

Rating: Buy
 S&P 500: 1475
 Intraday

Lukoil Oil Company Emerging Oil Blue Chip

<i>Symbol</i>	LUKOY	<i>Ebitda Next Twelve Months ending 9/30/08 (US\$mm)</i>	14,400
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	75.30	<i>Natural Gas and Oil Production/Ebitda (%)</i>	60
<i>Pricing Date</i>	9/12/07	<i>Adjusted Reserves/Production NTM</i>	17.8
<i>Shares (mm)</i>	832	<i>EV/Ebitda</i>	4.5
<i>Market Capitalization (US\$mm)</i>	62,600	<i>PV/Ebitda</i>	7.2
<i>Debt (US\$mm)</i>	2,900	<i>Undeveloped Reserves (%)</i>	44
<i>Enterprise Value (EV) (US\$mm)</i>	65,600	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	11.86
<i>Present Value (PV) (US\$mm)</i>	103,600	<i>Present Value Proven Reserves(US\$/boe)</i>	3.92
<i>Net Present Value (US\$/share)</i>	121	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.65
<i>Debt/Present Value</i>	0.03	<i>Earnings Next Twelve Months (US\$/sh)</i>	9.91
<i>McDep Ratio - EV/PV</i>	0.63	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	2.0	<i>Indicated Annual Dividend (US\$/sh)</i>	1.49

Note: Estimated cash flow and earnings tied to one-year futures prices for oil.

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\$66 a barrel and natural gas, \$11 a million btu.

For historical research on Lukoil since 2004 see www.mcdep.com/2luk.htm

Summary and Recommendation

Offering unlevered appreciation potential of 58% to estimated net present value (NPV) of \$121 a share, buy-recommended **Lukoil Oil Company (LUKOY)** offers rich resources and effective management amid the improving economic environment of Russia. Second quarter 2007 results, reported today, set new records while exceeding our expectations with the help of lower taxes (see table [Next Twelve Months Operations](#)). As a result, we raise our projections of unlevered cash flow (Ebitda) for the next twelve months which could lead to a future increase in NPV (see table [Functional Cash Flow and Present Value](#)). As an integrated company with both oil production and refined product operations, Lukoil pays a high excise tax on exported crude oil, but also makes a high margin on refined products for the growing home market. In an ironic commentary on the investment attraction of Russia, *Bloomberg* reports that the bond market is providing money to Russian companies on the most favorable terms ever in the wake of housing bond defaults in the U.S. Finally, the continued strength of the ruble compared to the U.S. dollar is likely to be a positive factor for confidence in Lukoil stock despite rising dollar translation of costs denominated in rubles.

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Please see disclosures on the final page.

Lukoil Oil Company
Next Twelve Months Operations

	<i>Q2</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q2E</i>	<i>Next</i>
	<i>6/30/06</i>	<i>2006</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>6/30/08</i>	<i>Twelve</i>
									<i>Months</i>
Volume									
Natural gas (bcf)		565					565		565
Natural Gas (mmcf/d)		1,548					1,548		1,544
Days	91	365	90	91	92	92	365	91	366
Oil (mmb)	173	703	180	182	184	184	732	182	734
Oil (mbd)	1,903	1,925	2,005	2,005	2,005	2,005	2,005	2,005	2,005
Price									
Natural gas (\$/mcf)		0.41	1.13	1.16			1.15		1.20
Oil (\$/bbl)									
WTI Cushing	70.47	66.05	58.08	64.91	74.18	76.28	68.36	72.65	73.70
Lukoil export	64.80	61.39	54.26	65.30	74.63	76.74	67.81	73.09	74.15
NY Harbor 3-2-1 (\$/bbl)	15.39	10.50	11.68	24.96	13.66	9.14	14.86	15.51	12.94
Revenue (\$mm)									
Natural Gas		230	-	-	-	-	648	-	678
Oil	11,222	43,132	9,791	11,914	13,767	14,155	49,628	13,336	54,414
Other	7,157	24,977	5,945	8,282	8,282	8,282	30,790	8,282	33,127
Total	18,379	68,109	15,736	20,196	22,048	22,437	80,417	21,618	87,541
Ebitda (\$mm)									
Exploration and Production	2,104	7,091	1,023	2,251	2,203	2,265	7,741	2,134	8,706
Other	1,573	5,404	1,480	1,726	1,312	1,221	5,738	1,726	5,738
Total Ebitda	3,677	12,495	2,503	3,976	3,514	3,486	13,479	3,860	14,444
Exploration	28	209	75	50	50	50	225	50	200
Deprec., Deplet., & Amort.	449	1,851	547	558	558	558	2,221	558	2,232
Ebit	3,200	10,435	1,881	3,368	2,906	2,878	11,033	3,252	12,012
Interest	42	144	47	58	58	58	222	58	233
Ebt	3,158	10,291	1,834	3,310	2,848	2,819	10,812	3,193	11,779
Income Tax	834	2,773	538	789	854	846	3,027	958	3,534
Net Income (\$mm)									
Exploration and Production	1,180	3,578	397	1,358					
Other	1,284	3,748	934	934					
Unallocated	(140)	192	(35)	229					
Total	2,324	7,518	1,296	2,521	1,994	1,974	7,784	2,235	8,245
Shares (millions)	830	832	831	832	832	832	832	832	832
Per share (\$)	2.80	9.04	1.56	3.03	2.40	2.37	9.36	2.69	9.91
Ebitda Margin (E&P)	19%	16%	10%	19%	16%	16%	16%	16%	16%
Tax Rate	26%	27%	29%	24%	30%	30%	28%	30%	30%

Lukoil
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>	
Natural Gas	107	27.8	3.7	400	0%
Oil	8,590	17.8	8.6	74,200	72%
Downstream	5,700		5.1	29,000	28%
	14,400		7.2	103,600	100%
Debt (US\$mm)					2,900
Net Present Value (US\$mm)					100,700
Shares (mm)					832
Net Present Value - Standard Estimate (US\$/sh)					121
Net Present Value - Approximation by Correlation (US\$/sh)					131

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