MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following management's discussion in conjunction with our unaudited consolidated interim condensed financial information as of and for the nine months ended September 30, 2008. The consolidated interim condensed financial information has been prepared in accordance with International Accounting Standard 34 "Interim financial reporting" ("IAS 34"). This financial information should be read together with the consolidated financial statements for the year ended December 31, 2007 prepared in accordance with International Financial Reporting Standards ("IFRS").

OVERVIEW

We are one of the world's largest oil and gas companies in terms of reserves, production and market capitalization. Our revenues are primarily derived from sales of natural gas, crude oil and other hydrocarbon products to Western and Central Europe, Russia and other former Soviet Union countries.

We divide our operations into the following five main business segments:

- Production of gas – exploration and production of gas;
- Transport – transportation of gas;
- Distribution – domestic and export sales of gas;
- Production of crude oil and gas condensate – exploration of oil and gas condensate, sales of crude oil and gas condensate;
- Refining – processing of oil, gas condensate and other hydrocarbons, and sales of refined products.

Other businesses primarily comprise electric and heat energy generation and banking.

Our five main business segments are mutually dependent, with a significant portion of the revenues of one segment comprising a part of the costs of another segment. In particular, our Distribution segment purchases natural gas from our Production of gas segment and transportation services from our Transport segment. Our Refining segment purchases crude oil and gas condensate from the Production of crude oil and gas condensate segment. We establish internal transfer prices with reference to the specific funding requirements of the individual subsidiaries within each segment. Accordingly, the results of operations of these segments on a stand-alone basis do not necessarily represent each segment's underlying financial position and results of operations as if it was a stand-alone business. For this reason, we do not analyze any of our main segments separately in the discussion that follows.

RECENT VOLATILITY IN GLOBAL AND RUSSIAN FINANCIAL MARKETS

The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates. The uncertainties in the global financial market, have also led to bank failures and bank rescues in the United States of America, Western Europe and in Russia. Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. The borrowers of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their outstanding loans. Deteriorating operating conditions for borrowers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has reflected revised estimates of expected future cash flows in their impairment assessments.

The uncertainty in the global markets combined with other local factors has during 2008 led to very high volatility in the Russian Stock Markets and at times much higher than normal interbank lending rates.

Management is unable to estimate reliably the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

RESULTS OF OPERATIONS

(RR million)	Nine months ended September 30	
	2008	2007
Sales (net of excise tax, VAT and customs duties)	2,572,945	1,660,069
Operating expenses	(1,550,246)	(1,163,243)
Operating profit	**1,022,699**	**496,826**
Loss from change in fair value of call option	(41,973)	-
Deconsolidation of NPF Gazfund	-	44,692
Finance income	114,692	115,001
Finance expenses	(141,236)	(87,021)
Share of net income of associated undertakings and jointly controlled entities	41,215	22,489
Gains on disposal of available-for-sale financial assets	20,889	19,586
Profit before profit tax	**1,016,286**	**611,573**
Current profit tax expense	(259,348)	(150,366)
Deferred profit tax expense	(5,262)	(6,717)
Total profit tax expense	(264,610)	(157,083)
Profit for the period	**751,676**	**454,490**
Attributable to:		
Equity holders of OAO Gazprom	705,410	426,268
Minority interest	46,266	28,222
	751,676	**454,490**

Sales

The following table sets out our volumes and realized prices for the nine months ended September 30, 2008 and 2007.

(RR million unless indicated otherwise)	Nine months ended September 30	
	2008	2007
Sales of gas		
Far Abroad		
Gross sales [1]	1,294,769	782,631
Excise tax	(80)	(96)
Customs duties	(301,779)	(186,188)
Net sales	992,910	596,347
Volumes in billion cubic meters (bcm)	139.3	117.1
Gross average price, U.S.$ per mcm[2] (including excise tax and customs duties) [3]	386.4	258.1
Gross average price, RR per mcm[2] (including excise tax and customs duties)	9,291.9	6,683.6
FSU (Former Soviet Union)		
Gross sales (net of value added tax (VAT))	267,677	204,666
Customs duties	(18,362)	(14,292)
Net sales	249,315	190,374
Volumes in bcm	71.9	72.0
Gross average price, U.S.$ per mcm [2] (including excise tax and customs duties, net of VAT) [3]	154.8	109.8
Gross average price, RR per mcm [2] (including excise tax and customs duties, net of VAT)	3,723.4	2,842.3
Russia		
Gross sales (net of VAT)	340,186	275,677
Net sales	340,186	275,677
Volumes in bcm	205.4	211.5
Gross average price, RR per mcm [2] (including excise tax, net of VAT)	1,655.8	1,303.5
Total sales of gas		
Gross sales (net of VAT)	1,902,632	1,262,974
Excise tax	(80)	(96)
Customs duties	(320,141)	(200,480)

(RR million unless indicated otherwise)	Nine months ended September 30 2008	2007
Net sales	1,582,411	1,062,398
Volumes in bcm	416.6	400.6
Net sales of refined products (net of excise tax, VAT and customs duties)	531,528	351,954
Net sales of crude oil and gas condensate (net of excise tax, VAT and customs duties)	191,085	117,956
Net sales of electricity and heat (net of VAT)	130,903	18,854
Gas transportation sales (net of VAT)	46,964	30,560
Other revenues (net of VAT)	90,054	78,347
Total sales (net of excise tax, VAT and customs duties)	**2,572,945**	**1,660,069**

Notes:

(1) VAT is not charged on sales to Far Abroad countries.

(2) One mcm is equivalent to 35,316 cubic feet.

(3) Calculated on the basis of average rate.

Total sales (net of excise tax, VAT and customs duties) increased by RR 912,876 million, or 55%, to RR 2,572,945 million in the nine months ended September 30, 2008 compared to the same period of the prior year.

Net sales of gas accounted for 62% of total net sales in the nine months ended September 30, 2008 (64% in the same period of the prior year).

Net sales of gas increased from RR 1,062,398 million in the nine months ended September 30, 2007 to RR 1,582,411 million in the nine months ended September 30, 2008, or by 49%.

Net sales of gas to Far Abroad countries increased in the nine months, ended September 30, 2008 compared to the same period of the prior year by RR 396,563 million, or 66%, to RR 992,910 million. The overall increase in Far Abroad sales was driven both by volume and price. Gross average RR price (including excise tax and customs duties) grew by 39% for the nine months, ended 30 September 2008, compared to the same period of the prior year, at the same time volumes for the nine months ended September 30, 2008 increased by 19% compared to the same period of the prior year. The increase in export gas prices reflects the increase in world prices for hydrocarbons that are used as price-determinants in most gas supply contracts. In the majority of contracts hydrocarbons prices of prior periods are used as price determinants.

Net sales of gas to FSU countries increased in the nine months ended September 30, 2008 compared to the same period of the prior year by RR 58,941 million, or 31%, to RR 249,315 million. This increase was mainly due to a 31% increase in prices in RR terms (net of excise tax, customs duties and VAT).

Net sales of gas in the domestic market increased by RR 64,509 million, or 23%, in the nine months ended September 30, 2008 compared to the same period of the prior year. This increase was mainly due to the increase in domestic gas tariffs set by the Federal Tariffs Service (FTS) by 27%, which was partly offset by 3% decrease in sales volumes.

Sales of refined products (net of excise tax, VAT and customs duties) increased by RR 179,574 million, or 51%, to RR 531,528 million in the nine months ended September 30, 2008 compared to RR 351,954 million in the same period of the prior year. The increase mainly related to increase in world prices for refined products in the nine months, ended September 30, 2008 compared to the same period of the prior year. In the nine months, ended September 30, 2008 and 2007 Gazprom Neft's sales comprised 65% and 58% of the total amount of refined products sales of Gazprom Group, respectively.

Sales of crude oil and gas condensate (net of excise tax, customs duties and VAT) increased by RR 73,129 million, or 62%, to RR 191,085 million in the nine months ended September 30, 2008 compared to RR 117,956 million in the same period of the prior year. The increase was mainly caused by oil price increase. Sales of crude oil included in net sales of crude oil and gas condensate (net of customs duties and VAT), amounted to RR 170,308 million and RR 103,159 million in the nine months ended September 30, 2008 and 2007, respectively.

Sales of electricity and heat (net of VAT) increased by RR 112,049 million, or 594%. This increase was mainly due to Gazprom Germania Group's activities, and also due to sales of OAO Mosenergo, which is consolidated since 2 half of 2007, and OAO WGC-2 and OAO WGC-6 , which are consolidated as subsidiaries since 3 quarter of 2008.

Gas transportation sales increased by RR 16,404 million, or 54%, to RR 46,964 million in the nine months ended September 30, 2008 from RR 30,560 million in the same period of the prior year. This increase was due to an increase in tariffs for gas transportation set by FTS approximately by 27%.

Other revenues increased by RR 11,707 million, or 15%, to RR 90,054 million in the nine months ended September 30, 2008 compared to RR 78,347 million in the same period of the prior year. Other revenues include sales of other services and goods.

Operating expenses

Operating expenses increased by 33% in the nine months ended September 30, 2008 to RR 1,550,246 million from RR 1,163,243 million in the same period of the prior year. Operating expenses as a percentage of sales decreased from 70% in the nine months ended September 30, 2007 to 60% in the nine months ended September 30, 2008. The table below presents a breakdown of operating expenses in each period:

	Nine months ended September 30	
(RR million)	**2008**	**2007**
Purchased oil and gas	464,941	272,058
Taxes other than on income	185,741	146,570
Staff costs	184,801	156,754
Depreciation	145,538	137,057
Transit of gas, oil and refined products	138,185	112,851
Repairs and maintenance	101,136	79,435
Cost of goods for resale, including refined products	92,286	36,478
Materials	63,033	66,610
Electricity and heating expenses	39,127	32,056
Social expenses	13,619	11,836
Insurance expenses	11,182	8,787
Charge for (release of) impairment provisions	12,140	(618)
Rental expenses	9,017	12,817
Other operating expenses	89,500	90,552
Total operating expenses	**1,550,246**	**1,163,243**

Purchased oil and gas

Cost of purchased oil and gas increased by 71% to RR 464,941 million in the nine months ended September 30, 2008 from RR 272,058 million in the same period of the prior year. The increase primarily relates to the increase in the amount of gas sales and purchase transactions in the European market and, therefore, the volume of purchased gas. These transactions are executed at market prices and are related mainly to Gazprom Germania Group. The cost of purchased oil included in the cost of purchased oil and gas increased by RR 75,199, or 129%, and amounted to RR 133,707 million in the nine months ended September 30, 2008 from RR 58,508 in the same period of the prior year.

Taxes other than on income

Taxes other than on income consist of:

	Nine months ended September 30	
(RR million)	**2008**	**2007**
Natural resources production tax	152,575	114,751
Property tax	20,695	16,012
Other taxes	12,471	15,807
Taxes other than on income	**185,741**	**146,570**

Natural resources production tax increased by 33% to RR 152,575 million in the nine months ended September 30, 2008 from RR 114,751 million in the same period of the prior year. The increase mainly related to the crude oil production activity and was caused by increase in the world oil prices and, as consequence, in tax rate.

Staff costs

Staff costs increased by 18% to RR 184,801 million in the nine months ended September 30, 2008 from RR 156,754 million in the same period of the prior year. The increase mainly resulted from the growth of average base salaries and pension liabilities.

Depreciation

Depreciation increased by 6% to RR 145,538 million in the nine months ended September 30, 2008 from RR 137,057 million in the same period of the prior year. The increase primarily relates to the growth in our fixed asset base.

Transit of gas, oil and refined products

Transit of gas, oil and refined products increased by 22% to RR 138,185 million in the nine months ended September 30, 2008 from RR 112,851 million in the same period of the prior year. This increase mainly relates to the increase in volumes of gas transportation through the territories of Ukraine and Eastern Europe.

Repairs and maintenance

Cost of repairs and maintenance increased by 27% to RR 101,136 million in the nine months ended September 30, 2008 from RR 79,435 million in the same period of the prior year. This growth resulted from the increase in volumes of repair services rendered by third parties.

Cost of goods for resale, including refined products

Cost of goods for resale, including refined products increased by 153% to RR 92,286 million in the nine months ended September 30, 2008 from RR 36,478 million in the same period of the prior year. The increase in cost of goods for resale, including refined products, mainly results from operations of Gazprom Germania Group (purchase and sale of electricity) which accounts for 67% of the total increase in operating expenses and is also caused by the increase in prices for refined products and increase in volumes of refined products purchased.

Materials

Cost of materials decreased by 5% to RR 63,033 million in the nine months ended September 30, 2008 from RR 66,610 million in the same period of the prior year. The decrease was primarily caused by less materials used for repair purposes. In the nine months, ended September 30, 2008 more repairs were performed by third parties. Also decrease of materials relates to Sibur Group deconsolidation as of 30 June 2008.

Electricity and heating expenses

Electricity and heating expenses increased by 22% to RR 39,127 million in the nine months ended September 30, 2008 from RR 32,056 million in the same period of the prior year. The increase was mainly caused by the increase in electricity consumption and increase in share of electricity, purchased at market (not regulated) prices.

Other operating expenses

Other operating expenses decreased by 1% to RR 89,500 million in the nine months ended September 30, 2008 from RR 90,552 million in the same period of the prior year. Other operating expenses include research and development expenses, processing services, transportation services, heating transfer services purchased by OAO Mosenergo, bank charges, security services, legal and consulting services, and advertising. Foreign exchange gains and losses, relating to operating activities are also presented within other operating expenses.

Operating profit

As a result of the factors discussed above, our operating profit increased by RR 525,873 million, or 106%, to RR 1,022,699 million in the nine months ended September 30, 2008 from RR 496,826 million in the same period of the prior year. Our operating profit margin increased from 30% in the nine months ended September 30, 2007 to 40% in the nine months ended September 30, 2008.

Loss from change in fair value of call option

In April 2007, ENI S.P.a. (Eni) offered the Group an option to acquire its 20% interest in OAO Gazprom Neft by April 2009, at a price of USD 3.7 billion plus certain financial expenses. For the nine months, ended September

30, 2008 the fair value of the option decreased from RR 50,738 million as of December 31, 2007 to RR 8,765 million as of September 30, 2008. The change in fair value in the amount of RR 41,973 million was recognized in the statement of income for the nine months, ended September 30, 2008.

Finance income and expenses

(RR million)	Nine months ended September 30 2008	2007
Exchange gains	73,066	57,033
Exchange losses	(92,633)	(32,144)
Net exchange (loss)/gain	(19,567)	24,889
Interest income	41,605	56,933
Interest expense	(48,603)	(54,877)
Gains on and extinguishment of restructured liabilities	21	1,035
Net finance income/(expense)	**(26,544)**	**27,980**

Exchange gains increased by 28% to RR 73,066 million in the nine months ended September 30, 2008, compared to RR 57,033 million in same period of the prior year. Exchange losses increased by 188% to RR 92,633 million in the nine months ended September 30, 2008 from RR 32,144 million in the same period of the prior year. The net exchange loss of RR 19,567 million in the nine months ended September 30, 2008 compared to net exchange gain of RR 24,889 mollion is explained mainly by the appreciation of USD against RR for the nine months, ended September 30, 2008 compared to depreciation of USD against RR in the same period of 2007.

Interest income decreased by 27% to RR 41,605 million in the nine months ended September 30, 2008 from RR 56,933 million in the same period of the prior year mainly caused by deconsolidation of OAO Gazprombank, whose main activities were providing credits and loans to individuals and entities.

Interest expense decreased by 11% from RR 54,877 million in the nine months ended September 30, 2007 to RR 48,603 million in the nine months ended September 30, 2008 mainly due to OAO Gazprombank deconsolidation. Without effect of this factor, the line increased by RR 5,822 million, or 21%, due to attraction of new loans and credits.

Share of net income of associated undertakings and jointly controlled entities

Share of net income of associated undertakings and jointly controlled entities increased by RR 18,726 million, or 83%, to RR 41,215 million in the nine months ended September 30, 2008 compared to RR 22,489 million in the same period of the prior year. The increase was caused by the increase in share of net income of RosUkrEnergo AG by RR 25,448 million and share of net income of OAO Tomskneft and its subsidiaries in the amount of RR 3,571 million. The group acquired 50% of OAO Tomskneft and its subsidiaries in December 2007. The increase was partly offset by our share in loss of Gazprombank group in the amount RR 12,100 million due to Gazprombank Croup recognition as an associated undertaking and our share in loss of Sakhalin Energy Investment Company Ltd. in the amount of RR 5,413 million. The group acquired 50% plus one share in Sakhalin Energy Investment Company Ltd. in April 2007. Losses of Sakhalin Energy Investment Company Ltd. were due to the fact that the company did not start production of hydrocarbons.

Profit tax

Total profit tax expense increased by RR 107,527 million, or 68%, to RR 264,610 million in the nine months ended September 30, 2008 compared to RR 157,083 million in the same period of the prior year. Our effective profit tax rate in the nine months ended September 30, 2008 compared to the same period of the prior year remained 26%.

Profit for the period attributable to equity holders of OAO Gazprom

As a result of the factors discussed above, our profit for the period attributable to equity holders of OAO Gazprom increased by RR 279,142 million or 65%, from RR 426,268 million in the nine months ended September 30, 2007 to RR 705,410 million in the nine months ended September 30, 2008.

Profit for the period attributable to minority interest

Minority interest increased by 64% to RR 46,266 million in the nine months ended September 30, 2008 compared to RR 28,222 million in the same period of the prior year.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes our statements of cash flows for the nine months ended September 30, 2008 and 2007:

	Nine months ended September 30	
(RR million)	**2008**	**2007**
Net cash provided by operating activities	710,687	880,058
Net cash used for investing activities	(667,295)	(606,452)
Net cash (used for) provided by financing activities	(28,277)	238,505

Net cash provided by operating activities

Net cash provided by operating activities amounted to RR 710,687 million in the nine months ended September 30, 2008 compared to RR 880,058 million in the same period of the prior year. This decrease was primarily due to less positive changes in the working capital during nine months ended September 30, 2008 in comparison with the same period of the prior year, which was caused by cash inflow in OAO Gazprombank from temporary cash deposits from participants of the auctions in the amount of RR 472,206 million in the nine months ended September 30, 2007.

Net cash used for investing activities

Net cash used for investing activities amounted to RR 667,295 million in the nine months ended September 30, 2008 compared to RR 606,452 million in the same period of the prior year. The increase was primarily due to higher capital expenditures on field development and gas transportation infrastructure (see Capital Expenditures), as well as additional investments in Sakhalin Energy Investment Company Ltd., OAO TGC-1, and OAO Beltransgaz.

Net cash (used for) provided by financing activities

Net cash used for financing activities amounted to RR 28,277 million in nine months ended September 30, 2008 compared to net cash provided by financing activities in the amount of RR 238,505 million in the same period of the prior year. This change was primarily due to repayment of a portion of long-term borrowings.

CAPITAL EXPENDITURES

Total capital expenditures (excluding the effect of acquisitions of subsidiaries and reclassifications) by segment for the nine months ended September 30, 2008 and 2007 in nominal RR terms, amounted to the following:

	Nine months ended September 30	
(RR million)	**2008**	**2007**
Production of gas	164,911	116,811
Transport	138,820	118,107
Production of crude oil and gas condensate	67,301	41,993
Distribution	40,980	24,161
Refining	29,310	26,140
Other	42,780	31,387
Total	**484,102**	**358,599**

Total capital expenditures (excluding the effect of acquisitions of subsidiaries and reclassifications) increased by RR 125,503 million, or 35%, from RR 358,599 million in the nine months ended September 30, 2007 to RR 484,102 million in the nine months ended September 30, 2008. The increase of our capital expenditures in the Production of gas segment was primarily due to increased capital expenditure on the construction of new wells and associated gas preparation units at Bovanenkovskoye and Yuzhno-Russkoye fields. The increase of our capital expenditures in the Transportion segment was primarily due to increased capital expenditure on the construction of major transportation projects, including SRTO – Torzhok pipeline and Nord Stream. The increase of our capital expenditures in the

Production of crude oil and gas condensate segment was primarily due to increased capital expenditure of Gazprom neft..

DEBT OBLIGATIONS

Net debt balance (defined as the sum of short-term borrowings, current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable and restructured tax liabilities, net of cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations) decreased by RR 360,193 million, or 29%, from RR 1,228,583 million as of December 31, 2007 to RR 868,390 million as of September 30, 2008. This decline can be explained by a significant decrease of long-term and short-term borrowings due to deconsolidation of Gazprombank Group.