ConocoPhillips—a new global power

EvaluateEnergy

Highlights of the merged company

Equity value: $35 billion
Annual synergies: $750 million
Debt-to-capital: 35%

Rank among oil and gas companies:
U.S. - 3rd*
Worldwide - 6th*
Expected close: 2nd half 2002
* Estimate on market cap., reserves and production.

Headquarters: Houston
Chairman: Archie Dunham
President and CEO: Jim Mulva

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Transaction highlights

Continuing the consolidation rife in the oil and gas industry, Conoco and Phillips Petroleum will combine in a merger of equals, forming ConocoPhillips - the sixth largest petroleum company in the world.

The transaction is accretive for EPS and cash flow, with estimated recurring synergies of $750 million—available in the first year after closure.

It is expected that, on closure o f the deal, the ConocoPhillips board will adopt a competitive dividend policy. Currently, Conoco pays an annual dividend of $0.76 per share, and Phillips pays an annual dividend of $1.44 per share.

Conoco's CEO Archie Dunham will become Chairman, and Phillips CEO Jim Mulva will be President and CEO. Mulva will replace Dunham as Chairman in 2004. The board will contain eight directors from each company and the senior executive positions will be shared. The company will be headquartered in Houston, Texas, where Conoco is based. Some jobs will be cut in Bartlesville, Oklahoma, the home of Phillips.

The transaction is expected to close in the second half of 2002.

ConocoPhillips—the rationale

ConocoPhillips will be the third largest US petroleum company, based on market capitalisation, oil and gas reserves, and oil and gas production. Worldwide, it will be the sixth largest petroleum company, based on hydrocarbon reserves, and the fifth largest refiner.

The benefits of the merger are numerous, and include:

- Substantial growth opportunities
- Significant opportunities to diversify its exploration portfolio
- Diversified earnings and cash flow
- A strong balance sheet, with an expected debt—to—capitalisation ratio of approximately 35%
- Improved capital efficiency
- An efficient cost structure
- World—class technology, workforce and operational practises

Terms of the deal

Phillips shareholders will receive one share of new ConocoPhillips common stock for each share of Phillips they own, and Conoco shareholders will receive 0.4677 shares of new ConocoPhillips common stock for each share of Conoco they own.

Based on the closing market prices for the shares of both companies on November 16th, 2001, and their latest announced debt levels of September 30th, 2001, the new company will have an enterprise value of $53.5 billion, including $18.6 billion of debt and preferred securities.

At the start of business, Phillips shareholders will own about 56.6% of the new company, and Conoco's shareholders, about 43.4%.

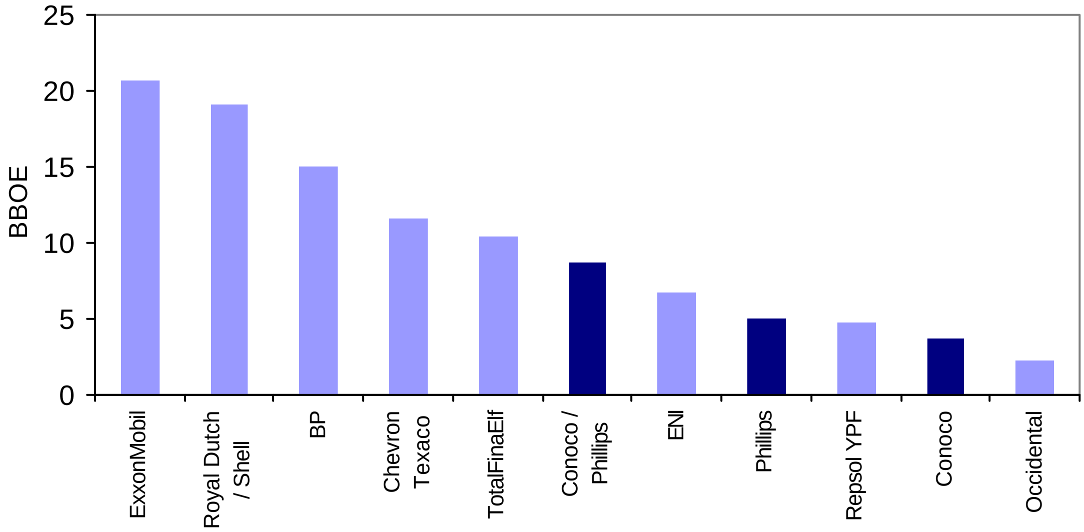
The transaction has been structured to be tax—free to the shareholders of each company.

A break–up fee of $550 million is in place if either company backs out of the merger. Some disposals, though not major, are expected for anti—trust clearance.

Upstream effects

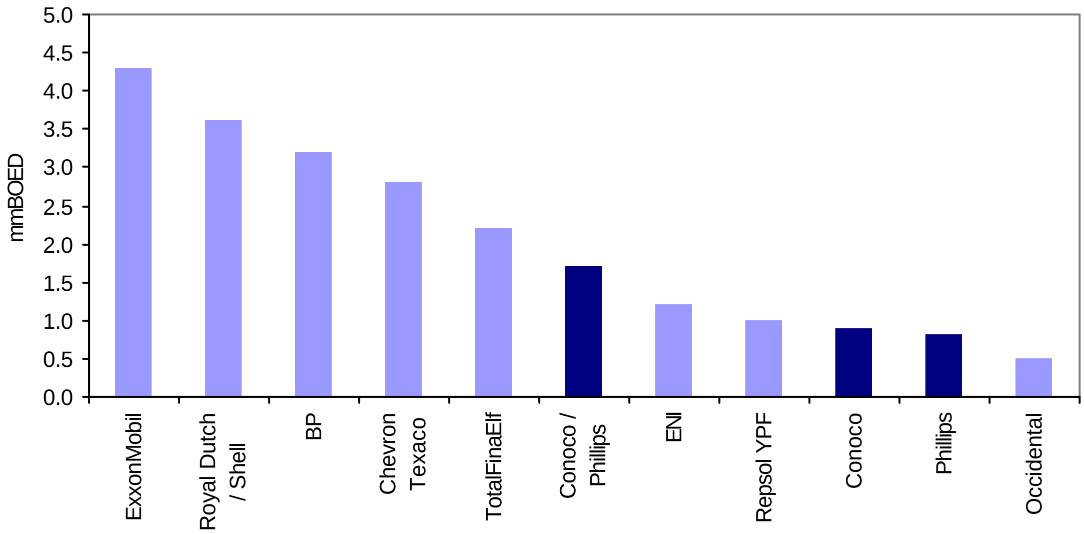
In the upstream division, ConocoPhillips' increased scale and global presence will allow for increased efficiency in core areas. The combined company will have pro forma 2000 daily production of 1.7 million BOE, and hydrocarbon reserves of 8.7 billion barrels of oil equivalent, based on the companies' estimates for 2001 year—end production. It will operate in the US, Canada, the North Sea, Venezuela, China, the Timor Sea, Indonesia, Vietnam, the Middle East, Russia, and the Caspian.

ConocoPhillips will have the sixth largest oil and gas reserves in the petroleum industry...



Source: ConocoPhillips

… and the sixth largest production amounts in oil equivalents.

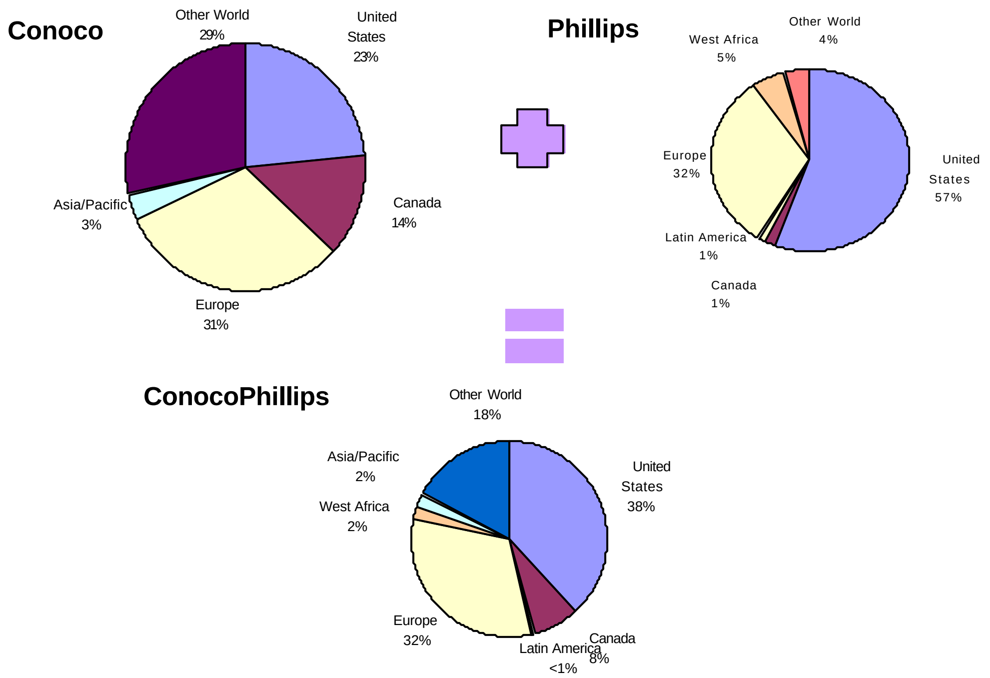


Source: ConocoPhillips

Upstream effects

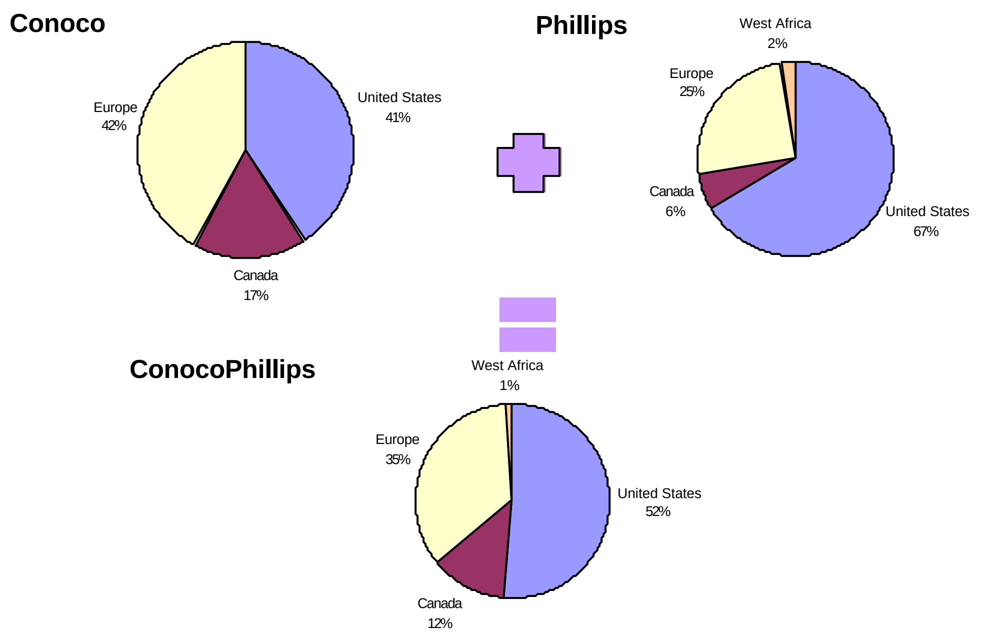
The combination of Conoco and Phillips will increase the new company's exposure to the United States, with 66% of total oil production (pro forma 2000) coming from that country. Europe will be the next biggest producer, with 26%, proportionally decreasing the company's exposure to that area. Canada, West Africa, Asia Pacific and Latin America will remain as small scale producers of crude oil.

ConocoPhillips oil & ngl production will be centred in the United States …



Source: EvaluateEnergy estimates

… as will their gas production



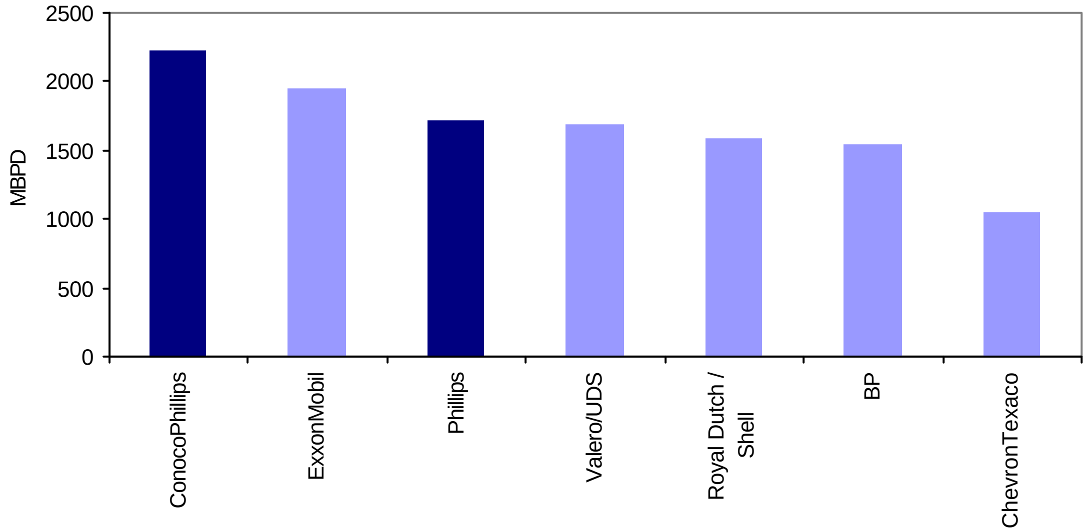
Source: EvaluateEnergy estimates

Downstream effects

ConocoPhillips will operate, or have equity interests in 19 refineries in the United States, the UK, Ireland, Germany, the Czech Republic and Malaysia, with a refining capacity of 2.6 million barrels a day.

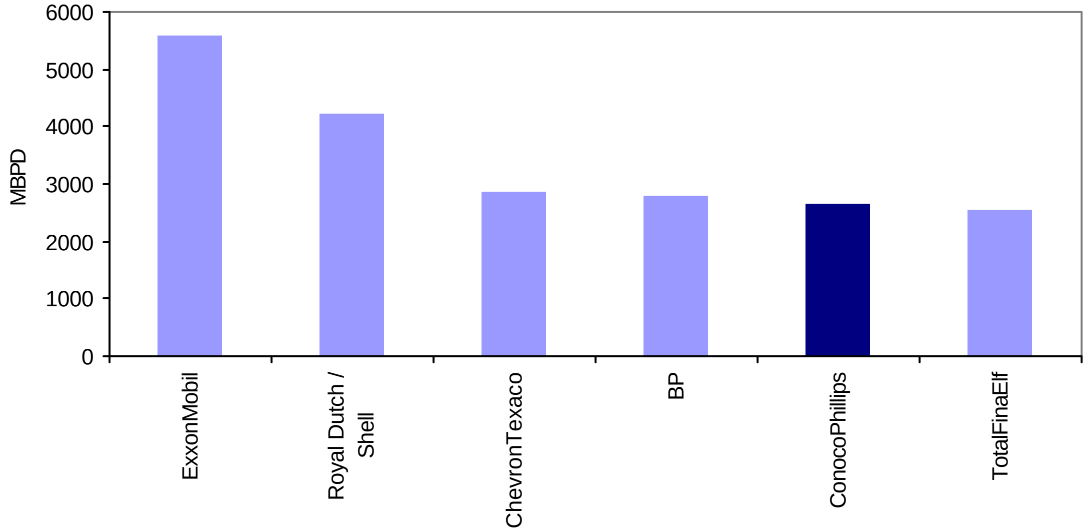
ConocoPhillips will continue Phillips' equity participation in the natural gas gathering and processing joint venture, Duke Energy Field Service, and in the chemicals and plastics joint venture, Chevron Phillips Chemicals.

ConocoPhillips will have the largest refining capacity in the United States …



Source: ConocoPhillips

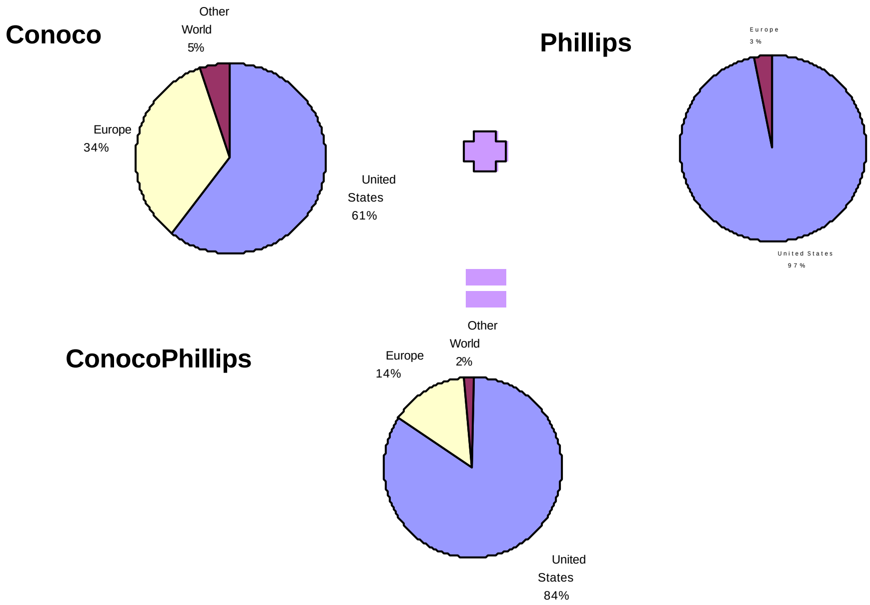
… and the fifth largest in the world



Source: ConocoPhillips

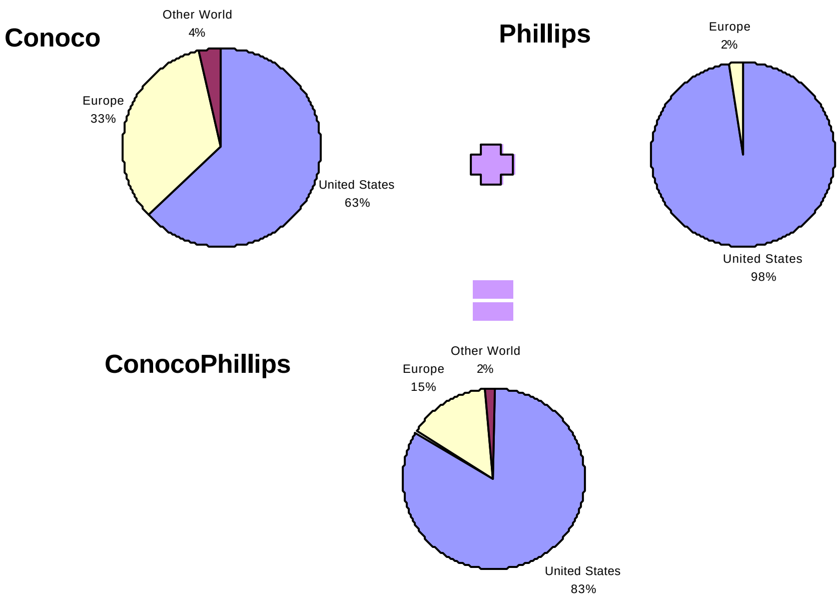
Downstream effects

<u>ConocoPhillips distillation capacity will be dominated by the United States …</u>



Source: EvaluateEnergy estimates

<u>… as will marketing presence</u>



Source: EvaluateEnergy estimates

Financial effects

Synergies

The companies expect the combined enterprise to achieve annual cost savings of at least $750 million within the first year of closing. These savings will result from:

- More efficient exploration and production
- More efficient downstream activities
- Elimination of corporate and administrative positions, programmes and operating offices

Initial results of the ConocoPhillips financial model

The following forecast of the merged company is constructed using the Evaluate Energy forecast model ,which is based on consensus brokers estimates.

	2000	2001	2002	2003
Per share data				
EPS	8.55	6.89	6.20	6.62
DPS	1.69	1.70	1.90	1.96
Income statement				
EBITDA	12,740	11,407	10,691	9,391
EBIT	9,516	7,998	7,167	5,744
Income Before Taxes	8,459	7,216	6,130	4,794
Net Income	4,370	3,518	3,167	3,383
including synergies of …	*0*	*0*	*100*	*750*
Cash flow				
Capital Expenditure (Net of Asset Disposals)	-5,001	-4,781	-5,611	-5,721
Valuation				
Market capitalisation (mln)	34,900	34,900	34,900	34,900
Enterprise Value (mln)	53,500	53,500	53,500	53,500
EV/EBITDA	4.20	4.69	5.00	5.70
EV/EBIT	5.62	6.69	7.46	9.31
P/E	7.99	9.92	11.02	10.32
Ratios				
Return on Ave. Capital Employed (%)	17.3%	12.5%	9.4%	8.1%

Good for Phillips, but for Conoco … ?

" Coming hot on the heels of recent disappointments, the merger announcement may encounter some scepticism. Conoco missed its third quarter earnings estimates in October. … At an analysts' conference last week, it reduced its production growth target from 4—5% annually to 3—4%.

This [deal] answered, in the negative, one question which had been bothering investors: could Conoco reduce its gearing by disposals and by shrinking capital expenditure while still maintaining production growth.

Phillips, meanwhile, threw investors off balance earlier this year when it backtracked on plans to offload its downstream operations and instead splashed out $7bn on Tosco … [this] raises questions about how its refining will fit with Conoco's which appears to have been used largely to generate cash for the upstream business"

Lex Column, 18th November 2001

"Size matters."

ABN Amro, 18th November 2001

"Because Phillips … is paying no premium, the door is open for other bidders to emerge, especially if shareholders aren't convinced that the strategy behind the deal will provide the value the companies are forecasting"

Reuters, 19th November 2001

"It's a good deal if you're a Phillips shareholder because you're acquiring Conoco for zero premium.

This creates a bigger company, but it does not materially challenge the majors."

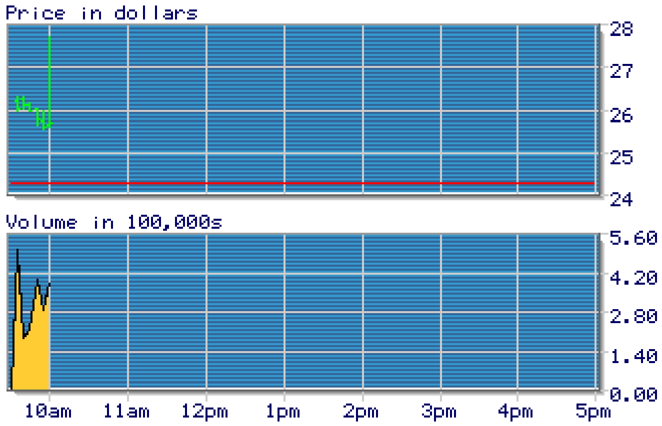
UBS Warburg, 19th November 2001

Initial market reaction

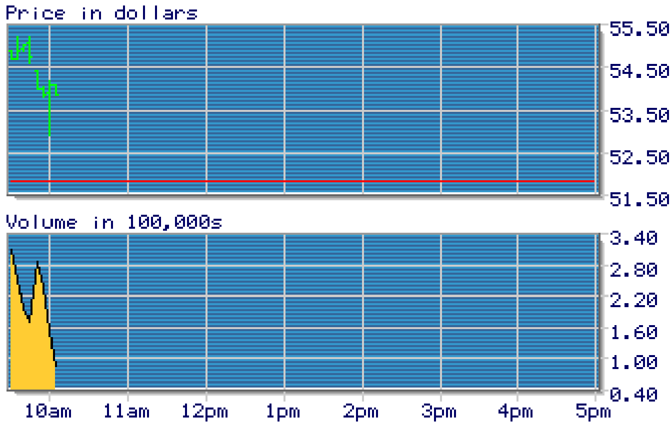
Shares of Phillips were trading up 5.1% to €66.00 in Frankfurt this morning.

Initial trading on the NYSE in Conoco and Phillips kept the stocks fairly steady, rising and falling only slightly from their opening prices.

NYSE: Conoco share price



NYSE: Phillips share price



Source: NYSE