-term refining margin to \$10 a barrel when we raised present value to \$100 a share last month, we made no change to estimated next twelve months cash flow for downstream operations. Since then Hurricane Katrina has created conditions that suggest an unusually wide margin temporarily. At the same time one of COP's refineries in Louisiana is off line. The favorable impact of industry conditions likely more than offsets the loss of some capacity, but we do not know. Current one-year futures suggest cash flow generation from refining that is stronger than we project (see table Next Twelve Months Operating and Financial Estimates). Downstream currently accounts for about 35% of our estimated present value of COP (see table Functional Cash Flow and Present Value).

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ConocoPhillips
Next Twelve Months Operating and Financial Estimates

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>12/31/04</i>	<i>2004</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2004E</i>	<i>3/31/05</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>9/30/06</i>
Volume											
Natural Gas (mcmfd)											
U.S. (or North America)	1,819	1,821	1,771	1,765	1,765	1,765	1,766	1,765	1,765	1,765	1,765
Overseas (or Int'l)	1,541	1,496	1,529	1,433	1,374	1,541	1,469	1,529	1,529	1,374	1,493
Total	3,360	3,317	3,300	3,198	3,139	3,306	3,236	3,294	3,294	3,139	3,258
Oil (mbd)	1,195	1,046	1,251	1,227	1,227	1,227	1,233	1,227	1,227	1,227	1,227
Total gas & oil (bcf)	969	3,511	973	961	966	981	3,881	959	970	966	3,876
Price											
Natural gas (\$/mcf)											
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	6.76	8.56	11.95	8.38	12.33	9.39	9.35	10.75
U.S. (or North America)	5.92	5.25	5.45	6.07	7.69	10.74	7.50	11.07	8.43	8.40	9.66
Overseas (or Int'l)	4.20	3.89	4.89	4.84	4.84	4.84	4.85	4.84	4.84	4.84	4.84
Total	5.13	4.63	5.19	5.52	6.45	7.99	6.30	8.18	6.77	6.84	7.45
Oil (\$/bbl)											
WTI Cushing	48.31	41.44	49.65	53.05	63.20	68.10	58.50	69.01	68.93	68.37	68.60
Worldwide	42.84	36.78	44.03	47.08	56.08	60.44	51.93	61.25	61.18	60.68	60.90
Total gas & oil (\$/mcf)	6.50	5.61	6.68	7.14	8.48	9.43	7.94	9.58	9.14	9.14	9.32
NY Harbor 3-2-1 (\$/bbl)	5.72	7.74	6.17	10.59	15.00	18.77	12.63	14.39	15.57	15.03	15.94
Revenue (\$mm)											
Natural Gas											
U.S. (or North America)	991	3,497	869	975	1,249	1,743	4,836	1,759	1,355	1,364	6,221
Overseas (or Int'l)	595	2,128	673	631	612	687	2,603	666	674	612	2,639
Total	1,586	5,625	1,541	1,606	1,861	2,430	7,439	2,425	2,029	1,976	8,860
Oil	4,710	14,082	4,957	5,257	6,331	6,822	23,368	6,763	6,831	6,849	27,266
Other	33,776	117,209	32,419	35,750	35,750	35,750	139,671	35,750	35,750	35,750	143,002
Total	40,072	136,916	38,918	42,614	43,943	45,003	170,477	44,939	44,610	44,576	179,128
Expense											
Fixed	1,535	4,337	1,574	774	774	774	3,897	774	774	774	3,097
Variable	1,535	4,337	1,574	2,323	2,772	3,131	9,800	3,110	2,998	2,987	12,225
Other	31,726	110,459	30,319	33,450	33,450	33,450	130,671	33,450	33,450	33,450	133,802
Ebitda (\$mm)											
Exploration and Production	3,226	11,032	3,350	3,767	4,646	5,347	17,110	5,305	5,087	5,065	20,804
Other	2,050	6,750	2,100	2,300	2,300	2,300	9,000	2,300	2,300	2,300	9,200
Total Ebitda	5,276	17,782	5,450	6,067	6,946	7,647	26,110	7,605	7,387	7,365	30,004
Exploration	192	703	171	121	121	121	534	121	121	121	484
Deprec., Deplet., & Amort.	1,030	3,798	1,041	985	985	985	3,996	985	985	985	3,940
Other non cash	101	164	(400)	9	9	9	(373)	9	9	9	36
Ebit	3,953	13,117	4,638	4,952	5,831	6,532	21,953	6,490	6,272	6,250	25,544
Interest	141	546	138	127	127	127	519	127	127	127	508
Ebt	3,812	12,571	4,500	4,825	5,704	6,405	21,434	6,363	6,145	6,123	25,036
Income Tax	1,334	4,400	1,575	1,689	1,996	2,242	7,502	2,227	2,151	2,143	8,762
Net Income (\$mm)											
Exploration and Production	1,745	5,776	1,988	1,929							
Other	912	3,045	1,210	1,313							
Unallocated	(179)	(650)	(273)	(106)							
Total	2,478	8,171	2,925	3,136	3,707	4,163	13,932	4,136	3,994	3,980	16,273
Shares (millions)	1,412	1,402	1,420	1,419	1,419	1,419	1,419	1,419	1,419	1,419	1,419
Per share (\$)	1.76	5.83	2.06	2.21	2.61	2.93	9.82	2.91	2.81	2.80	11.47
Ebitda Margin (E&P)	51%	56%	52%	55%	57%	58%	56%	58%	57%	57%	58%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%

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ConocoPhillips
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	3,580	12.9	5.9	21,000	13%
Rest of World Natural Gas	1,520	12.8	7.9	12,000	7%
Oil	15,700	10.5	4.8	75,900	45%
Downstream	9,200		6.3	58,000	35%
	30,000	11.2	5.6	166,900	100%
Debt (US\$mm)					25,000
Net Present Value (US\$mm)					141,900
Shares (mm)					1,419
Net Present Value (US\$/sh)					100

No U.S. Strategic Storage for Refined Products

Retail gasoline price jumped some \$0.50 a gallon to more than \$3.00 after Hurricane Katrina sidelined some refining capacity and shut down some interstate product pipelines that did not have back-up electrical power. The one-year futures are up just \$0.13 a gallon in three weeks suggesting that \$3.00 a gallon retail gasoline is temporary.

A 7% increase in one-year gasoline price in three weeks and a 6% increase in one-year heating oil translate to a 37% widening in the refining margin. The popular 3-2-1 margin presumes that three barrels of crude oil are refined to two barrels of gasoline and one barrel of heating oil. The difference in price for two-thirds of a barrel of gasoline and one-third of a barrel of heating oil compared to a barrel of crude oil has widened to almost \$16 a barrel of crude oil processed.

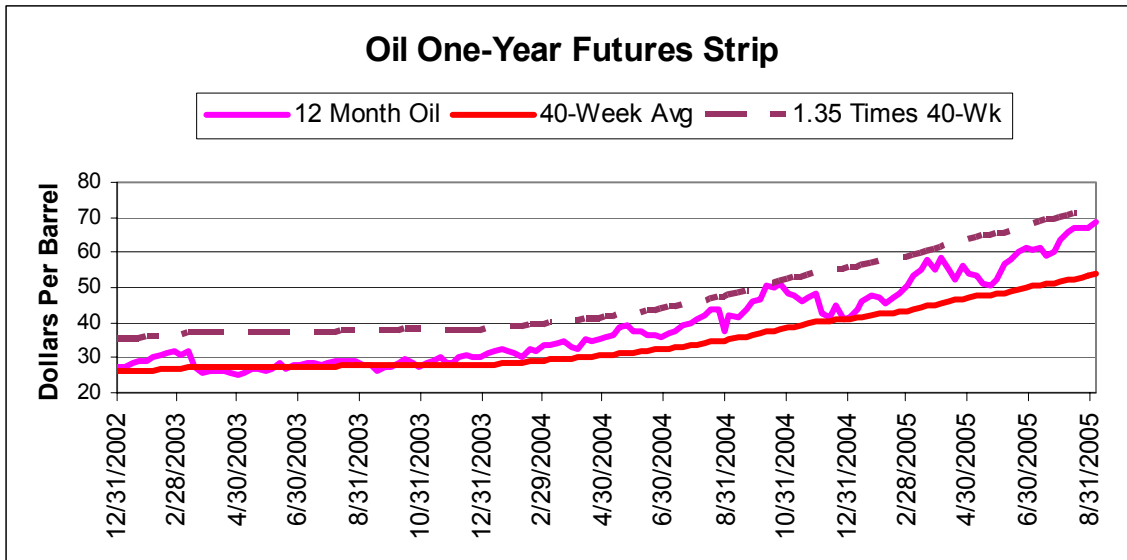
In contrast, present value in the denominator of the McDep Ratio assumes a long-term refining margin of \$10 a barrel. Since that is only about \$0.24 a gallon, it is apparent that a small change in gasoline or heating oil price relative to crude oil can have a magnified profit impact. While the temporary gains of the past few days may fade, enough of the increase may stick to make the recommended Mega Caps and Producer/Refiners as attractive for refining as for oil and natural gas.

Oil Contained within the Price Channel

Thanks to the pending release of oil from strategic storage, the temporary crude oil supply disruption caused by Hurricane Katrina did not send price above the channel between a lower bound of the 40-week moving average and an upper bound of 1.35 times the moving average (see chart Oil One-Year Futures Strip). Oil and economic activity grow together. Gradually rising price encourages efficient allocation of resources.

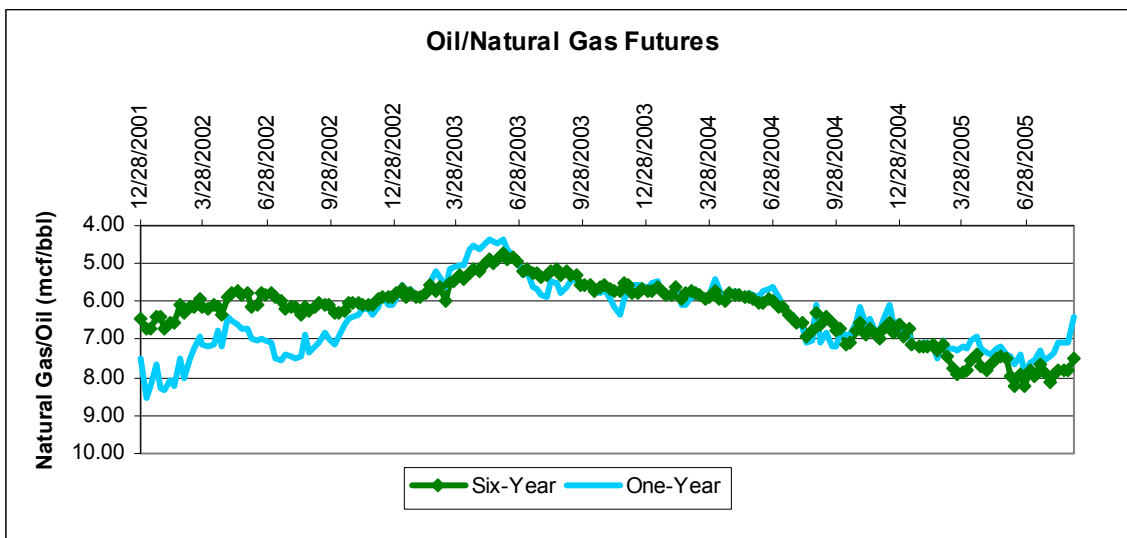
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While oil price continues to trend upward, the current price already implies strong investment returns for buy recommendations. The denominator of the McDep Ratio presumes a long-term real oil price of \$50 a barrel.



Natural Gas Narrows Price Gap

Natural gas supply interruptions caused by Hurricane Katrina cannot be made up with the release of crude oil from strategic storage. As a result, one-year natural gas price moved up from about 7.5:1 to 6.5:1 compared to oil (see chart Oil/Natural Gas Futures). Normal market conditions should take natural gas price to 5:1 for the next several years and higher ultimately.



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Buy-Recommended Producer/Refiners Offer Attractive Investment Value

Stocks are ranked in descending order of McDep Ratio to connote “buy low and sell high”.

Oil and Gas Producers
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(\$/sh)</i>	<i>Shares</i>	<i>Market</i> <i>Cap</i>	<i>Net</i> <i>Present</i> <i>Value</i>	<i>Debt/</i> <i>Present</i> <i>Value</i>	<i>McDep</i> <i>Ratio</i>
			<i>6-Sep</i> <i>2005</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>(\$/sh)</i>		
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	97.54	123	12,010	20.00	0.76	1.94
Imperial Oil Limited (30%)	IMO	B	101.76	104	10,540	84.00	0.09	1.19
Marathon Oil Corporation	MRO	B	65.16	367	23,910	65.00	0.27	1.00
Petro-Canada	PCZ	B	81.86	263	21,530	84.00	0.19	0.98
Suncor Energy	SU	B	57.85	461	26,670	68.00	0.10	0.87
Norsk Hydro ASA	NHY	B	109.98	251	27,610	130.00	0.13	0.87
Lukoil Oil Company	LUKOY	B	49.80	830	41,000	65.00	0.02	0.77
ConocoPhillips	COP	B	66.39	1,419	94,200	100.00	0.15	0.71
PetroChina Company Ltd (10%)	PTR	B	81.14	176	14,260	120.00	0.01	0.68
	<i>Total or Median</i>				<i>272,000</i>		<i>0.13</i>	<i>0.87</i>

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