



Independent Stock Idea

December 31, 2008

rating: buy
s&p 500: 891

Gazprom (OGZPY) Underrated Investment

| | | | |
|--|----------|---|--------|
| <i>Symbol</i> | OGZPY | <i>Ebitda Next Twelve Months ending 12/31/09 (US\$mm)</i> | 67,900 |
| <i>Rating</i> | Buy | <i>North American Natural Gas/Ebitda (%)</i> | 0 |
| <i>Price (US\$/sh)</i> | 14.50 | <i>Natural Gas and Oil Production/Ebitda (%)</i> | 100 |
| <i>Pricing Date</i> | 12/30/08 | <i>Adjusted Reserves/Production NTM</i> | 24.6 |
| <i>Shares (mm)</i> | 5,880 | <i>EV/Ebitda</i> | 1.6 |
| <i>Market Capitalization (US\$mm)</i> | 85,000 | <i>PV/Ebitda</i> | 5.9 |
| <i>Debt (US\$mm)</i> | 25,000 | <i>Undeveloped Reserves (%)</i> | 50 |
| <i>Enterprise Value (EV) (US\$mm)</i> | 110,000 | <i>Natural Gas and Oil Ebitda (US\$/boe)</i> | 19.68 |
| <i>Present Value (PV) (US\$mm)</i> | 401,000 | <i>Present Value Proven Reserves(US\$/boe)</i> | 3.44 |
| <i>Net Present Value (US\$/share)</i> | 64 | <i>Present Value Proven Reserves(US\$/mcf)</i> | 0.57 |
| <i>Debt/Present Value</i> | 0.06 | <i>Earnings Next Twelve Months (US\$/sh)</i> | 7.46 |
| <i>McDep Ratio - EV/PV</i> | 0.27 | <i>Price/Earnings Next Twelve Months</i> | 2 |
| <i>Dividend Yield (%/year)</i> | 2.5 | <i>Indicated Annual Dividend (US\$/sh)</i> | 0.36 |
| 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. | | | |
| Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$10 a million btu. | | | |
| For historical analysis of Gazprom since 2005 see www.mcdep.com/2ogz.htm | | | |

Summary and Recommendation

Buy-recommended **Gazprom (OGZPY)** offers unlevered appreciation potential of near three-fold to estimated net present value (NPV) of \$64 a share. On October 28, we reset NPV from \$88 a share on the basis of a long-term oil price assumption of \$75 a barrel, down from \$100. Second quarter results released on December 30 scored unlevered cash flow, Ebitda, 40% beyond our expectations from three months ago to RUB444 billion (see table Operating and Financial Results). Worried about the downside to oil price? Gazprom's realized price for natural gas was \$4.71 an mcf for the quarter ended June 30, equivalent to an oil price of \$28 a barrel. Concerned that the company has too much debt and needs a government bailout? Net debt of \$25 billion is just 5 months cash flow and a low 6% of Present Value. Concerned about political risk? Let's hope that a new administration can mount a more effective diplomatic relationship with a world energy resource leader. As we look to a new cycle of energy investment returns we are suggesting that the McDep Energy Portfolio include a one-sixth unlevered weighting in Emerging Market stocks. The positions would be drawn from two buy recommendations including Gazprom and/or two hold-rated stocks from Russia and China and one unrated stock from Brazil.

Kurt H. Wulff, CFA



Independent Stock Idea

December 31, 2008

| Gazprom | | | | | | | | | |
|--|----------------|----------------|----------------|----------------|-----------------|---------------|----------------|----------------|-----------------|
| Operating and Financial Results | | | | | | | | | |
| | | | | | | | | | <i>Next</i> |
| | <i>Q2</i> | <i>Q1</i> | <i>Q2</i> | <i>Q3E</i> | <i>Q4E</i> | <i>Year</i> | <i>Q1E</i> | <i>Q2E</i> | <i>Twelve</i> |
| | <i>6/30/07</i> | <i>3/31/08</i> | <i>6/30/08</i> | <i>9/30/08</i> | <i>12/31/08</i> | <i>2008E</i> | <i>3/31/09</i> | <i>6/30/09</i> | <i>Months</i> |
| | | | | | | | | | <i>12/31/09</i> |
| Volume (billion cubic meters) | | | | | | | | | |
| Europe | 39.5 | 53.5 | 46.2 | 37.7 | 51.5 | 189 | 53.5 | 46.2 | 189 |
| Former Soviet Union | 22.3 | 25.0 | 24.5 | 21.6 | 24.5 | 96 | 25.0 | 24.5 | 96 |
| Russia | 59.5 | 105.0 | 54.9 | 46.4 | 95.5 | 302 | 105.0 | 54.9 | 302 |
| Total (bcm) | 121.3 | 183.5 | 125.6 | 105.7 | 171.5 | 586 | 183.5 | 125.6 | 586 |
| Total (bcf) | 4,282 | 6,478 | 4,434 | 3,731 | 6,054 | 20,696 | 6,478 | 4,434 | 20,696 |
| Daily (bcfd) | 47.1 | 71.2 | 48.7 | 40.6 | 65.8 | 56.5 | 72.0 | 48.7 | 56.7 |
| Days | 91 | 91 | 91 | 92 | 92 | 366 | 90 | 91 | 365 |
| Price (Russian Rubles/cubic meters) | | | | | | | | | |
| Europe | 4.85 | 6.34 | 6.98 | 7.18 | 8.07 | 7.14 | 8.69 | 8.69 | 8.69 |
| FSU | 2.68 | 3.34 | 3.27 | 3.27 | 3.27 | 3.29 | 3.27 | 3.27 | 3.27 |
| Russia | 1.32 | 1.65 | 1.65 | 1.65 | 1.65 | 1.65 | 1.65 | 1.65 | 1.65 |
| Total (RR/cm) | 2.72 | 3.25 | 3.93 | 3.96 | 3.81 | 3.69 | 3.92 | 4.56 | 4.18 |
| Rubles/Dollar | 25.85 | 24.24 | 23.62 | 24.29 | 27.30 | 24.86 | 29.38 | 29.38 | 29.38 |
| Total (\$/mcf) | 2.98 | 3.79 | 4.71 | 4.61 | 3.96 | 4.20 | 3.78 | 4.39 | 4.03 |
| Henry Hub (\$/mmbtu) | 7.56 | 8.02 | 10.93 | 10.25 | 6.95 | 9.04 | 6.11 | 6.18 | 6.42 |
| Revenue (RUB billion) | | | | | | | | | |
| Europe | 191.8 | 339 | 323 | 271 | 416 | 1,348 | 465 | 401 | 1,641 |
| FSU | 59.7 | 83 | 80 | 71 | 80 | 315 | 82 | 80 | 313 |
| Russia | 78.4 | 173 | 91 | 77 | 158 | 499 | 174 | 91 | 499 |
| Total Natural Gas | 329.9 | 596 | 494 | 418 | 654 | 2,161 | 720 | 572 | 2,453 |
| Other | 202.5 | 307 | 347 | 347 | 347 | 1,347 | 347 | 347 | 1,386 |
| Total | 532.4 | 903 | 840 | 765 | 1,000 | 3,508 | 1,067 | 919 | 3,839 |
| Expense | 325.7 | 457 | 396 | 361 | 472 | 1,685 | 513 | 441 | 1,844 |
| Ebitda (RUB billion) | | | | | | | | | |
| Natural Gas | 154.3 | 348 | 249 | 335 | 433 | 1,365 | 435 | 283 | 1,494 |
| Oil | 52.4 | 98 | 195 | 69 | 95 | 458 | 119 | 195 | 500 |
| Total Ebitda | 206.7 | 446 | 444 | 404 | 529 | 1,823 | 554 | 477 | 1,995 |
| Deprec., Deplet., & A | 42.9 | 56 | 44 | 48 | 51 | 200 | 62 | 48 | 220 |
| Other non cash | | (2.0) | | | | (2) | - | - | - |
| Ebit | 163.8 | 392 | 400 | 356 | 477 | 1,625 | 493 | 429 | 1,775 |
| Interest | 11.2 | 11 | 8 | 8 | 8 | 35 | 8 | 8 | 32 |
| Ebt | 152.6 | 380 | 392 | 348 | 469 | 1,589 | 485 | 421 | 1,743 |
| Income Tax | 49.7 | 94 | 92 | 90 | 122 | 399 | 126 | 109 | 453 |
| Net Income (RUB billion) | 102.9 | 286 | 300 | 257 | 347 | 1,191 | 359 | 312 | 1,290 |
| Shares (billions) | | | | | | | | | |
| Per share (RUB) | 4.37 | 11.61 | 12.75 | 10.94 | 14.76 | 50.06 | 15.24 | 13.24 | 54.81 |
| Ebitda Margin | 39% | 49% | 53% | 53% | 53% | 52% | 52% | 52% | 52% |
| Tax Rate | 33% | 25% | 23% | 26% | 26% | 25% | 26% | 26% | 26% |



Independent Stock Idea

December 31, 2008

| Gazprom | | | | | |
|---|-------------------|-----------------|---------------|-----------------|---------|
| Functional Cash Flow and Present Value | | | | | |
| | <i>NTM Ebitda</i> | <i>Adjusted</i> | <i>PV/</i> | <i>Present</i> | |
| | <i>(US\$mm)</i> | <i>R/P</i> | <i>Ebitda</i> | <i>(US\$mm)</i> | |
| Natural Gas | 50,900 | 24.6 | 6.9 | 350,000 | 87% |
| Oil | 17,000 | 20.5 | 3.0 | 51,000 | 13% |
| Downstream | | | | | |
| | 67,900 | 24.2 | 5.9 | 401,000 | 100% |
| Debt (US\$mm) | | | | | 25,000 |
| Net Present Value (US\$mm) | | | | | 376,000 |
| Shares (mm) | | | | | 5,880 |
| Net Present Value - Standard Estimate (US\$/sh) | | | | | 64 |

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. 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 LLC 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.