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, 2006. The 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, 2005 prepared in accordance with International Financial Reporting Standards ("IFRS").

OVERVIEW

We are the world's largest oil and gas company, and the world's largest publicly-traded hydrocarbons company, in terms of reserves, transportation and production volumes. Our revenues are primarily derived from sales of natural gas 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 natural gas – exploration and production of natural gas;
- Transportation – transportation of natural gas;
- Distribution – domestic and export sales of natural gas;
- Production of crude oil and gas condensate – exploration of oil and gas condensate, sales of crude oil and gas condensate; and
- Refining – processing of oil, gas condensate and other hydrocarbons, and sales of refined products.

Other activities primarily comprise banking, construction and media.

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 natural gas segment and transportation services from our Transportation 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 were a stand-alone business. For this reason, we do not analyze any of our main segments separately in the discussion that follows.

RESULTS OF OPERATIONS

(RR million)	**Nine months ended September 30**	
	2006	**2005**
Sales (net of excise tax, VAT and customs duties)	1,581,328	902,235
Operating expenses	(1,012,913)	(587,338)
Operating profit	**568,415**	**314,897**
Finance income	82,320	37,204
Finance expense	(51,576)	(40,244)
Share of net income of associated undertakings and jointly controlled entities	19,869	10,935
Gain on disposal of available-for-sale financial assets	3,531	1,843
Profit before profit tax	**622,559**	**324,635**
Current profit tax expense	(156,684)	(78,183)
Deferred profit tax expense	(5,610)	(12,491)
Profit tax expense	(162,294)	(90,674)
Profit for the period	**460,265**	**233,961**
Attributable to:		
Equity holders of OAO Gazprom	442,296	232,130
Minority interest	17,969	1,831
	460,265	**233,961**

Sales

The following table sets out our volumes and realized prices for the nine months ended September 30, 2006 and 2005.

(RR million unless indicated otherwise)	Nine months ended September 30 2006	2005
Sales of gas		
Europe		
Gross sales [1]	830,830	588,367
Excise tax	(484)	(132)
Customs duties	(226,115)	(161,726)
Net sales	604,231	426,509
Volumes in billion cubic meters (bcm)	118.8	115.7
Gross average price, U.S.$ per mcm[2] (including excise tax and customs duties) [3]	255.4	180.8
Gross average price, RR per mcm[2] (including excise tax and customs duties)	6,995.4	5,087.4
FSU		
Gross sales (net of value added tax (VAT))	184,350	103,876
Excise tax	-	(2,975)
Customs duties	(27,067)	(16,874)
Net sales	157,283	84,027
Volumes in bcm	75.5	59.0
Gross average price, U.S.$ per mcm [2] (including excise tax and customs duties, net of VAT) [3]	89.2	62.5
Gross average price, RR per mcm [2] (including excise tax and customs duties, net of VAT)	2,441.7	1,760.1
Russia		
Gross sales (net of VAT)	247,668	213,939
Excise tax	(846)	(1,165)
Net sales	246,822	212,774
Volumes in bcm	219.6	210.7
Gross average price, RR per mcm [2] (including excise tax, net of VAT)	1,128.0	1,015.4
Total sales of gas		
Gross sales (net of VAT)	1,262,848	906,182
Excise tax	(1,330)	(4,272)
Customs duties	(253,182)	(178,600)
Net sales	1,008,336	723,310
Volumes in bcm	413.9	385.4
Net sales of refined products (net of excise tax, VAT and customs duties)	333,216	104,900
Net sales of crude oil and gas condensate (net of excise tax, VAT and customs duties)	141,049	10,368
Gas transportation sales (net of VAT)	25,141	18,032
Other revenues (net of VAT)	73,586	45,625
Total sales (net of excise tax, VAT and customs duties)	**1,581,328**	**902,235**

Notes:

(1) VAT is not charged on sales to Europe.

(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 RR679,093 million, or 75%, to RR1,581,328 million in the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005.

Net sales of gas accounted for 64% of total net sales in the nine months ended September 30, 2006 (80% in the nine months ended September 30, 2005). The changes in sales mix were caused by an increase in sales of crude oil and refined products subsequent to the acquisition of a controlling interest in October 2005 in OAO Siberian Oil Company (OAO Sibneft), renamed to OAO Gazprom neft in June 2006.

Net sales of gas increased from RR723,310 million in the nine months ended September 30, 2005 to RR1,008,336 million in the nine months ended September 30, 2006, or by 39%.

Net sales of natural gas to Europe increased in the nine months, ended September 30, 2006 compared to the nine months ended September 30, 2005 by RR177,722 million, or 42%. This increase resulted primarily from a 41% increase in gross average realized U.S. dollar export gas prices, as well as a 3% increase in sales volumes. The increase in export gas prices was caused by an increase in world prices for hydrocarbons, that are used as price-determinants in gas supply contracts. The increase in sales volumes was primarily due to increased volumes sold to customers in the United Kingdom, Romania, the Netherlands and Turkey.

Net sales of natural gas to FSU countries increased in the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005 by RR73,256 million, or 87%, to RR157,283 million. This increase was due to a 46% increase in prices in RR terms (net of excise tax, customs duties and VAT) and a 28%, or 16.5 bcm, increase in sales volumes. The increase in prices in RR terms was primarily due to the increase in sales prices to customers in the Ukraine.

Net sales of natural gas in the domestic market increased by RR34,048 million, or 16%, to RR246,822 million in the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005. This increase was primarily due to the increase in domestic gas tariffs set by the Federal Tariffs Service and increase in sales volumes by 4% or 8.9 bcm.

Sales of refined products increased by RR228,316 million, or 218%, to RR333,216 million in the nine months ended September 30, 2006 compared to RR104,900 million in the nine months ended September 30, 2005. The increase was primarily due to the consolidation of OAO Gazprom neft and its subsidiaries (Gazprom neft) from October 2005. The acquired subsidiary contributed revenue of RR204,492 million, or 61% of the total net sales of refined products for the nine months ended September 30, 2006. The growth in the domestic and export prices of refined products also contributed to the increase. Sibur and its affiliated petrochemical companies accounted for 24% and 62% of the total sales of refined products for the nine months ended September 30, 2006 and 2005, respectively. Sales of refined products (net of excise tax, VAT and customs duties) accounted for 21% and 12% of our total sales (net of excise tax, VAT and customs duties) in the nine months ended September 30, 2006 and 2005, respectively.

Subsequent to the acquisition of OAO Sibneft in the year 2005 the Group’s crude oil production significantly increased and became one of its principal activities. Sales of crude oil (net of VAT and customs duties), included in sales of crude oil and gas condensate, for the nine months ended September 30, 2006 amounted to RR126,153 million.

Gas transportation sales increased by RR7,109 million, or 39%, to RR25,141 million in the nine months ended September 30, 2006 from RR18,032 million in the nine months ended September 30, 2005. This increase was primarily due to an increase in volumes of gas transported for RosUkrEnergo AG and an increase in transportation tariffs.

Other revenues increased by RR27,961 million, or 61%, to RR73,586 million in the nine months ended September 30, 2006 compared to RR45,625 million in the nine months ended September 30, 2005. Other revenues represent activities including media, construction works and sales of other services and goods.

Operating expenses

Operating expenses increased by 72% in the nine months ended September 30, 2006 to RR1,012,913 million from RR587,338 million in the nine months ended September 30, 2005. Operating expenses as a percentage of sales decreased from 65% in the nine months ended September 30, 2005 to 64% in the nine months ended September 30, 2006. The table below presents a breakdown of operating expenses in each period:

	Nine months ended September 30	
(RR million)	**2006**	**2005**
Purchased oil and gas	189,951	50,292
Taxes other than on income	144,811	70,397
Staff costs	130,270	102,508
Transit of gas, oil and refined products	127,691	79,194
Depreciation	120,875	87,286
Materials	61,415	43,329
Repairs and maintenance	54,799	36,868
Cost of goods for resale, including refined products	42,568	11,066
Electricity and heating expenses	30,072	22,161
Social expenses	13,782	11,728
Insurance expenses	7,251	10,222
Charge for (release of) provisions for impairment of assets	6,580	(3,953)
Other	82,848	66,240
Total operating expenses	**1,012,913**	**587,338**

Purchased oil and gas

Cost of purchased oil and gas increased to RR189,951 million in the nine months ended September 30, 2006 from RR50,292 million in the nine months ended September 30, 2005. The increase primarily relates to the increase in gas purchases in Middle Asia for further reselling to RosUkrEnergo AG. The consolidation of Gazprom neft increased the cost of oil purchases by RR58,847 million in the nine months ended September 30, 2006.

Taxes other than on income

Taxes other than on income consist of:

(RR million)	Nine months ended September 30 2006	2005
Natural resources production tax	115,032	55,901
Property tax	16,069	11,156
Other taxes	13,710	3,340
Taxes other than on income	**144,811**	**70,397**

Natural resources production tax increased by 106% to RR115,032 million in the nine months ended September 30, 2006 from RR55,901 million in the nine months ended September 30, 2005 due to the consolidation of Gazprom neft by RR55,123 million and due to the change in tax legislation. From January 1, 2006, the natural resources production tax rate for natural gas increased from RR135 per mcm to RR147 per mcm. The increase in property tax can be explained by the increase of the tax base due to the revaluation of fixed assets for statutory reporting purposes, which we performed as of January 1, 2006 (except for the revaluation of trunk pipelines, which are exempted from the property tax base).

Staff costs

Staff costs increased by 27% to RR130,270 million in the nine months ended September 30, 2006 from RR102,508 million in the nine months ended September 30, 2005. The increase primarily resulted from an increase in average base salaries by 10% effective from April 1, 2005 and October 1, 2005. Staff costs, related to Gazprom neft, amounted to RR9,189 million in the nine months ended September 30, 2006.

Depreciation

Depreciation increased by 38% to RR120,875 million in the nine months ended September 30, 2006 from RR87,286 million in the nine months ended September 30, 2005. The increase primarily resulted from our growing fixed assets base and consolidation of Gazprom neft, which accounted for RR28,647 million of the increase.

Transit of gas, oil and refined products

Transit of gas, oil and refined products increased by 61% to RR127,691 million in the nine months ended September 30, 2006 from RR79,194 million in the nine months ended September 30, 2005. The increase is explained by the increase in oil and refined products transit costs by RR42,254 million due to the consolidation of Gazprom neft and increase in gas transportation volumes and tariffs.

Materials

Cost of materials increased by 42% to RR61,415 million in the nine months ended September 30, 2006 from RR43,329 million in the nine months ended September 30, 2005. The increase was primarily related to increased volumes of purchases by the Transportation and Refining segments and higher prices of materials.

Repairs and maintenance

Cost of repairs and maintenance increased by 49% to RR54,799 million in the nine months ended September 30, 2006 from RR36,868 million in the nine months ended September 30, 2005. The increase was primarily due to an increase in the volume of repairs and maintenance services rendered by third-party providers mainly in the Transportation segment.

Cost of goods for resale, including refined products

Cost of goods for resale, including refined products increased to RR42,568 million in the nine months ended September 30, 2006 from RR11,066 million in the nine months ended September 30, 2005. The increase was primarily due to Gazprom neft consolidation, which represented RR27,241 million of the increase.

Other operating expenses

Other expenses increased by 25% to RR82,848 million in the nine months ended September 30, 2006 from RR66,240 million in the nine months ended September 30, 2005. Other expenses include bank charges, security services, legal and consulting services and advertising. The increase in these expenses was primarily caused by the increase in our overall business activities.

Operating profit

As a result of the factors discussed above, our operating profit increased by RR253,518 million, or 81%, from RR314,897 million in the nine months ended September 30, 2005 to RR568,415 million in the nine months ended September 30, 2006. Our operating profit margin increased from 35% in the nine months ended September 30, 2005 to 36% in the nine months ended September 30, 2006.

Finance income/(expense)

	Nine months ended September 30	
(RR million)	**2006**	**2005**
Exchange gain	54,521	20,618
Exchange loss	(17,391)	(22,020)
Interest income	27,229	15,539
Interest expense	(34,185)	(18,224)
Gains on and extinguishment of restructured liabilities	570	1,047
Net finance income/(expense)	**30,744**	**(3,040)**

Exchange gain increased by 164% to RR54,521 million in the nine months ended September 30, 2006, compared to RR20,618 million in the nine months ended September 30, 2005. Exchange loss decreased by 21% to RR17,391 million in the nine months ended September 30, 2006 from RR22,020 million in the nine months ended September 30, 2005. The changes reflect the impact of the 7% appreciation of the RR against the U.S. dollar (in which a major part of our borrowings is denominated) and the 0.6% appreciation of the RR against the euro in the nine months ended September 30, 2006 compared to the 2.7% depreciation of the RR against the U.S. dollar and the 9.1% appreciation of the RR against euro in the nine months ended September 30, 2005.

Interest income increased by 75% to RR27,229 million in the nine months ended September 30, 2006 from RR15,539 million in the nine months ended September 30, 2005 mainly due to an increase in our loans issued by AB Gazprombank (ZAO) and bank current accounts. Interest expense increased by 88% from RR18,224 million in the nine months ended September 30, 2005 to RR34,185 million in the nine months ended September 30, 2006 due to increased borrowings.

Share of net income of associated undertakings and jointly controlled entities

Share of net income of associated undertakings and jointly controlled entities increased by RR8,934 million to RR19,869 million in the nine months ended September 30, 2006 compared to RR10,935 million in the nine months ended September 30, 2005. The increase was primarily due to share in net profit of OAO NGK Slavneft which became an associate with the acquisition of OAO Sibneft in 2005.

Profit tax

Total profit tax expense increased by RR71,620 million, or 79%, to RR162,294 million in the nine months ended September 30, 2006 compared to RR90,674 million in the nine months ended September 30, 2005 primarily due to increased profit before tax.

Our overall effective profit tax rate in the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005 decreased from 28% to 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 RR210,166 million, or 91%, from RR232,130 million in the nine months ended September 30, 2005 to RR442,296 million in the nine months ended September 30, 2006.

Profit for the period attributable to minority interest

Minority interest increased by 881% to RR17,969 million in the nine months ended September 30, 2006 compared to RR1,831 million in the nine months ended September 30, 2005. The increase was primarily due to the earnings of OAO Gazprom neft, as a result of acquisition of the 75.68% interest in OAO Sibneft in 2005.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes our statements of cash flows for the nine months ended September 30, 2006 and 2005:

	Nine months ended September 30	
(RR million)	**2006**	**2005**
Net cash provided by operating activities	290,306	228,008
Net cash used for investing activities	(276,029)	(225,099)
Net cash (used for) provided by financing activities	(4,888)	78,194

Net cash provided by operating activities

Net cash provided by operating activities amounted to RR290,306 million in the nine months ended September 30, 2006 compared to RR228,008 million in the nine months ended September 30, 2005. This was primarily due to higher sales and operating profit, which rose mainly due to the upward trend in gas and oil prices, partially offset by an increase in operating expenses and profit tax.

Net cash used for investing activities

Net cash used for investing activities amounted to RR276,029 million in the nine months ended September 30, 2006 compared to RR225,099 million in the nine months ended September 30, 2005. Investing activities increased due to higher capital expenditures on field development and transportation infrastructure and investments in OAO Novatek shares and additional interest in OAO Mosenergo and companies established under restructuring .

Net cash (used for) provided by financing activities

Net cash used for financing activities amounted to RR4,888 million in the nine months ended September 30, 2006 compared to net cash provided by financing activities in the amount of RR78,194 million in the nine months ended September 30, 2005. This change was primarily due to early repayment of a portion of the loan from Dresdner Bank AG, that was received to finance the purchase of OAO Sibneft and higher net repayments of borrowings.

CAPITAL EXPENDITURES

Total capital expenditures (excluding the effect of acquisitions of subsidiaries and reclassifications) by segment for the nine months ended September 30, 2006 and 2005 in nominal RR terms, amounted to the following:

	Nine months ended September 30	
	2006	**2005**
(RR million)		
Transportation	130,635	105,011
Production of natural gas	67,114	52,993
Production of crude oil and gas condensate	37,388	6,651
Distribution	10,184	4,585
Refining	12,173	9,138
Other [1]	8,723	13,394
Total	**266,217**	**191,772**

Note:

(1) Primarily includes expenditures for service activities such as drilling, transportation services (other than transportation of gas, oil and refined products) and repair.

Total capital expenditures (excluding the effect of acquisitions of subsidiaries and reclassifications) increased by RR74,445 million, or 39%, from RR191,772 million in the nine months ended September 30, 2005 to RR266,217 million in the nine months ended September 30, 2006. The increase of our capital expenditures in the Transportation segment was primarily due to increased capital expenditure on the construction of major transportation projects, including the pipeline from the northern region of the Tyumen Oblast to Torzhok, North-European gas pipeline, Arkhangelsk-Severodvinsk gas pipeline. Capital expenditures in the Production of crude oil and gas condensate segment have increased following the consolidation of Gazprom neft.

DEBT OBLIGATIONS

Our 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 RR30,244 million, or 4%, from RR797,465 million as of 31 December 2005 to RR767,221 million as of 30 September 2006. This decrease can be explained primarily by cash repayments of long-term borrowings.