

Rating: Buy
S&P 500: 1270

Gazprom **Shtokman Delayed**

<i>Symbol</i>	OGZPY	<i>Ebitda Next Twelve Months ending 3/31/07 (US\$mm)</i>	34,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	43.00	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/17/06	<i>Adjusted Reserves/Production NTM</i>	20.0
<i>Shares (mm)</i>	5,666	<i>EV/Ebitda</i>	7.4
<i>Market Capitalization (US\$mm)</i>	244,000	<i>PV/Ebitda</i>	9.5
<i>Debt (US\$mm)</i>	7,500	<i>Undeveloped Reserves (%)</i>	71
<i>Enterprise Value (EV) (US\$mm)</i>	251,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	10.64
<i>Present Value (PV) (US\$mm)</i>	325,000	<i>Present Value Proven Reserves(US\$/boe)</i>	2.99
<i>Net Present Value (US\$/share)</i>	56	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.50
<i>Debt/Present Value</i>	0.02	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.59
<i>McDep Ratio - EV/PV</i>	0.77	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	0.4	<i>Indicated Annual Dividend (US\$/sh)</i>	0.17

Note: The Russian government owns about 50% of the equity.

Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Summary and Recommendation

Buy-recommended **Gazprom (OGZPY)**'s expected announcement of partners to develop the super-giant Arctic natural gas field, Shtokman, has apparently been delayed for at least another month according to Russian Energy Minister Viktor Khristenko. Likely to cost tens of billions of dollars with completion a decade away the project would have more long-term strategic implication than immediate value consequence for Gazprom and buy-recommended potential partners **Norsk Hydro (NHY)**, **Total (TOT)**, **Chevron (CVX)** and **ConocoPhillips (COP)**. Meanwhile the company's weight in the Morgan Stanley Capital International Emerging Market Index is scheduled to increase from 0.4% to 4.8% in two steps, on June 1 and about September 1. McDep Ratio at 0.77 is at the low end of the range for buy recommendations and there is more than normal potential for present value to increase as the company's selling price for natural gas moves to the world level and its reserves expand with new development. At the same time a 20% decline in stock price from the 52-week high of \$53.60 reminds us of the volatility in equity investment.

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Gazprom
Operating and Financial Results

	<i>Q4</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Year</i>	<i>Next</i>
	<i>12/31/04</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>2006E</i>	<i>Twelve</i>
									<i>Months</i>
									<i>3/31/07</i>
Volume (billion cubic meters)									
Europe	39.8	34.3	40.6	156	44.8	38.3	35.0	159	160
Former Soviet Union	18.2	22.6	18.2	77	19.2	17.2	22.6	77	77
Russia	96.3	48.6	96.3	307	106.2	55.9	48.6	307	307
Total (bcm)	154.3	105.5	155.1	540	170.2	111.4	106.2	544	545
Total (bcf)	5,447	3,724	5,475	19,080	6,007	3,931	3,748	19,190	19,221
Daily (bcfd)	59.2	40.5	59.5	52.3	66.7	43.2	40.7	52.6	52.7
Days	92	92	92	365	90	91	92	365	365
Price (Russian Rubles/thousand cubic meters)									
Europe	3.32	4.06	4.27	3.84	7.00	7.00	7.00	7.00	7.00
FSU	1.11	1.69	1.86	1.53	2.05	2.25	2.47	2.38	2.61
Russia	0.81	1.02	1.49	1.16	1.64	1.80	1.98	1.89	2.15
Total (RR/mcm)	1.49	2.15	2.26	1.99	3.09	3.66	3.74	3.46	3.65
Rubles/Dollar	28.49	28.52	27.60	28.02	28.02	28.02	28.02	28.02	28.02
Total (\$/mcf)	1.49	2.14	2.32	2.01	3.13	3.70	3.78	3.50	3.69
Henry Hub (\$/mmbtu)	7.10	8.56	13.00	8.65	8.97	6.87	6.77	7.90	8.43
Revenue (RUB billion)									
Europe	132.0	139.4	173.2	600	313.4	267.8	244.9	1,116	1,122
FSU	20.3	38.2	33.8	118	39.3	38.7	55.9	183	202
Russia	78.3	49.8	143.3	356	173.8	100.6	96.2	580	661
Total Natural Gas	230.6	227.3	350.3	1,074	526.5	407.1	397.1	1,880	1,985
Other	62.8	63.7	63.7	242.6	63.7	63.7	63.7	254.6	254.6
Total	293.5	291.0	413.9	1,316.1	590.1	470.7	460.7	2,134.4	2,239.5
Expense	183.1	150.1	240.1	721.7	342.3	273.0	267.2	1,237.9	1,298.9
Ebitda (RUB billion)	110.3	140.9	173.9	594.4	247.9	197.7	193.5	896.4	940.6
Deprec., Deplet., & A	32.6	25.9	35.8	123.1	38.7	28.8	28.5	135.4	139.3
Other non cash	(16.7)			4.0				-	-
Ebit	94.5	115.0	138.0	467.3	209.1	168.9	165.0	761.0	801.3
Interest	3.4	2.0	2.0	7.8	2.0	2.0	2.0	8.0	8.0
Ebt	91.1	113.0	136.0	459.5	207.1	166.9	163.0	753.0	793.3
Income Tax	25.6	33.0	39.7	130.4	60.5	48.7	47.6	219.9	231.7
Net Income (RUB billio)	65.5	80.0	96.3	329.1	146.6	118.1	115.4	533.1	561.6
Shares (billions)	50.6	56.7	56.7	53.6	56.7	56.7	56.7	56.7	56.7
Per share (RUB)	1.30	1.41	1.70	6.14	2.59	2.09	2.04	9.41	9.91
Ebitda Margin (NatGa)	48%	62%	50%	55%	47%	49%	49%	48%	47%
Tax Rate	28%	29%	29%	28%	29%	29%	29%	29%	29%

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