



Rating: Buy
 S&P 500: 1377

Lukoil Oil Company Raise Net Present Value to \$170 a Share

<i>Symbol</i>	LUKOY	<i>Ebitda Next Twelve Months ending 6/30/09 (US\$m)</i>	22,500
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	102.50	<i>Natural Gas and Oil Production/Ebitda (%)</i>	63
<i>Pricing Date</i>	6/4/08	<i>Adjusted Reserves/Production NTM</i>	18.4
<i>Shares (mm)</i>	826	<i>EV/Ebitda</i>	3.9
<i>Market Capitalization (US\$m)</i>	84,600	<i>PV/Ebitda</i>	6.3
<i>Debt (US\$m)</i>	2,100	<i>Undeveloped Reserves (%)</i>	44
<i>Enterprise Value (EV) (US\$m)</i>	86,700	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	20.14
<i>Present Value (PV) (US\$m)</i>	142,500	<i>Present Value Proven Reserves(US\$/boe)</i>	5.68
<i>Net Present Value (US\$/share)</i>	170	<i>Present Value Proven Reserves(US\$/mcfe)</i>	0.95
<i>Debt/Present Value</i>	0.01	<i>Earnings Next Twelve Months (US\$/sh)</i>	16.68
<i>McDep Ratio - EV/PV</i>	0.61	<i>Price/Earnings Next Twelve Months</i>	6
<i>Dividend Yield (%/year)</i>	1.6	<i>Indicated Annual Dividend (US\$/sh)</i>	1.60
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\$100 a barrel and natural gas, \$14 a million btu.			
For historical research on Lukoil since 2004 see www.mcdep.com/2luk.htm			

Summary and Recommendation

The common shares of buy-recommended **Lukoil Oil Company (LUKOY)** offer unlevered appreciation potential of 64% to estimated net present value (NPV) of \$170 a share. We increased NPV from \$134 a share to \$150 on May 13 when we increased long-term oil price for calculating present value from \$80 to \$100 a barrel. Now we increase NPV from \$150 a share to \$170 upon the release of first quarter 2008 results on June 4 that exceeded our earlier expectations. Projected volumes along with current futures prices promise a continuing high level of unlevered cash flow (Ebitda) (see table Next Twelve Months Operating and Financial Estimates). NPV is well supported by projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) in the case of oil and gas production and related to the global median in the case of downstream (see table Functional Cash Flow and Present Value). Prime Minister Putin's recent declaration that oil taxes must be reduced to get production up makes more economic and business sense than much of what we hear from U.S. political leaders. We are further heartened by the announcement on May 29 of a large (perhaps 2 billion barrels recoverable) oil discovery in the Caspian Sea shared with buy-recommended **Gazprom (OGZPY)** and the government of Kazakhstan.

Kurt H. Wulff, CFA

McDep LLC
Independent Stock Idea
 June 4, 2008



Lukoil Oil Company									
Next Twelve Months Operating and Financial Estimates									
									<i>Next Twelve Months</i>
	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Months</i>
	<i>3/31/07</i>	<i>12/31/07</i>	<i>2007</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008E</i>	<i>6/30/09</i>
Volume									
Natural gas (bcf)	126	141	493	152	122	103	141	518	518
Natural Gas (mmcf)	1,404	1,537	1,350	1,668	1,338	1,122	1,537	1,416	1,420
Days	90	92	365	91	91	92	92	366	365
Oil (mmb)	180	174	713	174	174	176	176	701	699
Oil (mbd)	2,005	1,887	1,953	1,915	1,915	1,915	1,915	1,915	1,915
Price									
Natural gas (\$/mcf)	0.79	0.83	0.79	1.25	1.20	1.20	1.20	1.21	1.20
Oil (\$/bbl)									
WTI Cushing	58.08	90.67	72.28	97.94	123.06	132.15	131.57	121.18	131.63
Lukoil export	54.26	85.75	69.22	93.00	116.85	125.48	124.93	115.12	124.99
NY Harbor 3-2-1 (\$/bbl)	11.68	8.19	14.37	7.57	14.47	18.44	13.33	13.45	15.82
Revenue (\$mm)									
Natural Gas	100	118	389	189	146	124	170	629	620
Oil	9,791	14,890	49,341	16,207	20,363	22,108	22,010	80,687	87,363
Other	5,945	10,001	32,897	8,877	8,877	8,877	8,877	35,509	35,509
Total	15,736	24,891	82,238	25,084	29,387	31,109	31,057	116,636	123,492
Ebitda (\$mm)									
Exploration and Production	1,023	3,146	8,209	2,492	3,281	3,557	3,549	12,879	14,077
Other	1,480	2,013	7,494	2,380	1,994	2,006	2,013	8,393	8,393
Total Ebitda	2,503	5,160	15,703	4,872	5,276	5,563	5,562	21,273	22,471
Exploration	75	131	307	34	34	34	34	136	136
Deprec., Deplet., & Amort.	547	497	2,172	624	624	624	624	2,496	2,496
Ebit	1,881	4,532	13,224	4,214	4,618	4,905	4,904	18,641	19,839
Interest	47	42	200	39	39	39	39	155	155
Ebt	1,834	4,490	13,024	4,175	4,579	4,867	4,865	18,486	19,684
Income Tax	538	1,268	3,507	1,012	1,374	1,460	1,460	5,305	5,905
Net Income (\$mm)									
Exploration and Production	397	1,729	4,686	1,449					
Other	934	1,194	4,918	1,709					
Unallocated	(35)	299	(87)	5					
Total	1,296	3,222	9,517	3,163	3,205	3,407	3,406	13,181	13,779
Shares (millions)									
Per share (\$)	1.56	3.89	11.48	3.83	3.88	4.13	4.12	15.96	16.68
Ebitda Margin (E&P)	10%	21%	17%	15%	16%	16%	16%	16%	16%
Tax Rate	29%	28%	27%	24%	30%	30%	30%	29%	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	99	34.7	14.1	1,400	1%
Oil	14,000	18.4	7.2	101,100	71%
Downstream	8,400		4.8	40,000	28%
	22,500		6.3	142,500	100%
Debt (US\$mm)					2,100
Net Present Value (US\$mm)					140,400
Shares (mm)					826
Net Present Value - Standard Estimate (US\$/sh)					170
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					190

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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