

Rating: Buy
S&P 500: 1257

Lukoil Oil Company **Oil for Russia, Natural Gas for Export**

<i>Symbol</i>	(LKOD) LUKOY	<i>Ebitda Next Twelve Months ending 3/31/07 (US\$mm)</i>	13,600
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	77.00	<i>Natural Gas and Oil Production/Ebitda (%)</i>	61
<i>Pricing Date</i>	5/23/06	<i>Adjusted Reserves/Production NTM</i>	19.0
<i>Shares (mm)</i>	830	<i>EV/Ebitda</i>	4.8
<i>Market Capitalization (US\$mm)</i>	63,900	<i>PV/Ebitda</i>	6.9
<i>Debt (US\$mm)</i>	1,800	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	65,700	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	12.11
<i>Present Value (PV) (US\$mm)</i>	93,100	<i>Present Value Proven Reserves(US\$/boe)</i>	3.65
<i>Net Present Value (US\$/share)</i>	110	<i>Present Value Proven Reserves(US\$/mcfe)</i>	0.61
<i>Debt/Present Value</i>	0.02	<i>Earnings Next Twelve Months (US\$/sh)</i>	9.96
<i>McDep Ratio - EV/PV</i>	0.71	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	1.6	<i>Indicated Annual Dividend (US\$/sh)</i>	1.22

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.

Summary and Recommendation

Presenting 2005 results on May 23, management of buy-recommended **Lukoil Oil Company (LUKOY)** sees a doubling of volume in ten years with oil profits rising domestically and natural gas producing profits rising to support growing export volumes. Russia taxes oil exports at a high rate while it appears to be reducing tax on oil production, a combination that encourages investment both in new oil production and domestic refining. Rising global value for natural gas spurs higher wellhead price and opens a new profit line for Lukoil taking natural gas volume from near nil today to 30% of the corporate total by 2015. Lukoil stock offers 43% appreciation potential to estimated net present value (NPV) of \$110 a share. NPV reflects the company's current profitability at half that of global peers, no value for natural gas, proven oil reserves that are likely understated economically and a long-term oil price of \$50 a barrel. The current futures price for delivery over the next six years is more than \$71 a barrel. Lately, stock market volatility has been more of a risk for investors than oil price or global industry fundamentals.

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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					
Oil	8,300	19.0	8.4	69,700	75%
Downstream	5,300		4.4	23,400	25%
	13,600		6.8	93,100	100%
Debt (US\$mm)					1,800
Net Present Value (US\$mm)					91,300
Shares (mm)					830
Net Present Value - Standard Estimate (US\$/sh)					110
Net Present Value - Approximation by Correlation (US\$/sh)					123

Lukoil Oil Company
Next Twelve Months Operations

	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Year</i>	<i>Next</i>
	<i>12/31/04</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>2006E</i>	<i>Twelve</i>
									<i>Months</i>
									<i>3/31/07</i>
Volume									
Oil (mmb)	164	167	172	664	168	170	172	682	682
Oil (mbd)	1,780	1,811	1,868	1,820	1,868	1,868	1,868	1,868	1,868
Price									
Oil (\$/bbl)									
WTI Cushing	48.31	62.52	60.02	56.31	63.33	67.74	64.17	65.09	65.65
Lukoil export	40.52	57.28	56.37	50.79	59.48	63.63	60.27	61.13	61.66
NY Harbor 3-2-1 (\$/bbl)	5.72	16.70	9.06	10.63	7.40	16.30	13.37	11.40	11.91
Revenue (\$mm)									
Oil	6,634	9,544	9,689	33,742	10,002	10,818	10,360	41,691	42,047
Other	2,993	6,780	5,952	22,473	5,952	5,952	5,952	23,807	23,807
Total	9,627	16,324	15,641	56,215	15,954	16,770	16,312	65,497	65,854
Expense									
Fixed	1,527	1,890	1,985	7,093	1,985	1,985	1,985	7,941	7,941
Variable	4,580	5,671	5,956	21,279	6,148	6,650	6,368	25,627	25,846
Other	1,509	5,361	4,906	17,178	4,628	4,628	4,628	18,512	18,512
Ebitda (\$mm)									
Exploration and Production	527	1,982	1,748	5,370	1,868	2,183	2,006	8,122	8,260
Other	1,484	1,420	1,045	5,295	1,324	1,324	1,324	5,295	5,295
Total Ebitda	2,011	3,402	2,793	10,665	3,192	3,507	3,330	13,417	13,555
Exploration	46	61	73	317	73	73	73	292	292
Deprec., Deplet., & Amort.	269	336	378	1,315	378	378	378	1,512	1,512
Ebit	1,696	3,005	2,342	9,033	2,741	3,056	2,879	11,613	11,751
Interest	21	13	35	100	35	35	35	140	140
Ebt	1,675	2,992	2,307	8,933	2,706	3,021	2,844	11,473	11,610
Income Tax	516	776	664	2,467	779	869	818	3,302	3,341
Net Income (\$mm)									
Exploration and Production	156	1,373	1,112	3,362	945	1,122	1,023	4,145	4,222
Other	934	946	265	3,059	670	680	675	2,702	2,707
Unallocated	69	(103)	266	45	312	349	328	1,325	1,340
Total	1,159	2,216	1,643	6,466	1,927	2,151	2,026	8,171	8,269
Shares (millions)	834	830	830	830	830	830	830	830	830
Per share (\$)	1.39	2.67	1.98	7.79	2.32	2.59	2.44	9.85	9.96
Ebitda Margin (E&P)	8%	21%	18%	16%	19%	20%	19%	19%	20%
Tax Rate	31%	26%	29%	28%	29%	29%	29%	29%	29%

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