

Rating: Buy
S&P 500: 1265

Gazprom **Number One in Global Energy**

<i>Symbol</i>	OGZPY	<i>Ebitda Next Twelve Months ending 6/30/07 (US\$mm)</i>	37,800
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	41.50	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	7/7/06	<i>Adjusted Reserves/Production NTM</i>	24.0
<i>Shares (mm)</i>	5,690	<i>EV/Ebitda</i>	6.8
<i>Market Capitalization (US\$mm)</i>	236,000	<i>PV/Ebitda</i>	9.0
<i>Debt (US\$mm)</i>	19,900	<i>Undeveloped Reserves (%)</i>	73
<i>Enterprise Value (EV) (US\$mm)</i>	256,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	11.80
<i>Present Value (PV) (US\$mm)</i>	339,000	<i>Present Value Proven Reserves(US\$/boe)</i>	2.63
<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>	3.53
<i>McDep Ratio - EV/PV</i>	0.76	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	0.5	<i>Indicated Annual Dividend (US\$/sh)</i>	0.22

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

At the annual meeting on June 30, Chairman of the Management Committee Alexey Miller of buy-recommended **Gazprom (OGZPY)** outlined a strategy to make “Gazprom the company number one in the global energy market”. Cash flow and profits are on a steep uptrend, verified in results for 2005 disclosed according to international financial standards on July 7. Moving as much natural gas as the entire U.S. domestic natural gas industry, Gazprom received a price last year just 22% of what U.S. producers received. Despite the obvious need for price change, Mr. Miller finds “A switch to market pricing is no picnic at all.” He further states passionately that “deliveries to the domestic market should be as attractive as the deliveries to the European markets.” As a result, 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. Net present value of \$56 a share is only partial recognition of the promise. We give the stock the highest weighting of 9% in our illustrative energy portfolio. The weighting attempts to balance prospective reward with economic, political, financial and business risk.

Russia Rising

Another parallel of the 1970s with the 2000s is the relative decline of American status in the world. In the era of “The Ugly American” we seemed to lose respect among some as we fought the Cold War. Yet, though Viet Nam fell to communism, communism itself ultimately fell and capitalism was triumphant. By the end of the 1990s, America seemed once more at a high point in world leadership.

We sense that the U.S.’s relative status is in decline again, but not in as much of a negative sense as in the 1970s. Instead the former communist protagonists, China and Russia, are becoming strong capitalists. Energy is helping fuel the Rise of Russia as an astute President Putin appears

Please see disclosures on the final page.

to recognize increasingly the potential value of owning the world's largest combined reserves of natural gas and oil.

From our energy analysis perspective we see a great opportunity for Russia and for investors in our buy recommendations of the two largest Russian energy companies, Gazprom in natural gas and **Lukoil (LUKOY)** in oil. Our expectation that Russian energy will be unusually profitable is a bet on a future different from the consensus. If investors don't currently appreciate the full importance of energy in Russia's future, then our political leaders probably do not either. We are not sure what the political equivalent of a stock market bet on Russia may be, but politically the country is probably due for more respect. *Continued on Page 3*

Gazprom
Operating and Financial Results

	<i>Year</i>	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Year</i>	<i>Next</i>
	<i>2004</i>	<i>3/31/05</i>	<i>12/31/05</i>	<i>2005</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>6/30/07</i>
Volume (billion cubic meters)									
Europe	153	43.9	40.4	156	44.8	38.3	35.0	159	161
Former Soviet Union	66	19.2	17.6	77	19.2	17.2	22.6	77	77
Russia	306	106.2	96.3	307	106.2	55.9	48.6	307	307
Total (bcm)	525	169.3	154.3	540	170.2	111.4	106.2	543	544
Total (bcf)	18,518	5,976	5,447	19,051	6,007	3,931	3,748	19,162	19,220
Daily (bcfd)	50.6	66.4	59.2	52.2	66.7	43.2	40.7	52.5	52.7
Days	366	90	92	365	90	91	92	365	365
Price (Russian Rubles/thousand cubic meters)									
Europe	2.93	3.48	4.77	3.97	7.00	7.00	7.00	7.00	7.00
FSU	1.05	1.26	1.39	1.42	1.53	1.68	1.85	1.77	2.12
Russia	0.82	0.99	1.01	1.01	1.22	1.34	1.48	1.41	1.72
Total (RR/mcm)	1.46	1.67	2.04	1.92	2.78	3.34	3.37	3.10	3.34
Rubles/Dollar	28.80	27.84	28.71	28.29	28.13	27.18	27.60	27.63	27.61
Total (\$/mcf)	1.44	1.70	2.01	1.92	2.79	3.48	3.46	3.18	3.42
Henry Hub (\$/mmbtu)	6.15	6.27	13.00	8.65	8.97	6.81	6.19	7.54	8.26
Revenue (RUB billion)									
Europe	448	152.6	192.6	619	313.4	267.8	244.9	1,115	1,126
FSU	69	24.2	24.4	108	29.3	28.9	41.7	136	163
Russia	250	105.4	97.2	310	129.6	75.0	71.7	433	528
Total Natural Gas	767	282.2	314.2	1,038	472.3	371.6	358.3	1,683	1,816
Other	209.3	57.1	167.1	346.0	167.1	167.1	167.1	668.4	668.4
Total	976.8	339.2	481.3	1,383.5	639.4	538.7	525.4	2,351.2	2,484.8
Expense	594.1	181.0	316.5	798.1	370.8	312.5	304.8	1,363.7	1,441.2
Ebitda (RUB billion)	382.7	158.2	164.8	585.4	268.5	226.3	220.7	987.5	1,043.6
Deprec., Deplet., & A	110.3	35.2	32.8	120.1	38.7	28.8	28.5	132.1	138.9
Other non cash	(22.7)	(2.9)		4.0				-	-
Ebit	295.2	125.9	132.0	461.3	229.8	197.4	192.2	855.4	904.7
Interest	9.6	2.2	10.2	16.0	10.2	10.2	10.2	40.8	40.8
Ebt	285.6	123.7	121.8	445.3	219.6	187.2	182.0	814.6	863.9
Income Tax	79.9	32.1	43.6	134.2	78.5	66.9	65.1	291.2	308.8
Net Income (RUB billion)	205.7	91.6	78.3	311.1	141.1	120.3	116.9	523.4	555.1
Shares (billions)	50.2	50.2	56.9	53.5	56.9	56.9	56.9	56.9	56.9
Per share (RUB)	4.10	1.82	1.38	5.82	2.48	2.11	2.06	9.20	9.76
Ebitda Margin (NatGa)	50%	56%	52%	56%	57%	61%	62%	59%	57%
Tax Rate	28%	26%	36%	30%	36%	36%	36%	36%	36%

Please see disclosures on the final page.

One area where more respect may be due is in energy pricing. We have long lived with consumer over reaction in American politics. So it should be no surprise to see that carry over into warped responses to Russia's attempts to increase energy price to the world level. Naturally, Russians do not appreciate prejudiced criticism. "Let the bastards freeze in the dark" was the emotional reaction to consumer bias in our politics of the 1970s.

Most of us agree that energy is best priced by the forces of supply and demand. Of course, no one knows how that balance will work out in the future. Consumers argue it will be a low price while producers argue it will be a high price. At times like now, consumers are too low in our opinion, and some time in the future, producers may be too high.

In the end the most objective measure of Russian success may be the stock market value of Russian companies. Gazprom is our candidate for the world's first trillion dollar market cap stock.

Kurt H. Wulff, CFA

Disclaimer: This analysis was prepared by Kurt Wulff doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

Research Methodology/Ratings Description: McDep Associates is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.