

Rating: Buy
S&P 500: 1506

Gazprom **Raise NPV to \$62 a Share**

<i>Symbol</i>	OGZPY	<i>Ebitda Next Twelve Months ending 6/30/08 (US\$mm)</i>	40,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	42.15	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	6/28/07	<i>Adjusted Reserves/Production NTM</i>	24.6
<i>Shares (mm)</i>	5,710	<i>EV/Ebitda</i>	6.6
<i>Market Capitalization (US\$mm)</i>	241,000	<i>PV/Ebitda</i>	9.5
<i>Debt (US\$mm)</i>	25,000	<i>Undeveloped Reserves (%)</i>	50
<i>Enterprise Value (EV) (US\$mm)</i>	266,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	11.77
<i>Present Value (PV) (US\$mm)</i>	379,000	<i>Present Value Proven Reserves(US\$/boe)</i>	3.25
<i>Net Present Value (US\$/share)</i>	62	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.54
<i>Debt/Present Value</i>	0.07	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.24
<i>McDep Ratio - EV/PV</i>	0.70	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	0.9	<i>Indicated Annual Dividend (US\$/sh)</i>	0.39

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

Estimated net present value (NPV) for buy-recommended **Gazprom (OGZPY)** increased to \$62 a share from \$56 on May 29 when we raised our long-term oil price assumption to \$66 a barrel from \$60. Beyond NPV, Gazprom has more appreciation potential than any stock in our coverage because it is concentrated on natural gas reserves that not only are the largest of any company and almost any country, but also are priced at practically the lowest value in the stock market. Strong earnings and cash flow for 2006 reported on June 28, which met our projections, have brought the stock trend to the intersection with its 200-day average and to the cusp of resuming upward momentum by that measure. The main bet investors make in the stock is that price controls will be eliminated gradually, if not sooner. While political developments in Russia spark lively discussion, we see an alignment of interests for the Russian people and the shareholders of Gazprom. The stock can become the most credible symbol of success for a country rich in premium energy resources as it makes money for its investors including the Russian government.

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Gazprom
Operating and Financial Results

	<i>Q4</i>	<i>Year</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Year</i>	<i>Next</i>
	<i>12/31/05</i>	<i>2005</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>2007E</i>	<i>Twelve</i>
									<i>Months</i>
									<i>6/30/08</i>
Volume (billion cubic meters)									
Europe	40.4	156	33.9	42.7	162	45.6	39.3	162	162
Former Soviet Union	17.6	77	24.4	25.5	101	28.8	22.3	101	101
Russia	96.3	307	48.8	96.7	316	111.5	59.3	316	316
Total (bcm)	154.3	540	107.1	164.9	579	185.9	120.9	579	579
Total (bcf)	5,447	19,051	3,781	5,821	20,432	6,562	4,268	20,432	20,432
Daily (bcfd)	59.2	52.2	41.1	63.3	56.0	72.9	46.9	56.0	56.0
Days	92	365	92	92	365	90	91	365	365
Price (Russian Rubles/cubic meters)									
Europe	4.77	3.97	5.19	5.66	5.24	5.66	5.66	5.66	5.66
FSU	1.39	1.42	2.25	2.05	2.08	2.55	2.23	2.32	2.32
Russia	1.01	1.01	1.14	1.13	1.13	1.22	1.24	1.23	1.23
Total (RR/cm)	2.04	1.92	2.67	2.45	2.44	2.52	2.86	2.66	2.66
Rubles/Dollar	28.71	28.29	26.80	25.90	27.00	25.90	25.90	25.90	25.90
Total (\$/mcf)	2.01	1.92	2.83	2.68	2.56	2.75	3.13	2.91	2.91
Henry Hub (\$/mmbtu)	13.00	8.65	6.58	6.57	7.23	6.81	7.56	7.37	8.05
Revenue (RUB billion)									
Europe	192.6	619	175.8	241.7	846	258.1	222.5	914	914
FSU	24.4	108	54.8	52.4	210	73.4	49.7	234	234
Russia	97.2	310	55.7	109.2	356	136.0	73.5	390	390
Total Natural Gas	314.2	1,038	286.4	403.3	1,412	467.6	345.7	1,539	1,539
Other	167.1	346.0	203.6	167.3	740.4	167.3	167.3	669.2	669
Total	481.3	1,383.5	490.0	570.6	2,152.0	634.9	513.0	2,207.8	2,208
Expense									
	316.5	798.1	274.9	305.7	1,144.1	337.5	272.7	1,173.8	1,174
Ebitda (RUB billion)									
Natural Gas			159.3	209.0	783.0	241.5	180.9	807.3	807
Oil			55.8	55.8	224.9	55.8	59.4	226.7	227
Total Ebitda	164.8	585.4	215.1	264.9	1,007.9	297.4	240.3	1,034.0	1,034
Deprec., Deplet., & A	32.8	120.1	40.4	46.1	167.0	51.2	37.4	183.7	193
Other non cash		4.0			-			-	-
Ebit									
	132.0	461.3	174.7	218.8	840.9	246.2	202.9	850.3	841
Interest	10.2	16.0	7.0	(9.5)	8.0	2.0	2.0	8.0	8
Ebt									
	121.8	445.3	167.7	228.3	832.9	244.2	200.9	842.3	833
Income Tax	43.6	134.2	46.9	57.3	219.6	61.3	50.4	211.5	209
Net Income (RUB billio									
	78.3	311.1	120.8	171.0	613.3	182.9	150.4	630.9	624
Shares (billions)									
	22.8	21.4	22.8	22.8	22.8	22.8	22.8	22.8	22.8
Per share (RUB)	3.44	14.55	5.30	7.49	26.90	8.01	6.59	27.64	27.35
Ebitda Margin	34%	42%	44%	46%	47%	47%	47%	47%	47%
Tax Rate	36%	30%	28%	25%	26%	25%	25%	25%	25%

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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	31,300	24.6	9.3	290,000	77%
Oil	8,800	20.5	10.1	89,000	23%
Downstream					
	40,100	24.2	9.5	379,000	100%
Debt (US\$mm)					25,000
Net Present Value (US\$mm)					354,000
Shares (mm)					5,710
Net Present Value - Standard Estimate (US\$/sh)					62
Net Present Value - Approximation by Correlation (US\$/sh)					62

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