

Rating: Buy
S&P 500: 1506

Lukoil Oil Company **Raise NPV to \$121 a Share**

<i>Symbol</i>	LUKOY	<i>Ebitda Next Twelve Months ending 6/30/08 (US\$mm)</i>	13,400
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	77.15	<i>Natural Gas and Oil Production/Ebitda (%)</i>	58
<i>Pricing Date</i>	6/28/07	<i>Adjusted Reserves/Production NTM</i>	17.8
<i>Shares (mm)</i>	831	<i>EV/Ebitda</i>	5.0
<i>Market Capitalization (US\$mm)</i>	64,100	<i>PV/Ebitda</i>	7.7
<i>Debt (US\$mm)</i>	2,300	<i>Undeveloped Reserves (%)</i>	44
<i>Enterprise Value (EV) (US\$mm)</i>	66,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	10.63
<i>Present Value (PV) (US\$mm)</i>	102,900	<i>Present Value Proven Reserves(US\$/boe)</i>	3.76
<i>Net Present Value (US\$/share)</i>	121	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.63
<i>Debt/Present Value</i>	0.02	<i>Earnings Next Twelve Months (US\$/sh)</i>	9.01
<i>McDep Ratio - EV/PV</i>	0.65	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	1.9	<i>Indicated Annual Dividend (US\$/sh)</i>	1.47

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

Estimated net present value (NPV) for buy-recommended **Lukoil Oil Company (LUKOY)** increased to \$121 a share from \$110 on May 29 when we raised our long-term oil price assumption to \$66 a barrel from \$60. Meanwhile first quarter 2007 results reported on June 28 were better than for the fourth quarter 2006, but not as good as expected for the rest of 2007. High oil export tax contrasts with increasing production and strong global refined product prices. The excise tax named for Russian Finance Minister Aleksey Kudrin disproportionately hurts profits temporarily when crude oil price declines, but the effect should be reversing as crude oil has been rising again. More positively, volume growth is helping earnings as crude oil production in the first quarter increased 3% over the fourth and 6% over the first of last year. Also, crude oil furnished to Lukoil's domestic refineries is more lightly taxed and thus Lukoil reports strong refining earnings. While Lukoil stock price is below its 200-day average, we believe investors should be adding to holdings to keep a double weighting as in the illustrative McDep Energy Portfolio.

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Please see disclosures on the final page.

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>Q4E</i>	<i>Year</i>	<i>Next Twelve Months</i>
	<i>3/31/06</i>	<i>12/31/06</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>
Volume									
Natural gas (bcf)			565					565	565
Natural Gas (mmcf)			1,548					1,548	1,548
Oil (mmb)	169	180	703	180	182	184	184	732	732
Oil (mbd)	1,882	1,953	1,925	2,005	2,005	2,005	2,005	2,005	2,005
Price									
Natural gas (\$/mcf)			0.41					0.80	1.20
Oil (\$/bbl)									
WTI Cushing	63.33	59.99	66.05	58.08	64.89	69.38	70.77	65.78	71.14
Lukoil export	58.26	58.00	61.39	54.26	60.63	64.82	66.12	61.50	66.46
NY Harbor 3-2-1 (\$/bbl)	7.40	7.54	10.50	11.68	25.51	19.60	13.71	17.63	15.74
Revenue (\$mm)									
Natural Gas			230	-	-	-	-	452	678
Oil	9,868	10,420	43,132	9,791	11,062	11,956	12,196	45,006	48,635
Other	5,173	6,020	24,977	5,945	5,945	5,945	5,945	23,779	23,779
Total	15,041	16,440	68,109	15,736	17,007	17,901	18,141	68,785	72,414
Ebitda (\$mm)									
Exploration and Production	1,532	1,018	7,091	1,023	1,770	1,913	1,951	6,657	7,782
Other	1,299	1,221	5,404	1,480	1,573	1,312	1,221	5,585	5,585
Total Ebitda	2,831	2,239	12,495	2,503	3,343	3,225	3,172	12,243	13,367
Exploration	35	91	209	75	75	75	75	300	300
Deprec., Deplet., & Amort.	408	526	1,851	547	547	547	547	2,188	2,188
Ebit	2,388	1,622	10,435	1,881	2,721	2,603	2,550	9,755	10,879
Interest	21	48	144	47	47	47	47	186	186
Ebt	2,367	1,574	10,291	1,834	2,674	2,556	2,504	9,568	10,693
Income Tax	674	495	2,773	538	802	767	751	2,858	3,208
Net Income (\$mm)									
Exploration and Production	824	100	3,578	397					
Other	941	624	3,748	934					
Unallocated	(72)	355	192	(35)					
Total	1,693	1,079	7,518	1,296	1,872	1,789	1,753	6,710	7,485
Shares (millions)	830	830	832	831	831	831	831	831	831
Per share (\$)	2.04	1.30	9.04	1.56	2.25	2.15	2.11	8.07	9.01
Ebitda Margin (E&P)	16%	10%	16%	10%	16%	16%	16%	15%	16%
Tax Rate	28%	31%	27%	29%	30%	30%	30%	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	7,690	17.8	9.6	73,500	71%
Downstream	5,600		5.2	29,000	28%
	13,400		7.7	102,900	100%
Debt (US\$mm)					2,300
Net Present Value (US\$mm)					100,600
Shares (mm)					831
Net Present Value - Standard Estimate (US\$/sh)					121
Net Present Value - Approximation by Correlation (US\$/sh)					124

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