

Rating: Buy
S&P 500: 1431

ConocoPhillips Weather Deal

<i>Symbol</i>	COP	<i>Ebitda Next Twelve Months ending 12/31/07 (US\$mm)</i>	30,500
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	15
<i>Price (US\$/sh)</i>	63.83	<i>Natural Gas and Oil Production/Ebitda (%)</i>	68
<i>Pricing Date</i>	1/12/07	<i>Adjusted Reserves/Production NTM</i>	11.1
<i>Shares (mm)</i>	1676	<i>EV/Ebitda</i>	4.9
<i>Market Capitalization (US\$mm)</i>	107,000	<i>PV/Ebitda</i>	6.8
<i>Debt (US\$mm)</i>	41,000	<i>Undeveloped Reserves (%)</i>	28
<i>Enterprise Value (EV) (US\$mm)</i>	148,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	23.10
<i>Present Value (PV) (US\$mm)</i>	208,800	<i>Present Value Proven Reserves(US\$/boe)</i>	12.28
<i>Net Present Value (US\$/share)</i>	100	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.05
<i>Debt/Present Value</i>	0.20	<i>Earnings Next Twelve Months (US\$/sh)</i>	7.43
<i>McDep Ratio - EV/PV</i>	0.71	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	2.3	<i>Indicated Annual Dividend (US\$/sh)</i>	1.44

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.

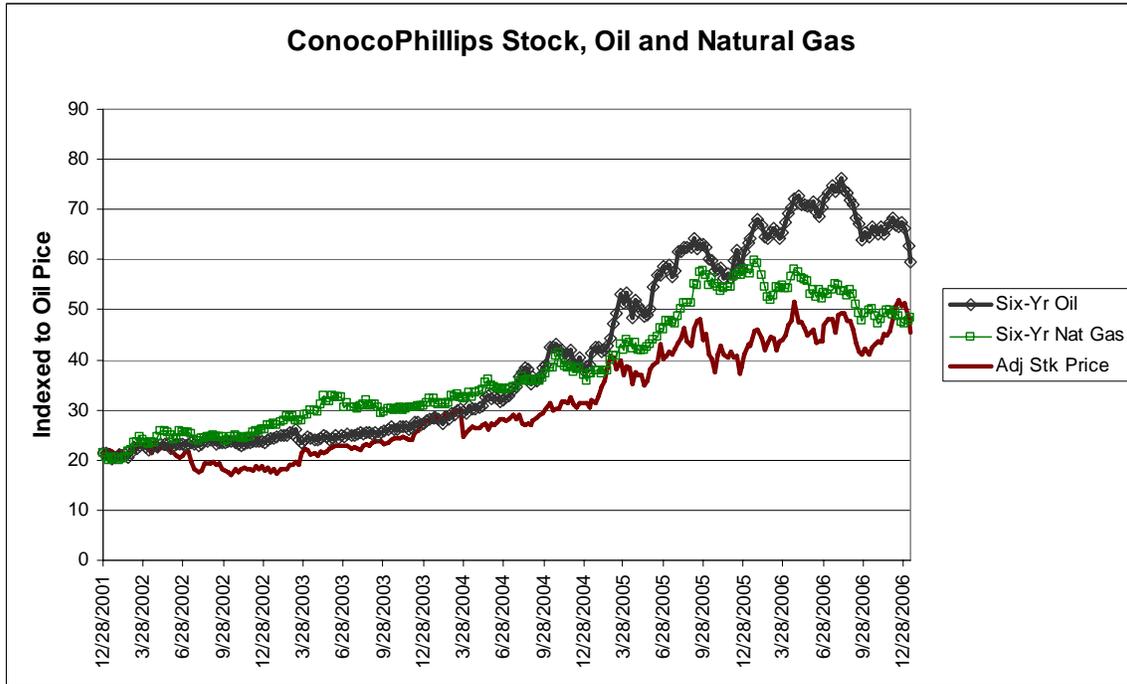
For historical analysis of COP since 2002 see www.mcdep.com/2copc.htm

Summary and Recommendation

The winter weather surprise appears to set up a better deal for investors with an 11% decline in stock price in 2007 for buy-recommended **ConocoPhillips (COP)**. The temporary impact of weather is reflected in the widely-quoted low oil price for February 2007 of \$53 a barrel compared to the average price for delivery over the next six years of about \$60 a barrel. In McDep analysis a long-term price of \$60 real implies net present value of \$100 a share. Meanwhile COP stock price adjusted for dividends and debt has appreciated to the equivalent of perhaps \$46 a barrel when indexed to the price of oil five years ago (see chart). Any further expropriation by the leader of Venezuela seems covered as part of the explanation for our estimate of NPV being lower than that implied by correlation with other companies (see table [Functional Cash Flow and Present Value](#)). Fourth quarter 2007 results to be reported on January 24 will reflect lower oil price and refining margin compared to the third quarter (see table [Next Twelve Months Operating and Financial Estimates](#)). We favor COP stock at a double weighting in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean energy to support global growth.

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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	4,630	11.5	7.6	35,000	17%
Rest of World Natural Gas	2,040	13.5	7.8	16,000	8%
Oil	14,140	10.4	7.6	108,000	52%
Downstream	9,690		5.2	50,000	24%
	30,500	11.1	6.9	209,000	100%
Debt (US\$mm)				41,000	
Net Present Value (US\$mm)				168,000	
Shares (mm)				1,676	
Net Present Value - Standard Estimate (US\$/sh)				100	
Net Present Value - Approximation by Correlation (US\$/sh)				113	

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ConocoPhillips
Next Twelve Months Operating and Financial Estimates

	<i>Q4</i>	<i>Year</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>12/31/05</i>	<i>2005</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>12/31/07</i>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	1,866	1,806	3,597	3,597	3,175	3,597	3,597	3,597	3,597
Overseas (or Int'l)	1,605	1,464	1,790	1,790	1,793	1,790	1,790	1,790	1,790
Total	3,471	3,270	5,387	5,387	4,968	5,387	5,387	5,387	5,387
Oil (mbd)	1,305	1,263	1,574	1,574	1,527	1,574	1,574	1,574	1,574
Total gas & oil (bcf)	1,040	3,960	1,364	1,364	5,157	1,335	1,350	1,364	5,413
Total gas & oil (mbd)	1,884	1,808	2,472	2,472	2,355	2,472	2,472	2,472	2,472
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	13.00	8.65	6.58	6.57	7.23	6.38	6.85	7.09	7.07
U.S. (or North America)	9.33	7.13	5.80	5.79	6.00	6.23	6.69	6.92	6.90
Overseas (or Int'l)	6.33	5.26	6.12	6.12	6.36	6.12	6.12	6.12	6.12
Total	7.94	6.29	5.91	5.90	6.13	6.19	6.50	6.66	6.65
Oil (\$/bbl)									
WTI Cushing	60.02	56.31	70.42	59.99	66.05	53.28	55.17	56.58	55.69
Worldwide	52.02	48.80	62.30	53.07	58.47	46.14	47.77	49.00	47.82
Total gas & oil (\$/mcf)	8.45	7.58	8.76	7.78	8.47	7.15	7.43	7.62	7.53
NY Harbor 3-2-1 (\$/bbl)	9.06	10.63	11.67	7.54	10.50	8.24	12.40	12.61	10.50
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	1,602	4,700	1,921	1,916	6,949	2,017	2,188	2,290	9,065
Overseas (or Int'l)	934	2,808	1,008	1,008	4,160	987	998	1,008	4,001
Total	2,535	7,508	2,929	2,924	11,108	3,003	3,186	3,299	13,067
Oil	6,246	22,498	9,021	7,686	32,589	6,536	6,843	7,095	27,713
Other	43,392	153,357	37,953	37,953	151,171	37,953	37,953	37,953	151,811
Total	52,173	183,364	49,903	48,562	194,868	47,492	47,982	48,346	192,591
Expense (\$mm)									
Fixed	883	3,986	1,540	1,200	4,884	1,050	1,050	1,050	4,200
Variable	2,648	9,095	4,621	4,102	15,155	3,688	3,878	4,019	15,768
Other	41,292	144,257	34,853	35,853	141,582	36,453	34,764	35,053	142,122
Ebitda (\$mm)									
Exploration and Production	5,251	16,925	5,789	5,307	23,659	4,801	5,101	5,325	20,812
Other	2,100	9,100	3,100	2,100	9,589	1,500	3,189	2,900	9,689
Total Ebitda	7,351	26,025	8,889	7,407	33,247	6,301	8,290	8,225	30,500
Exploration	229	661	197	350	793	200	200	200	800
Deprec., Deplet., & Amort.	1,178	4,253	2,211	2,211	7,567	2,211	2,211	2,211	8,844
Other non cash	11	(380)	217		267				-
Ebit	5,933	21,491	6,264	4,846	24,620	3,890	5,879	5,814	20,856
Interest	110	497	308	308	1,091	422	422	422	1,688
Ebt	5,823	20,994	5,956	4,538	23,529	3,468	5,457	5,392	19,168
Income Tax	2,038	7,348	2,085	1,588	8,235	1,214	1,910	1,887	6,709
Net Income (\$mm)									
Exploration and Production	2,619	9,091	2,391		8,483				
Other	1,313	5,327	1,775		4,339				
Unallocated	(147)	(772)	(294)		(478)				
Total	3,785	13,646	3,872	2,950	15,294	2,254	3,547	3,505	12,459
Shares (millions)									
Per share (\$)	2.69	9.64	2.31	1.76	9.50	1.34	2.12	2.09	7.43
Ebitda Margin (E&P)	60%	56%	48%	50%	54%	50%	51%	51%	51%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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