

Rating: Buy  
S&P 500: 1430

## **Lukoil Oil Company** **Downside Oil Price Protection**

<i>Symbol</i>	LUKOY	<i>Ebitda Next Twelve Months ending 12/31/07 (US\$mm)</i>	12,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	78.70	<i>Natural Gas and Oil Production/Ebitda (%)</i>	56
<i>Pricing Date</i>	1/12/07	<i>Adjusted Reserves/Production NTM</i>	18.1
<i>Shares (mm)</i>	835	<i>EV/Ebitda</i>	5.7
<i>Market Capitalization (US\$mm)</i>	65,700	<i>PV/Ebitda</i>	7.9
<i>Debt (US\$mm)</i>	2,100	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	67,800	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	9.41
<i>Present Value (PV) (US\$mm)</i>	93,900	<i>Present Value Proven Reserves(US\$/boe)</i>	3.40
<i>Net Present Value (US\$/share)</i>	110	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.57
<i>Debt/Present Value</i>	0.02	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.16
<i>McDep Ratio - EV/PV</i>	0.72	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	1.6	<i>Indicated Annual Dividend (US\$/sh)</i>	1.25

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.

For historical research on Lukoil since 2004 see <http://www.mcdep.com/2luk.htm>

### **Summary and Recommendation**

Buy-recommended **Lukoil Oil Company (LUKOY)** has surprisingly slight exposure to lower near-term profitability as a result of recent crude oil price declines. Russia has a high excise tax on globally priced crude oil exports while low, controlled prices on domestic natural gas and oil are gradually being increased. As a result the tax collector takes the hit on export price while profits continue to expand for rapidly growing domestic operations. Results for the quarter ended September 30, 2006, reported today, exceeded our expectations in volume and cash flow thus strengthening our projection for the year 2007. One of the largest tax payers in Russia, Lukoil enjoys a positive political position. Estimated net present value of \$110 a share reflects a modest multiple of cash flow considering that Russia has richer natural gas and oil resources than any single country. Lukoil stock has a double weighting in the illustrative McDep Energy Portfolio concentrated on real assets that promise a high return providing clean energy to support global growth.

Kurt H. Wulff, CFA

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

	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>9/30/05</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>	<i>12/31/07</i>
<b>Volume</b>									
Oil (mmb)	167	173	180	180	<b>703</b>	176	178	180	<b>716</b>
Oil (mbd)	1,811	1,903	1,961	1,961	<b>1,927</b>	1,961	1,961	1,961	<b>1,961</b>
<b>Price</b>									
Oil (\$/bbl)									
WTI Cushing	62.52	70.47	70.42	59.99	<b>66.05</b>	54.33	56.69	58.76	<b>57.49</b>
Lukoil export	57.28	64.80	64.42	54.88	<b>60.58</b>	49.70	51.86	53.75	<b>52.61</b>
NY Harbor 3-2-1 (\$/bbl)	16.70	15.39	11.67	7.54	<b>10.50</b>	6.57	11.56	11.64	<b>9.38</b>
<b>Revenue (\$mm)</b>									
Oil	9,544	11,222	11,622	9,901	<b>42,613</b>	8,772	9,255	9,697	<b>37,655</b>
Other	6,780	7,157	6,627	6,627	<b>25,584</b>	6,627	6,627	6,627	<b>26,507</b>
Total	16,324	18,379	18,249	16,528	<b>68,197</b>	15,399	15,882	16,324	<b>64,162</b>
<b>Expense</b>									
Fixed	1,890	1,520	1,531	1,531	<b>5,971</b>	1,531	1,531	1,531	<b>6,123</b>
Variable	5,671	7,598	7,654	6,521	<b>28,720</b>	5,777	6,095	6,387	<b>24,799</b>
Other	5,361	5,585	5,315	5,581	<b>20,355</b>	5,328	5,054	5,315	<b>21,279</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	1,982	2,104	2,437	1,850	<b>7,923</b>	1,464	1,629	1,780	<b>6,732</b>
Other	1,420	1,573	1,312	1,045	<b>5,229</b>	1,299	1,573	1,312	<b>5,229</b>
Total Ebitda	3,402	3,677	3,749	2,895	<b>13,151</b>	2,763	3,202	3,092	<b>11,961</b>
Exploration	61	28	55	55	<b>173</b>	55	55	55	<b>220</b>
Deprec., Deplet., & Amort.	336	449	468	468	<b>1,793</b>	468	468	468	<b>1,872</b>
<b>Ebit</b>	3,005	3,200	3,226	2,372	<b>11,185</b>	2,240	2,679	2,569	<b>9,869</b>
Interest	13	42	34	34	<b>131</b>	34	34	34	<b>137</b>
<b>Ebt</b>	2,992	3,158	3,192	2,338	<b>11,054</b>	2,206	2,644	2,534	<b>9,732</b>
Income Tax	776	834	770	701	<b>2,979</b>	662	793	760	<b>2,920</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	1,373	1,180	1,474						
Other	946	1,284	899						
Unallocated	(103)	(140)	49						
Total	2,216	2,324	2,422	1,636	<b>8,075</b>	1,544	1,851	1,774	<b>6,812</b>
<b>Shares (millions)</b>	830	830	835	835	<b>833</b>	835	835	835	<b>835</b>
Per share (\$)	2.67	2.80	2.90	1.96	<b>9.70</b>	1.85	2.22	2.12	<b>8.16</b>
Ebitda Margin (E&P)	21%	19%	21%	19%	<b>19%</b>	17%	18%	18%	<b>18%</b>
Tax Rate	26%	26%	24%	30%	<b>27%</b>	30%	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>	<i>(US\$mm)</i>
Natural Gas				
Oil	6,800	18.1	10.4	70,600
Downstream	5,200		4.5	23,400
	12,000		7.8	94,000
Debt (US\$mm)				2,100
Net Present Value (US\$mm)				91,900
Shares (mm)				835
Net Present Value - Standard Estimate (US\$/sh)				110
Net Present Value - Approximation by Correlation (US\$/sh)				124

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