

Rating: Buy  
S&P 500: 1367

## Lukoil Oil Company Presents to Investors in New York

<i>Symbol</i>	LUKOY	<i>Ebitda Next Twelve Months ending 9/30/07 (US\$mm)</i>	12,600
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	82.30	<i>Natural Gas and Oil Production/Ebitda (%)</i>	58
<i>Pricing Date</i>	10/19/06	<i>Adjusted Reserves/Production NTM</i>	18.7
<i>Shares (mm)</i>	830	<i>EV/Ebitda</i>	5.6
<i>Market Capitalization (US\$mm)</i>	68,300	<i>PV/Ebitda</i>	7.4
<i>Debt (US\$mm)</i>	2,100	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	70,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	10.48
<i>Present Value (PV) (US\$mm)</i>	93,400	<i>Present Value Proven Reserves(US\$/boe)</i>	3.47
<i>Net Present Value (US\$/share)</i>	110	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.58
<i>Debt/Present Value</i>	0.02	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.71
<i>McDep Ratio - EV/PV</i>	0.75	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	1.5	<i>Indicated Annual Dividend (US\$/sh)</i>	1.23

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\$60 a barrel and natural gas, \$10 a million btu.

### Summary and Recommendation

Buy-recommended **Lukoil Oil Company (LUKOY)** presented its long-term outlook and recent results on October 18 in the same New York St. Regis venue as buy-recommended **ExxonMobil (XOM)** has used. Ironically, Chairman Alekperov was more respectful of investors than was the past chairman of XOM in a meeting we recall. While the Russian executives' presentation was translated into English for most of us, the two English speaking American directors also spoke. Through the translator some of Mr. Alekperov's insights included the opinion that the Russian oil export tax, which he said Lukoil helped design, was being managed responsibly and acted to insulate Russian producers from volatility in the global price. Lukoil sees natural gas, which we have not been counting in our analysis so far, as providing most of its growth in hydrocarbon volume. The chief executive looks for a five-fold increase in the domestic price in the next five years. Second quarter results were as strong as those for leading global companies reported in late July and early August.

### Political Risk in Investing in Russia

We understand that our positive opinion on Lukoil and **Gazprom (OGZPY)** may not suit all investors. Borrowing words from a popular U.S. President, we trust our analysis, but we also want to verify as best we can that circumstances unfold constructively on balance.

On the positive side, we believe in global growth. In our opinion, Russia will be better off with prosperous energy companies that satisfy stockholders, customers and the long-term interests of the country.

Kurt H. Wulff, CFA

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**Lukoil Oil Company**  
**Next Twelve Months Operations**

	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Next Twelve Months</i>
	<i>6/30/05</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>
<b>Volume</b>									
Oil (mmb)	164	169	173	175	175	<b>693</b>	171	173	<b>695</b>
Oil (mbd)	1,800	1,882	1,903	1,903	1,903	<b>1,898</b>	1,903	1,903	<b>1,903</b>
<b>Price</b>									
Oil (\$/bbl)									
WTI Cushing	53.05	63.33	70.47	70.42	60.36	<b>66.15</b>	63.83	65.78	<b>64.24</b>
Lukoil export	47.74	58.26	64.80	64.76	55.51	<b>60.84</b>	58.70	60.49	<b>59.08</b>
NY Harbor 3-2-1 (\$/bbl)	10.59	7.40	15.39	11.67	6.31	<b>10.19</b>	7.46	11.61	<b>9.31</b>
<b>Revenue (\$mm)</b>									
Oil	7,820	9,868	11,222	11,337	9,718	<b>42,145</b>	10,053	10,476	<b>41,033</b>
Other	5,814	5,173	7,157	7,157	7,157	<b>26,645</b>	7,157	7,157	<b>28,630</b>
Total	13,634	15,041	18,379	18,495	16,876	<b>68,791</b>	17,210	17,633	<b>69,663</b>
<b>Expense</b>									
Fixed	1,707	1,389	1,520	1,520	1,520	<b>5,948</b>	1,520	1,520	<b>6,078</b>
Variable	5,122	6,947	7,598	7,676	6,580	<b>28,801</b>	6,807	7,093	<b>27,783</b>
Other	4,318	3,874	5,585	5,738	6,112	<b>21,308</b>	5,859	5,585	<b>23,293</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	990	1,532	2,104	2,141	1,619	<b>7,396</b>	1,727	1,863	<b>7,172</b>
Other	1,496	1,299	1,573	1,420	1,045	<b>5,337</b>	1,299	1,573	<b>5,337</b>
Total Ebitda	2,486	2,831	3,677	3,561	2,664	<b>12,733</b>	3,026	3,436	<b>12,509</b>
Exploration	147	35	28	80	80	<b>223</b>	80	80	<b>320</b>
Deprec., Deplet., & Amort.	317	408	449	449	449	<b>1,755</b>	449	449	<b>1,796</b>
<b>Ebit</b>	2,022	2,388	3,200	3,032	2,135	<b>10,755</b>	2,497	2,907	<b>10,393</b>
Interest	34	21	42	42	42	<b>146</b>	42	42	<b>167</b>
<b>Ebt</b>	1,988	2,367	3,158	2,990	2,093	<b>10,609</b>	2,455	2,865	<b>10,226</b>
Income Tax	569	674	834	897	628	<b>3,033</b>	736	860	<b>3,068</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	545	824	1,180						
Other	865	941	1,284						
Unallocated	9	(72)	(140)						
Total	1,419	1,693	2,324	2,093	1,465	<b>7,576</b>	1,718	2,006	<b>7,158</b>
<b>Shares (millions)</b>	830	830	830	830	830	<b>830</b>	830	830	<b>830</b>
Per share (\$)	1.71	2.04	2.80	2.52	1.77	<b>9.13</b>	2.07	2.42	<b>8.62</b>
Ebitda Margin (E&P)	13%	16%	19%	19%	17%	<b>18%</b>	17%	18%	<b>17%</b>
Tax Rate	29%	28%	26%	30%	30%	<b>29%</b>	30%	30%	<b>30%</b>

**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	7,200	18.7	9.7	70,000
Downstream	5,300		4.4	23,400
	12,500		7.5	93,400
Debt (US\$mm)				2,100
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)				119

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