

Rating: Buy
S&P 500: 1273

Lukoil Oil Company **Russia Stronger than Ever**

<i>Symbol</i>	LUKOY	<i>Ebitda Next Twelve Months ending 6/30/07 (US\$mm)</i>	14,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	83.00	<i>Natural Gas and Oil Production/Ebitda (%)</i>	59
<i>Pricing Date</i>	6/29/06	<i>Adjusted Reserves/Production NTM</i>	18.9
<i>Shares (mm)</i>	830	<i>EV/Ebitda</i>	5.0
<i>Market Capitalization (US\$mm)</i>	68,900	<i>PV/Ebitda</i>	6.6
<i>Debt (US\$mm)</i>	1,000	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	69,900	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	12.01
<i>Present Value (PV) (US\$mm)</i>	92,300	<i>Present Value Proven Reserves(US\$/boe)</i>	3.49
<i>Net Present Value (US\$/share)</i>	110	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.58
<i>Debt/Present Value</i>	0.01	<i>Earnings Next Twelve Months (US\$/sh)</i>	10.50
<i>McDep Ratio - EV/PV</i>	0.76	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	1.5	<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

Buy-recommended **Lukoil Oil Company (LUKOY)** is the leading oil producer in the country that has more oil and gas resources than any other. We think Russian expert, Prof. Marshall Goldman of Harvard University and Wellesley College, is right when he says Russia appears stronger economically relative to the rest of the world today than it ever has since the reign of Catherine the Great. President Putin can point to a high personal approval rating among his people as well as a budget and trade surplus when he hosts the G8 heads of state in St. Petersburg later this summer. Thus, a promising company in a promising country ought to be a promising stock. Taking account of results just reported for the first quarter of 2006, we project \$14 billion of cash flow for the next twelve months ended June 30, 2007. At current stock price, enterprise value is less than five times unlevered cash flow and near the median for peer companies. Yet cash flow is about half what it could be by Western standards and Lukoil's reserve life is twice that of mega cap companies. We capture a small portion of future potential in estimated net present value of \$110 a share. While stock market volatility appears to be the main risk, a recent break below the 200-day average has quickly reversed and the stock has resumed its uptrend by that popular standard.

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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	8,200	18.9	8.4	68,900	75%
Downstream	5,800		4.0	23,400	25%
	14,000		6.6	92,300	100%
Debt (US\$mm)					1,000
Net Present Value (US\$mm)					91,300
Shares (mm)					830
Net Present Value - Standard Estimate (US\$/sh)					110

Lukoil Oil Company
Next Twelve Months Operations

	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Year</i>	<i>Q1E</i>	<i>Next</i>
	<i>3/31/05</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>3/31/07</i>	<i>Twelve</i>
									<i>Months</i>
Volume									
Oil (mmb)	162	172	664	169	171	173	687	169	687
Oil (mbd)	1,800	1,868	1,820	1,882	1,882	1,882	1,882	1,882	1,882
Price									
Oil (\$/bbl)									
WTI Cushing	49.65	60.02	56.31	63.33	70.40	72.11	69.92	74.65	73.83
Lukoil export	41.29	56.37	50.79	58.26	64.76	66.34	64.35	68.67	67.91
NY Harbor 3-2-1 (\$/bbl)	6.17	9.06	10.63	7.40	15.35	16.06	12.21	10.79	13.37
Revenue (\$mm)									
Oil	6,689	9,689	33,742	9,868	11,092	11,486	44,204	11,631	46,649
Other	3,927	5,952	22,473	5,173	5,173	5,173	20,692	5,173	20,692
Total	10,616	15,641	56,215	15,041	16,265	16,659	64,896	16,804	67,341
Expense									
Fixed	1,510	1,985	7,093	1,389	1,389	1,389	5,557	1,389	5,557
Variable	4,529	5,956	21,279	6,947	7,808	8,086	31,118	8,188	32,839
Other	2,593	4,906	17,178	3,874	3,726	3,726	15,053	3,726	14,905
Ebitda (\$mm)									
Exploration and Production	650	1,748	5,370	1,532	1,894	2,011	7,529	2,054	8,253
Other	1,334	1,045	5,295	1,299	1,447	1,447	5,639	1,447	5,786
Total Ebitda	1,984	2,793	10,665	2,831	3,341	3,458	13,168	3,501	14,039
Exploration	36	73	317	35	35	35	140	35	140
Deprec., Deplet., & Amort.	284	378	1,315	408	408	408	1,632	408	1,632
Ebit	1,664	2,342	9,033	2,388	2,898	3,015	11,396	3,058	12,267
Interest	19	35	100	21	21	21	83	21	83
Ebt	1,645	2,307	8,933	2,367	2,877	2,994	11,313	3,037	12,184
Income Tax	458	664	2,467	674	819	852	3,221	865	3,469
Net Income (\$mm)									
Exploration and Production	332	1,112	3,362	824	1,216	1,298	4,694	1,329	5,340
Other	983	265	3,059	941	929	934	3,741	936	3,744
Unallocated	(128)	266	45	(72)	(87)	(91)	(343)	(92)	(370)
Total	1,187	1,643	6,466	1,693	2,058	2,142	8,092	2,172	8,715
Shares (millions)	830	830	830	830	830	830	830	830	830
Per share (\$)	1.43	1.98	7.79	2.04	2.48	2.58	9.75	2.62	10.50
Ebitda Margin (E&P)	10%	18%	16%	16%	17%	18%	17%	18%	18%
Tax Rate	28%	29%	28%	28%	28%	28%	28%	28%	28%

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