

Rating: Buy
 S&P 500: 1485

Gazprom Natural Gas Price Marching Up

<i>Symbol</i>	OGZPY	<i>Ebitda Next Twelve Months ending 12/31/08 (US\$mm)</i>	44,200
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	56.40	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	12/5/07	<i>Adjusted Reserves/Production NTM</i>	24.6
<i>Shares (mm)</i>	5,890	<i>EV/Ebitda</i>	8.2
<i>Market Capitalization (US\$mm)</i>	332,000	<i>PV/Ebitda</i>	8.9
<i>Debt (US\$mm)</i>	29,000	<i>Undeveloped Reserves (%)</i>	50
<i>Enterprise Value (EV) (US\$mm)</i>	362,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	13.24
<i>Present Value (PV) (US\$mm)</i>	395,000	<i>Present Value Proven Reserves(US\$/boe)</i>	3.39
<i>Net Present Value (US\$/share)</i>	62	<i>Present Value Proven Reserves(US\$/mcfe)</i>	0.57
<i>Debt/Present Value</i>	0.07	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.90
<i>McDep Ratio - EV/PV</i>	0.92	<i>Price/Earnings Next Twelve Months</i>	14
<i>Dividend Yield (%/year)</i>	0.7	<i>Indicated Annual Dividend (US\$/sh)</i>	0.41

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

Stock price of buy-recommended **Gazprom (OGZPY)** retains upward momentum toward estimated net present value (NPV) of \$62 a share that gives scant recognition to higher future natural gas prices. Second quarter 2007 results reported on December 5 portrayed a modest gain in revenue and a modest decline in unlevered cash flow (Ebitda) (see table Operating and Financial Results). Looking ahead, European natural gas price is likely to jump as much as a third in 2008. Also reported by Bloomberg, Russia's Federal Tariff Service approved on December 4 a 25% increase in Gazprom's price to Russian consumers in 2008. The trends should continue thereafter as the company's price for clean fuel is a fourth or less of the oil equivalent (see chart Gazprom's Low Natural Gas Price). Estimated NPV recognizes cash flow only from today's low prices and gives little credit for bountiful resource potential (see table Functional Cash Flow and Present Value). Government ownership of half of the top global energy producer mutes investor risk to a level that may be lower than in Canada, Alaska and the U.S. Congress. We diversify risk by keeping the weighting of Gazprom stock to about 9.6% unlevered in the illustrative McDep Energy Portfolio.

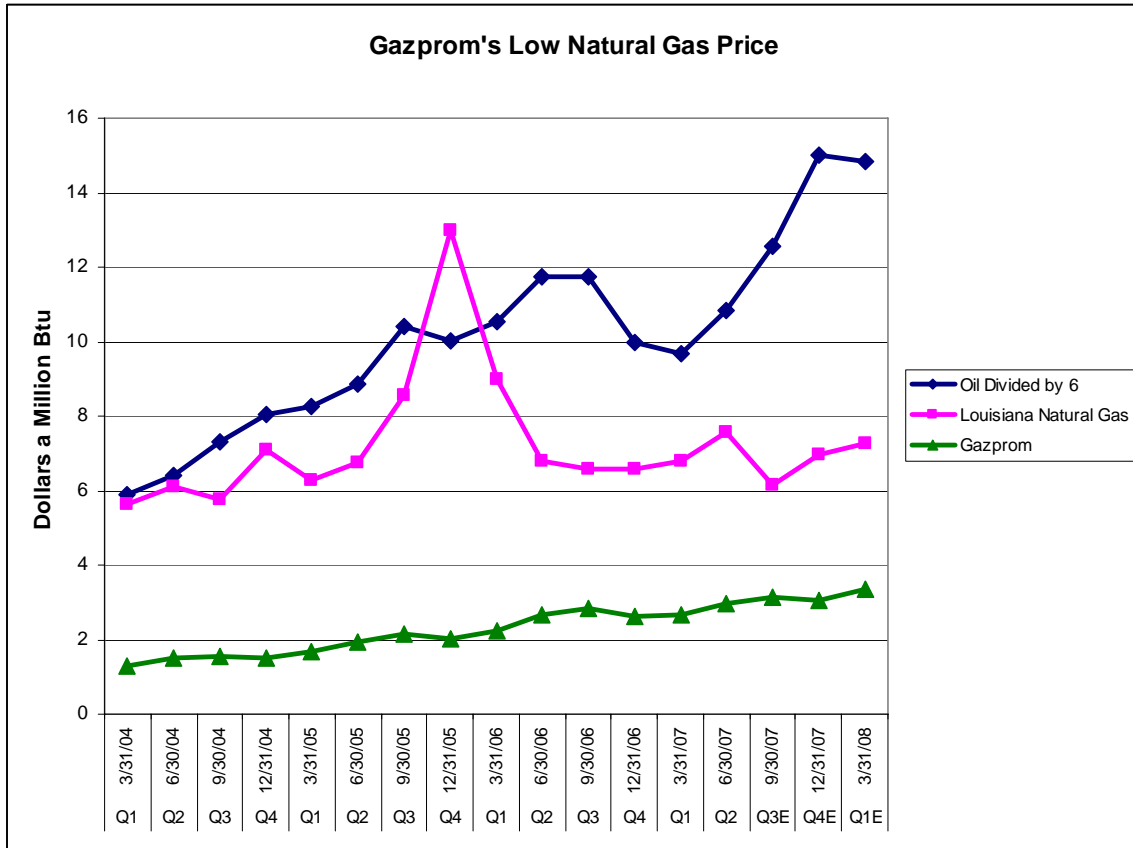
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Gazprom
Operating and Financial Results

	Q2 6/30/06	Q1 3/31/07	Q2 6/30/07	Q3E 9/30/07	Q4E 12/31/07	Year 2007E	Q1E 3/31/08	Q2E 6/30/08	Next Twelve Months 12/31/08
Volume (billion cubic meters)									
Europe	39.3	39.9	39.5	33.9	42.7	156	39.9	39.5	156
Former Soviet Union	22.3	28.1	22.3	24.4	25.5	100	28.1	22.3	100
Russia	59.3	105.6	59.5	48.8	96.7	311	105.6	59.5	311
Total (bcm)	120.9	173.6	121.3	107.1	164.9	567	173.6	121.3	567
Total (bcf)	4,268	6,128	4,282	3,781	5,821	20,012	6,128	4,282	20,012
Daily (bcfd)	46.9	68.1	47.1	41.1	63.3	54.8	67.3	47.1	54.7
Days	91	90	91	92	92	365	91	91	366
Price (Russian Rubles/cubic meters)									
Europe	5.09	5.47	4.85	5.46	6.14	5.50	7.00	7.00	7.00
FSU	1.85	2.64	2.68	2.36	2.23	2.48	2.83	2.82	2.59
Russia	1.13	1.29	1.32	1.20	1.23	1.26	1.38	1.39	1.31
Total (RR/cm)	2.55	2.47	2.72	2.81	2.65	2.64	2.91	3.48	3.10
Rubles/Dollar	27.18	26.30	25.85	25.47	24.50	25.53	24.50	24.50	24.50
Total (\$/mcf)	2.66	2.66	2.98	3.13	3.07	2.93	3.36	4.02	3.59
Henry Hub (\$/mmbtu)	6.81	6.81	7.56	6.16	6.97	6.87	7.25	7.23	7.49
Revenue (RUB billion)									
Europe	200.0	218.4	191.8	185.0	262.3	858	279.3	276.5	1,092
FSU	41.3	74.1	59.7	57.7	56.9	248	79.5	63.0	259
Russia	67.0	135.9	78.4	58.6	118.5	391	145.9	82.7	408
Total Natural Gas	308.3	428.4	329.9	301.3	437.7	1,497	504.7	422.2	1,759
Other	197.3	183.1	202.5	202.5	202.5	790.7	202.5	202.5	810
Total	505.6	611.5	532.4	503.8	640.2	2,288.0	707.3	624.7	2,570
Expense	278.2	334.3	326.9	292.2	371.3	1,324.8	409.5	361.7	1,488
Ebitda (RUB billion)									
Natural Gas	168.0	233.5	153.4	152.9	208.3	748.1	250.8	208.0	858
Oil	59.4	43.7	52.1	58.7	60.6	215.1	46.9	55.0	223
Total Ebitda	227.4	277.2	205.5	211.6	268.9	963.2	297.8	263.0	1,082
Deprec., Deplet., & A	34.0	50.1	42.9	44.4	50.7	188.2	55.1	47.2	207
Other non cash		(53.2)				(53.2)			-
Ebit	193.4	280.3	162.6	167.2	218.2	828.3	242.6	215.8	875
Interest	6.5	0.8	10.0	10.0	10.0	30.8	10.0	10.0	40
Ebt	186.9	279.5	152.6	157.2	208.2	797.5	232.6	205.8	835
Income Tax	50.6	62.4	49.7	51.2	67.8	231.1	75.8	67.0	272
Net Income (RUB billic	136.3	217.1	102.9	106.0	140.4	566.4	156.9	138.8	563
Shares (billions)	22.8	23.9	23.5	23.5	23.5	23.7	23.5	23.5	23.5
Per share (RUB)	5.98	9.07	4.37	4.50	5.96	23.90	6.66	5.89	23.91
Ebitda Margin	45%	45%	39%	42%	42%	42%	42%	42%	42%
Tax Rate	27%	22%	33%	33%	33%	29%	33%	33%	33%

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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	35,100	24.6	8.5	300,000	76%
Oil	9,100	20.5	10.3	94,000	24%
Downstream	44,200	24.2	8.9	394,000	100%
Debt (US\$mm)				29,000	
Net Present Value (US\$mm)				365,000	
Shares (mm)				5,890	
Net Present Value - Standard Estimate (US\$/sh)				62	
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)				60	

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