

Rating: Buy  
 S&P 500: 1289

## Lukoil Oil Company

### Raise Net Present Value to \$110 a Share

<i>Symbol</i>	(LKOD) LUKOY	<i>Ebitda Next Twelve Months ending 3/31/07 (US\$m)</i>	15,800
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	87.40	<i>Natural Gas and Oil Production/Ebitda (%)</i>	64
<i>Pricing Date</i>	4/13/06	<i>Adjusted Reserves/Production NTM</i>	20.2
<i>Shares (mm)</i>	830	<i>EV/Ebitda</i>	4.6
<i>Market Capitalization (US\$m)</i>	72,500	<i>PV/Ebitda</i>	5.8
<i>Debt (US\$m)</i>	600	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$m)</i>	73,200	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	15.31
<i>Present Value (PV) (US\$m)</i>	91,900	<i>Present Value Proven Reserves(US\$/boe)</i>	3.65
<i>Net Present Value (US\$/share)</i>	110	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.61
<i>Debt/Present Value</i>	0.01	<i>Earnings Next Twelve Months (US\$/sh)</i>	12.64
<i>McDep Ratio - EV/PV</i>	0.80	<i>Price/Earnings Next Twelve Months</i>	7
<i>Dividend Yield (%/year)</i>	1.2	<i>Indicated Annual Dividend (US\$/sh)</i>	1.01

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

We raise our estimate of net present value of buy-recommended **Lukoil Oil Company (LUKOY)** to \$110 a share from \$100. An oil discovery in the Caspian Sea announced in late January contributes to the increase. Estimated NPV is up 112% in two years from \$52 adjusted for a four for one stock split since then. The unlevered multiple of present value to cash flow, PV/Ebitda, at 5.8 times is comparable to the median of mega caps at 5.7 times, both tied to a long-term oil price of \$50 a barrel. Lukoil's adjusted reserve life is twice that of the mega caps. Moreover as a Russian company, Lukoil is in a preferred position to profit from the development of some of the world's richest oil and gas resources. Yet those resources require large capital investments such that we expect a high excise tax on exports to be relaxed to encourage an orderly pace of development. Though investment in any country, including Russia, carries political risk, we think President Putin understands the strategic importance of energy and the need for a balance of state-owned and publicly traded equity participation.

Kurt H. Wulff, CFA

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**Lukoil**  
**Functional Cash Flow and Present Value**

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
Natural Gas					
Oil	10,100	20.2	7.0	71,000	77%
Downstream	5,700		3.7	20,900	23%
	15,800		5.8	91,900	100%
Debt (US\$mm)					600
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)					29

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

	<i>Q4</i> <i>12/31/04</i>	<i>Q3</i> <i>9/30/05</i>	<i>Q4E</i> <i>12/31/05</i>	<i>Year</i> <i>2005E</i>	<i>Q1E</i> <i>3/31/06</i>	<i>Q2E</i> <i>6/30/06</i>	<i>Q3E</i> <i>9/30/06</i>	<i>Q4E</i> <i>12/31/06</i>	<i>Year</i> <i>2006E</i>	<i>Next</i> <i>Twelve</i> <i>Months</i> <i>3/31/07</i>
<b>Volume</b>										
Oil (mmb)	164	167	167	<b>659</b>	163	165	167	167	<b>661</b>	<b>661</b>
Oil (mbd)	1,780	1,811	1,811	<b>1,806</b>	1,811	1,811	1,811	1,811	<b>1,811</b>	<b>1,811</b>
<b>Price</b>										
Oil (\$/bbl)										
WTI Cushing	48.31	62.52	60.02	<b>56.31</b>	63.33	69.82	72.24	72.85	<b>69.56</b>	<b>71.95</b>
Lukoil export	40.52	57.28	54.99	<b>50.40</b>	58.02	63.97	66.18	66.74	<b>63.76</b>	<b>65.92</b>
NY Harbor 3-2-1 (\$/bbl)	5.72	16.70	9.06	<b>10.63</b>	7.27	14.73	13.00	9.50	<b>11.13</b>	<b>12.21</b>
<b>Revenue (\$mm)</b>										
Oil	6,634	9,544	9,161	<b>33,214</b>	9,457	10,542	11,027	11,120	<b>42,146</b>	<b>43,575</b>
Other	2,993	6,780	6,780	<b>23,302</b>	6,780	6,780	6,780	6,780	<b>27,122</b>	<b>27,122</b>
Total	9,627	16,324	15,942	<b>56,516</b>	16,237	17,322	17,807	17,900	<b>69,268</b>	<b>70,697</b>
<b>Expense (\$mm)</b>										
Fixed	1,527	1,890	1,890	<b>6,998</b>	1,890	1,890	1,890	1,890	<b>7,562</b>	<b>7,562</b>
Variable	4,580	5,671	5,444	<b>20,767</b>	5,620	6,264	6,553	6,608	<b>25,045</b>	<b>25,894</b>
Other	1,509	5,361	5,361	<b>17,633</b>	5,361	5,361	5,361	5,361	<b>21,443</b>	<b>21,443</b>
<b>Ebitda (\$mm)</b>										
Exploration and Production	527	1,982	1,827	<b>5,449</b>	1,947	2,387	2,584	2,622	<b>9,539</b>	<b>10,120</b>
Other	1,484	1,420	1,420	<b>5,669</b>	1,420	1,420	1,420	1,420	<b>5,679</b>	<b>5,679</b>
Total Ebitda	2,011	3,402	3,247	<b>11,118</b>	3,367	3,807	4,004	4,041	<b>15,219</b>	<b>15,799</b>
Exploration	46	61	61	<b>305</b>	61	61	61	61	<b>244</b>	<b>244</b>
Deprec., Deplet., & Amort.	269	336	336	<b>1,273</b>	336	336	336	336	<b>1,344</b>	<b>1,344</b>
<b>Ebit</b>	1,696	3,005	2,850	<b>9,540</b>	2,970	3,410	3,607	3,644	<b>13,631</b>	<b>14,211</b>
Interest	21	13	13	<b>78</b>	13	13	13	13	<b>51</b>	<b>51</b>
<b>Ebt</b>	1,675	2,992	2,837	<b>9,462</b>	2,957	3,397	3,594	3,632	<b>13,580</b>	<b>14,160</b>
Income Tax	516	776	736	<b>2,539</b>	767	881	932	942	<b>3,522</b>	<b>3,672</b>
<b>Net Income (\$mm)</b>										
Exploration and Production	156	1,373	1,237	<b>3,487</b>	1,325	1,651	1,798	1,826	<b>6,600</b>	<b>7,030</b>
Other	934	946	962	<b>3,756</b>	966	982	988	989	<b>3,925</b>	<b>3,945</b>
Unallocated	69	(103)	(98)	<b>(319)</b>	(102)	(117)	(124)	(125)	<b>(467)</b>	<b>(487)</b>
Total	1,159	2,216	2,101	<b>6,924</b>	2,190	2,516	2,662	2,690	<b>10,058</b>	<b>10,488</b>
<b>Shares (millions)</b>	834	830	830	<b>830</b>	830	830	830	830	<b>830</b>	<b>830</b>
Per share (\$)	1.39	2.67	2.53	<b>8.34</b>	2.64	3.03	3.21	3.24	<b>12.12</b>	<b>12.64</b>
Ebitda Margin (E&P)	8%	21%	20%	<b>16%</b>	21%	23%	23%	24%	<b>23%</b>	<b>23%</b>
Tax Rate	31%	26%	26%	<b>27%</b>	26%	26%	26%	26%	<b>26%</b>	<b>26%</b>

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