

Rating: Buy
 S&P 500: 1442
 Intraday

Gazprom Enlightened Self Interest

<i>Symbol</i>	OGZPY	<i>Ebitda Next Twelve Months ending 9/30/07 (US\$mm)</i>	38,600
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	41.78	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/13/07	<i>Adjusted Reserves/Production NTM</i>	24.0
<i>Shares (mm)</i>	5,698	<i>EV/Ebitda</i>	6.7
<i>Market Capitalization (US\$mm)</i>	238,000	<i>PV/Ebitda</i>	8.8
<i>Debt (US\$mm)</i>	22,100	<i>Undeveloped Reserves (%)</i>	73
<i>Enterprise Value (EV) (US\$mm)</i>	260,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	11.56
<i>Present Value (PV) (US\$mm)</i>	341,000	<i>Present Value Proven Reserves(US\$/boe)</i>	2.65
<i>Net Present Value (US\$/share)</i>	56	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.44
<i>Debt/Present Value</i>	0.06	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.94
<i>McDep Ratio - EV/PV</i>	0.76	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	0.2	<i>Indicated Annual Dividend (US\$/sh)</i>	0.09

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.

For historical analysis of Gazprom since 2005 see www.mcdep.com/2ogz.htm

Summary and Recommendation

Buy-recommended **Gazprom (OGZPY)**'s stock has lost upward momentum in 2007 as it trades below its 200-day average signaling the need for investor patience in realizing long-term appreciation. At the same time, the underlying commodities, natural gas and oil are also out of favor, a condition we believe is temporary. Because Gazprom is rich in resources that are not getting world price currently, Russian companies don't need higher global commodity price for profits to grow. Gazprom does need billions of dollars of capital to develop new supplies of clean fuel. In the context of enlightened self interest, we expect Russia's leaders to create a positive environment for Gazprom stock that engenders confidence by investors, lenders and customers to provide the most economical source of capital. Results for the third quarter of 2006, reported according to international financial standards on February 13, confirm that average gas price has risen to \$2.83, but is still far from the benchmark for futures at \$6.58 a million btu (see table [Operating and Financial Results](#)). Estimated net present value at \$56 a share amounts to a modest multiple of current cash flow from low natural gas price (see table [Functional Cash Flow and Present Value](#)).

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Gazprom
Operating and Financial Results

	<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>
Volume (billion cubic meters)									
Europe	34.3	39.3	33.9	40.4	159	45.6	39.3	33.9	159
Former Soviet Union	22.6	22.3	24.4	17.6	93	28.8	22.3	24.4	93
Russia	48.6	59.3	48.8	96.3	316	111.5	59.3	48.8	316
Total (bcm)	105.5	120.9	107.1	154.3	568	185.9	120.9	107.1	568
Total (bcf)	3,724	4,268	3,781	5,447	20,057	6,562	4,268	3,781	20,057
Daily (bcfd)	40.5	46.9	41.1	59.2	55.0	72.9	46.9	41.1	55.0
Days	92	91	92	92	365	90	91	92	365
Price (Russian Rubles/cubic meters)									
Europe	4.06	5.09	5.19	5.19	5.11	5.19	5.19	5.19	5.19
FSU	1.69	1.85	2.25	2.25	2.11	2.55	2.23	2.23	2.33
Russia	1.02	1.13	1.14	1.14	1.13	1.22	1.24	1.24	1.20
Total (RR/cm)	2.15	2.55	2.67	2.33	2.41	2.40	2.71	2.71	2.50
Rubles/Dollar	28.52	27.18	26.80	26.40	27.13	26.40	26.40	26.40	26.40
Total (\$/mcf)	2.14	2.66	2.83	2.50	2.51	2.57	2.90	2.91	2.69
Henry Hub (\$/mmbtu)	8.56	6.81	6.58	6.57	7.23	6.70	7.42	7.71	7.10
Revenue (RUB billion)									
Europe	139.4	200.0	175.8	209.5	814	236.5	203.8	175.8	826
FSU	38.2	41.3	54.8	39.5	197	73.4	49.7	54.4	217
Russia	49.8	67.0	55.7	109.9	357	136.0	73.5	60.5	380
Total Natural Gas	227.3	308.3	286.4	359.0	1,367	446.0	327.1	290.7	1,423
Other	63.7	197.3	203.6	203.6	776.7	203.6	203.6	203.6	814.4
Total	291.0	505.6	490.0	562.6	2,144.0	649.6	530.7	494.3	2,237.2
Expense	150.1	278.2	274.9	315.6	1,154.0	349.6	285.6	266.1	1,217.0
Ebitda (RUB billion)									
Natural Gas		168.0	159.3	191.2	765.1	244.2	185.7	172.5	793.5
Oil		59.4	55.8	55.8	224.9	55.8	59.4	55.8	226.7
Total Ebitda	140.9	227.4	215.1	247.0	990.0	299.9	245.1	228.3	1,020.2
Deprec., Deplet., & A	25.9	34.0	40.4	36.1	157.0	51.2	37.4	44.4	169.1
Other non cash					-				-
Ebit	115.0	193.4	174.7	210.9	833.0	248.8	207.7	183.8	851.2
Interest	2.0	6.5	7.0	7.0	24.5	7.0	7.0	7.0	28.0
Ebt	113.0	186.9	167.7	203.9	808.5	241.8	200.7	176.8	823.2
Income Tax	33.0	50.6	46.9	57.0	219.3	67.6	56.1	49.5	230.2
Net Income (RUB billio)	80.0	136.3	120.8	146.9	589.2	174.2	144.5	127.4	592.9
Shares (billions)	22.7	22.8	22.8	22.8	22.8	22.8	22.8	22.8	22.8
Per share (RUB)	3.53	5.98	5.30	6.44	25.85	7.64	6.34	5.59	26.02
Ebitda Margin	48%	45%	44%	44%	46%	46%	46%	46%	46%
Tax Rate	29%	27%	28%	28%	27%	28%	28%	28%	28%

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Gazprom
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	30,023	24.0	9.0	270,000	79%
Oil	8,577	19.9	8.3	71,200	21%
Downstream					
	38,600	23.7	8.8	341,200	100%
Debt (US\$mm)					22,100
Net Present Value (US\$mm)					319,100
Shares (mm)					5,698
Net Present Value - Standard Estimate (US\$/sh)					56

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