

Rating: Buy
 S&P 500: 1191

ConocoPhillips Emerging Mega Cap

<i>Symbol</i>	COP	<i>Ebitda Next Twelve Months ending 9/30/06 (US\$m)</i>	29,600
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	13
<i>Price (US\$/sh)</i>	62.80	<i>Natural Gas and Oil Production/Ebitda (%)</i>	65
<i>Pricing Date</i>	10/26/05	<i>Adjusted Reserves/Production NTM</i>	11.2
<i>Shares (mm)</i>	1418	<i>EV/Ebitda</i>	3.9
<i>Market Capitalization (US\$m)</i>	89,100	<i>PV/Ebitda</i>	5.6
<i>Debt (US\$m)</i>	25,000	<i>Undeveloped Reserves (%)</i>	29
<i>Enterprise Value (EV) (US\$m)</i>	114,100	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	29.60
<i>Present Value (PV) (US\$m)</i>	166,800	<i>Present Value Proven Reserves(US\$/boe)</i>	12.74
<i>Net Present Value (US\$/share)</i>	100	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.12
<i>Debt/Present Value</i>	0.15	<i>Earnings Next Twelve Months (US\$/sh)</i>	11.14
<i>McDep Ratio - EV/PV</i>	0.68	<i>Price/Earnings Next Twelve Months</i>	6
<i>Dividend Yield (%/year)</i>	2.0	<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

Buy-recommended **ConocoPhillips (COP)** offers 59% appreciation potential to estimated net present value of \$100 a share. Latest quarterly results support estimated cash flow that when correlated with thirty companies by reserve life and line of business indicates net present value about \$15 a share higher than estimated. The company's strong performance suggests it may soon enter the ranks of mega caps, those energy stocks with a publicly held market capitalization of more than \$100 billion.

Cash Flow and Reserve Life Point to Present Value

McDep analysis presumes that fundamental value is measured by the projection of cash flows far into the future and discounting them to the present at a rate of return, currently 7% a year before inflation. Next Twelve Months (NTM) cash flow represents the volumes and costs that form the base for future projections. Reserve life index tells how long cash flow will last. NTM cash flow and reserve life are the two main variables in our correlation by function for about 30 companies. Net present value indicated by the current combined correlation is about \$15 a share higher than our ongoing standard estimate for the company (see table Functional Cash Flow and Present Value).

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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	3,930	12.5	5.3	21,000	13%
Rest of World Natural Gas	1,470	13.0	8.2	12,000	7%
Oil	13,760	10.5	5.5	75,800	45%
Downstream	10,400		5.6	58,000	35%
	29,560	11.2	5.6	166,800	100%
Debt (US\$mm)					25,000
Net Present Value (US\$mm)					141,800
Shares (mm)					1,418
Net Present Value (US\$/sh)					100
Over (-)/ Under (+) Correlation (US\$/sh)					15

Cash Flow by Quarter Depends on Latest Results and Futures Prices

Cash flow for the next year is projected from a base through the latest reported quarter (see table Next Twelve Months Operating and Financial Estimates). Company disclosures provide the clues for future volumes and costs as well as geographic and quality differences in price. Futures prices from the New York Mercantile Exchange determine industry benchmarks for the next year.

Industry Conditions Support Long-Term Price Expectation

Present value estimates that form the denominator of the McDep Ratio and change only occasionally for all companies, most recently in early August, are tied to expected constant real long-term prices. Recent futures price for oil delivered over the next six years at \$58 a barrel exceeds our long-term expectation of \$50. One-year futures for natural gas exceed our long-term expectation while six-year futures for natural gas also have appreciation potential, in our opinion.

Oil and Gas Commodity and Stock Price
Wednesday, October 26, 2005

	<i>Units</i>	<i>Futures Price</i>	<i>McDep Ratio</i>	
		<i>Six-Year</i> <i>One-Year</i>	<i>Denominator</i>	
Crude Oil	\$/barrel	57.67	61.80	50
Natural Gas	\$/million btu	8.59	12.09	10
Oil Refining	\$/barrel		12.31	10
	<i>Stocks</i>			<i>Median</i>
	Producer/Refiner			<i>McDep Ratio</i>
	COP			0.81
				0.68

Source: McDep Associates, Bloomberg, New York Mercantile Exchange, Yahoo and company disclosures

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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>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next</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>2005E</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>Twelve</i>
											<i>Months</i>
											<i>9/30/06</i>
Volume											
Natural Gas (mmcf)											
U.S. (or North America)	1,819	1,821	1,771	1,765	1,820	1,820	1,794	1,820	1,820	1,820	1,820
Overseas (or Int'l)	1,541	1,496	1,529	1,433	1,289	1,541	1,448	1,529	1,529	1,289	1,472
Total	3,360	3,317	3,300	3,198	3,109	3,361	3,242	3,349	3,349	3,109	3,292
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	963	987	3,883	964	975	963	3,889
Price											
Natural gas (\$/mcf)											
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	6.76	8.56	13.38	8.74	13.36	10.43	10.40	11.89
U.S. (or North America)	5.92	5.25	5.45	6.07	7.49	11.71	7.73	11.69	9.12	9.10	10.40
Overseas (or Int'l)	4.20	3.89	4.89	4.84	4.81	4.81	4.84	4.81	4.81	4.81	4.81
Total	5.13	4.63	5.19	5.52	6.38	8.54	6.44	8.55	7.15	7.32	7.90
Oil (\$/bbl)											
WTI Cushing	48.31	41.44	49.65	53.05	62.52	61.00	56.56	60.75	61.06	61.09	60.97
Worldwide	42.84	36.78	44.03	47.08	55.44	54.10	50.18	53.88	54.15	54.17	54.01
Total gas & oil (\$/mcf)	6.50	5.61	6.68	7.14	8.39	8.87	7.78	8.84	8.44	8.52	8.67
NY Harbor 3-2-1 (\$/bbl)	5.72	7.74	6.17	10.59	16.70	11.65	11.28	12.38	13.91	13.95	12.97
Revenue (\$mm)											
Natural Gas											
U.S. (or North America)	991	3,497	869	975	1,255	1,961	5,059	1,915	1,511	1,523	6,911
Overseas (or Int'l)	595	2,128	673	631	570	681	2,556	661	669	570	2,582
Total	1,586	5,625	1,541	1,606	1,825	2,642	7,615	2,577	2,180	2,093	9,492
Oil	4,710	14,082	4,957	5,257	6,259	6,107	22,580	5,950	6,046	6,115	24,217
Other	33,776	117,209	32,419	35,750	41,575	41,575	151,321	41,575	41,575	41,575	166,302
Total	40,072	136,916	38,918	42,614	49,659	50,324	181,515	50,102	49,801	49,784	200,011
Expense (\$mm)											
Fixed	1,535	4,337	1,574	774	882	882	4,111	882	882	882	3,526
Variable	1,535	4,337	1,574	2,323	2,645	2,862	9,404	2,789	2,691	2,685	11,028
Other	31,726	110,459	30,319	33,450	38,975	38,975	141,721	38,975	38,975	38,975	155,902
Ebitda (\$mm)											
Exploration and Production	3,226	11,032	3,350	3,767	4,558	5,005	16,679	4,856	4,653	4,642	19,155
Other	2,050	6,750	2,100	2,300	2,600	2,600	9,600	2,600	2,600	2,600	10,400
Total Ebitda	5,276	17,782	5,450	6,067	7,158	7,605	26,279	7,456	7,253	7,242	29,555
Exploration	192	703	171	121	140	140	572	140	140	140	560
Deprec., Deplet., & Amort.	1,030	3,798	1,041	985	1,049	1,049	4,124	1,049	1,049	1,049	4,196
Other non cash	101	164	(400)	9	-	-	(391)	-	-	-	-
Ebit	3,953	13,117	4,638	4,952	5,969	6,416	21,974	6,267	6,064	6,053	24,799
Interest	141	546	138	127	122	122	509	122	122	122	488
Ebt	3,812	12,571	4,500	4,825	5,847	6,294	21,465	6,145	5,942	5,931	24,311
Income Tax	1,334	4,400	1,575	1,689	2,046	2,203	7,513	2,151	2,080	2,076	8,509
Net Income (\$mm)											
Exploration and Production	1,745	5,776	1,988	1,929	2,555						
Other	912	3,045	1,210	1,313	1,491						
Unallocated	(179)	(650)	(273)	(106)	(246)						
Total	2,478	8,171	2,925	3,136	3,800	4,091	13,953	3,994	3,862	3,855	15,802
Shares (millions)	1,412	1,402	1,420	1,419	1,418	1,418	1,419	1,418	1,418	1,418	1,418
Per share (\$)	1.76	5.83	2.06	2.21	2.68	2.89	9.84	2.82	2.72	2.72	11.14
Ebitda Margin (E&P)	51%	56%	52%	55%	56%	57%	55%	57%	57%	57%	57%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%

Buy Producer/Refiners

Energy is necessary for world economic growth and clean energy provides a better quality of life. Producer/refiners are among the leading global suppliers of clean energy. Headquartered in Norway, Russia, China, Canada and the U.S., buy recommendations also offer political diversification. McDep Ratios that compare Enterprise Value with Present Value of energy and other businesses imply that the stock market undervalues the fundamental prospects. Stocks are ranked in descending order of McDep Ratio connoting "buy low, sell high" (see table Rank by McDep Ratio).

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

	<i>Symbol/ Rating</i>		<i>Price (\$/sh) 26-Oct 2005</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/sh)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	89.69	123	11,030	20.00	0.76	1.84
Imperial Oil Limited (30%)	IMO	B	89.78	102	9,170	84.00	0.10	1.06
Marathon Oil Corporation	MRO	B	61.08	367	22,420	65.00	0.27	0.96
Petro-Canada	PCZ	B	34.74	526	18,270	42.00	0.19	0.86
Lukoil Oil Company	LUKOY	B	53.25	830	44,000	65.00	0.03	0.82
Suncor Energy	SU	B	52.20	461	24,070	68.00	0.10	0.79
Norsk Hydro ASA	NHY	B	99.01	251	24,840	130.00	0.12	0.79
ConocoPhillips	COP	B	62.80	1,418	89,100	100.00	0.15	0.68
Gazprom (50%)	OGZPF	B	59.80	1,022	61,100	90.00	0.03	0.68
PetroChina Company Ltd (10%)	PTR	B	75.35	176	13,250	120.00	0.01	0.63
		<i>Total or Median</i>			<i>317,000</i>		<i>0.11</i>	<i>0.81</i>

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