

Rating: Buy  
S&P 500: 1480

## Lukoil Oil Company Tax Timing

<i>Symbol</i>	LUKOY	<i>Ebitda Next Twelve Months ending 3/31/08 (US\$mm)</i>	13,000
<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>	4/24/07	<i>Adjusted Reserves/Production NTM</i>	18.3
<i>Shares (mm)</i>	830	<i>EV/Ebitda</i>	5.4
<i>Market Capitalization (US\$mm)</i>	68,300	<i>PV/Ebitda</i>	7.2
<i>Debt (US\$mm)</i>	1,700	<i>Undeveloped Reserves (%)</i>	44
<i>Enterprise Value (EV) (US\$mm)</i>	70,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	9.36
<i>Present Value (PV) (US\$mm)</i>	93,000	<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>	8.69
<i>McDep Ratio - EV/PV</i>	0.75	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	1.6	<i>Indicated Annual Dividend (US\$/sh)</i>	1.28

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 [www.mcdep.com/2luk.htm](http://www.mcdep.com/2luk.htm)

### Summary and Recommendation

Buy-recommended **Lukoil Oil Company (LUKOY)** reported less cash flow than expected for the fourth quarter of 2006 on April 24 mainly because of the timing of the Russian crude oil excise tax. As explained by Vice President Leonid Fedun on the earnings call, the government adjusts its excise tax on crude oil exports after a two month delay. The mismatch late last year as oil price was declining should be reversed as oil price rises again. Still Lukoil had a record year and we project cash flow in 2007 that more than justifies net present value of \$110 a share. Mr. Fedun further explains that since Russia's legacy fields have been mostly exploited the government is offering lower tax rates for investment in new fields. Chief Executive Vagit Alekperov is proud that Lukoil (70%) and **ConocoPhillips** (30%) are developing a 500 million barrel field expected to produce 150,000 barrels daily by 2009. Noting that the government is also encouraging natural gas investment with the staged removal of price controls and without a high excise tax, we add natural gas to our financial models for the company. 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.

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**Next Twelve Months Operations**

	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Year</i>	<i>Next</i>
	<i>12/31/05</i>	<i>9/30/06</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>2007E</i>	<i>Twelve</i>
									<i>Months</i>
									<i>3/31/08</i>
<b>Volume</b>									
Natural gas (bcf)				<b>565</b>	139	141	142	<b>565</b>	<b>565</b>
Natural Gas (mmcf)				<b>1,548</b>	1,548	1,548	1,548	<b>1,548</b>	<b>1,548</b>
Days	92	92	92	<b>365</b>	90	91	92	<b>365</b>	<b>365</b>
Oil (mmb)	172	180	180	<b>703</b>	176	178	180	<b>713</b>	<b>713</b>
Oil (mbd)	1,868	1,961	1,953	<b>1,925</b>	1,953	1,953	1,953	<b>1,953</b>	<b>1,953</b>
<b>Price</b>									
Natural gas (\$/mcf)				<b>0.41</b>	0.41	0.41	0.41	<b>0.41</b>	<b>0.41</b>
Oil (\$/bbl)									
WTI Cushing	60.02	70.42	59.99	<b>66.05</b>	58.08	65.07	67.85	<b>65.12</b>	<b>68.20</b>
Lukoil export	56.37	64.42	58.00	<b>61.39</b>	56.15	62.91	65.60	<b>62.99</b>	<b>65.93</b>
NY Harbor 3-2-1 (\$/bbl)	9.06	11.67	7.54	<b>10.50</b>	11.68	21.91	17.36	<b>15.53</b>	<b>15.35</b>
<b>Revenue (\$mm)</b>									
Natural Gas				<b>230</b>	57	57	58	<b>230</b>	<b>230</b>
Oil	9,689	11,622	10,420	<b>43,132</b>	9,868	11,180	11,785	<b>44,899</b>	<b>46,996</b>
Other	5,952	6,627	6,020	<b>24,977</b>	6,020	6,020	6,020	<b>24,079</b>	<b>24,079</b>
Total	15,641	18,249	16,440	<b>68,109</b>	15,945	17,257	17,863	<b>69,208</b>	<b>71,305</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	1,748	2,437	1,018	<b>7,091</b>	1,588	1,798	1,895	<b>7,221</b>	<b>7,556</b>
Other	1,045	1,312	1,221	<b>5,404</b>	1,299	1,573	1,312	<b>5,404</b>	<b>5,404</b>
Total Ebitda	2,793	3,749	2,239	<b>12,495</b>	2,887	3,371	3,207	<b>12,625</b>	<b>12,960</b>
Exploration	73	55	91	<b>209</b>	91	91	91	<b>364</b>	<b>364</b>
Deprec., Deplet., & Amort.	378	468	526	<b>1,851</b>	526	526	526	<b>2,104</b>	<b>2,104</b>
<b>Ebit</b>	2,342	3,226	1,622	<b>10,435</b>	2,270	2,754	2,590	<b>10,157</b>	<b>10,492</b>
Interest	35	34	48	<b>144</b>	48	48	48	<b>190</b>	<b>190</b>
<b>Ebt</b>	2,307	3,192	1,574	<b>10,291</b>	2,222	2,706	2,542	<b>9,966</b>	<b>10,302</b>
Income Tax	664	770	495	<b>2,773</b>	667	812	763	<b>2,990</b>	<b>3,091</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	1,112	1,474	100	<b>3,578</b>					
Other	265	899	624	<b>3,748</b>					
Unallocated	266	49	355	<b>192</b>					
Total	1,643	2,422	1,079	<b>7,518</b>	1,556	1,894	1,779	<b>6,976</b>	<b>7,211</b>
<b>Shares (millions)</b>									
Per share (\$)	830	835	830	<b>832</b>	830	830	830	<b>830</b>	<b>830</b>
Ebitda Margin (E&P)	1.98	2.90	1.30	<b>9.04</b>	1.87	2.28	2.14	<b>8.41</b>	<b>8.69</b>
Tax Rate	18%	21%	10%	<b>16%</b>	16%	16%	16%	<b>16%</b>	<b>16%</b>
	29%	24%	31%	<b>27%</b>	30%	30%	30%	<b>30%</b>	<b>30%</b>

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**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	37	27.8	10.9	400	0%
Oil	7,560	18.3	9.2	69,200	74%
Downstream	5,400		4.3	23,400	25%
	13,000		7.2	93,000	100%
Debt (US\$mm)					1,700
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)					123

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