

Rating: Buy
S&P 500: 1269

Gazprom **Natural Gas Price Accelerates**

<i>Symbol</i>	(OGZD) OGZPF	<i>Ebitda Next Twelve Months ending 12/31/06 (US\$m)</i>	22,900
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	74.90	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	12/14/05	<i>Adjusted Reserves/Production NTM</i>	20.0
<i>Shares (mm)</i>	2,026	<i>EV/Ebitda</i>	7.0
<i>Market Capitalization (US\$m)</i>	151,700	<i>PV/Ebitda</i>	11.0
<i>Debt (US\$m)</i>	8,200	<i>Undeveloped Reserves (%)</i>	71
<i>Enterprise Value (EV) (US\$m)</i>	159,900	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	7.22
<i>Present Value (PV) (US\$m)</i>	251,300	<i>Present Value Proven Reserves(US\$/boe)</i>	2.31
<i>Net Present Value (US\$/share)</i>	120	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.38
<i>Debt/Present Value</i>	0.03	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.25
<i>McDep Ratio - EV/PV</i>	0.64	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	0.6	<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.

Summary and Recommendation

Buy-recommended **Gazprom (OGZPF)** may receive more than \$7 a million btus for natural gas delivered to Europe in 2006, about 60% more than we thought when we estimated interim net present value of \$120 a share (see *Stock Idea, Gazprom*, November 28, 2005). The company also announced it is seeking a price of more than \$6 from Ukraine and has plans to raise tariffs to other independent states once part of the former Soviet Union. Bloomberg quotes Russian President Vladimir Putin as source for the European price on December 8 and Gazprom Deputy Chief Dmitry Medvedev as source for the Ukrainian price on December 14. Among other significant news the Russian Parliament has passed on December 14 and Mr. Putin is expected to sign before year end the law that ends a 20% cap on foreign ownership of Gazprom stock. As a result, Gazprom appears to be advancing rapidly on track to become the world's first trillion dollar resource stock up from a current market cap of under \$150 billion. Though subject to unexpected change, the politics appear favorable with the Russian government, a million Russian investors and the global capital markets sharing a common interest in the company's success.

Kurt H. Wulff, CFA

N.B. The stock trades actively and is quoted in US\$ per share in London. U.S. investors should be able to buy OGZPF at a price very close to the London quote. We surmise that U.S. investors would see the most liquidity in the morning hours by Eastern Standard Time. Bear in mind that London is five hours ahead of New York and Moscow is eight hours ahead of New York. We encourage our clients not to let a five letter stock symbol inhibit investing in what we think is a good idea. Presumably trading venues and perhaps stock price will expand in 2006 when legal barriers will be gone.

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Gazprom
Operating and Financial Results

	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next Twelve Months</i>
	<i>3/31/04</i>	<i>6/30/04</i>	<i>9/30/04</i>	<i>12/31/04</i>	<i>2004</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>12/31/06</i>
Volume (billion cubic meters)											
Europe	41.8	37.0	34.6	39.8	153	43.9	37.5	35.3	40.6	157	160
Former Soviet Union	14.1	15.3	18.1	18.2	66	19.2	17.2	18.1	18.2	73	73
Russia	105.3	57.7	46.4	96.3	306	106.2	55.9	46.4	96.3	305	305
Total (bcm)	161.2	110.0	99.1	154.3	525	169.3	110.6	99.8	155.1	535	538
Total (bcf)	5,690	3,883	3,498	5,447	18,518	5,976	3,904	3,523	5,475	18,878	18,989
Daily (bcfd)	62.5	42.7	38.0	59.2	50.6	66.4	42.9	38.3	59.5	51.7	52.0
Days	91	91	92	92	366	90	91	92	92	365	365
Price (Russian Rubles/thousand cubic meters)											
Europe	2.60	2.90	2.90	3.32	2.93	3.48	3.59	3.77	3.96	3.69	4.47
FSU	1.02	1.00	1.04	1.11	1.05	1.26	1.26	1.38	1.52	1.35	1.94
Russia	0.81	0.83	0.83	0.81	0.82	0.99	1.03	1.11	1.22	1.09	1.55
Total (RR/mcm)	1.29	1.55	1.59	1.49	1.46	1.67	1.93	2.10	1.97	1.89	2.47
Rubles/Dollar	28.63	28.91	29.17	28.49	28.80	27.84	28.10	28.52	28.70	28.29	28.29
Total (\$/mcf)	1.28	1.52	1.55	1.49	1.44	1.70	1.95	2.08	1.94	1.89	2.47
Henry Hub (\$/mmbtu)	5.64	6.10	5.75	7.10	6.15	6.27	6.76	8.56	13.00	8.65	12.06
Revenue (RUB billion)											
Europe	108.8	107.1	100.3	132.0	448	152.6	134.6	133.0	160.6	581	717
FSU	14.4	15.3	18.8	20.3	69	24.2	21.6	25.0	27.7	98	141
Russia	85.5	48.0	38.7	78.3	250	105.4	57.6	51.3	117.1	331	471
Total Natural Gas	208.7	170.4	157.7	230.6	767	282.2	213.8	209.3	305.4	1,011	1,329
Other	47.2	45.2	54.1	62.8	209.3	57.1	58.2	58.2	58.2	231.6	232.8
Total	255.8	215.6	211.9	293.5	976.8	339.2	272.0	267.5	363.6	1,242.3	1,561.6
Expense											
Expense	145.3	140.6	125.1	183.1	594.1	181.0	150.6	155.2	210.9	697.6	905.7
Ebitda (RUB billion)											
Ebitda	110.6	75.1	86.8	110.3	382.7	158.2	121.4	112.4	152.7	544.7	655.9
Deprec., Deplet., & Ai	31.8	24.7	21.2	32.6	110.3	35.2	26.2	23.3	35.8	120.5	132.6
Other non cash	(15.8)	7.7	2.1	(16.7)	(22.7)	(2.9)	6.9			4.0	-
Ebit											
Ebit	94.6	42.7	63.5	94.5	295.2	125.9	88.3	89.0	116.9	420.2	523.3
Interest	3.1	3.1	-	3.4	9.6	2.2	1.6	2.0	2.0	7.8	8.0
Ebt											
Ebt	91.5	39.6	63.5	91.1	285.6	123.7	86.7	87.0	114.9	412.4	515.3
Income Tax	23.1	15.7	15.6	25.6	79.9	32.1	25.5	25.6	33.8	117.1	151.7
Net Income (RUB billio											
Net Income	68.4	23.9	47.9	65.5	205.7	91.6	61.2	61.4	81.1	295.3	363.6
Shares (billions)											
Shares	19.9	20.1	20.1	20.2	20.1	20.1	20.3	20.3	20.3	20.2	20.3
Per share (RUB)	3.44	1.19	2.38	3.24	10.25	4.56	3.02	3.03	4.00	14.61	17.95
Ebitda Margin (NatGa	53%	44%	55%	48%	50%	56%	57%	54%	50%	54%	49%
Tax Rate	25%	40%	25%	28%	28%	26%	29%	29%	29%	28%	29%

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