**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 six months ended 30 June, 2010. 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, 2009, 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 principal businesses:

- Production of gas – exploration and production of gas;
- Transport – transportation of gas;
- Distribution – sales of gas within Russian Federation and abroad;
- Gas storage – storage of extracted and purchased gas in underground gas storages;
- Production of crude oil and gas condensate – exploration and production 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; and
- Electric and heat energy generation and sales.

Other businesses primarily comprise production of other products and sales of several goods, works, services.

Our 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 gas from our Production of gas segment and 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.

RESULTS OF OPERATIONS

(RR million)

	Six months periods ended June 30, 2010	2009
Sales	1,721,293	1,470,535
Net gain from trading activity	7,761	2,351
Operating expenses	(1,151,334)	(1,040,949)
Operating profit	**577,720**	**431,937**
Purchase of non-controlling interest in OAO Gazprom neft	-	13,865
Finance income	91,588	240,415
Finance expense	(83,444)	(317,073)
Share of net income of associated undertakings and jointly controlled entities	52,945	15,790
Gains on disposal of available-for-sale financial assets	1,389	2,839
Profit before profit tax	**640,198**	**387,773**
Current profit tax expense	(99,390)	(88,393)
Deferred profit tax (expense) benefit	(32,574)	6,380
Profit tax expense	(131,964)	(82,013)
Profit for the period	**508,234**	**305,760**
Other comprehensive income		
Gains arising from change in fair value of available-for-sale financial assets, net of tax	174	12,468
Share of other comprehensive income of associated undertakings and jointly controlled entities	726	3,960
Translation differences	(13,315)	5,926
Revaluation of equity interest	-	9,911
Other comprehensive (loss) income for the period, net of tax	**(12,415)**	**32,265**
Total comprehensive income for the period	**495,819**	**338,025**
Profit attributable to:		
owners of OAO Gazprom	494,684	296,243
non-controlling interest	13,550	9,517
	508,234	**305,760**
Total comprehensive income attributable to:		
owners of OAO Gazprom	480,079	330,396
non-controlling interest	15,740	7,629
	495,819	**338,025**

Sales

The following table sets out our volumes and realized prices for the six months periods ended June 30, 2010 and 2009.

(RR million unless indicated otherwise)	Six months periods ended June 30, 2010	2009
Sales of gas		
Europe and other countries		
Gross sales [1]	661,392	720,191
Excise tax	-	(290)
Customs duties	(134,954)	(135,098)
Net sales	526,438	584,803
Volumes in billion cubic meters (bcm)	77.0	64.5
Gross average price, U.S.$ per mcm[2] (including excise tax and customs duties) [3]	285.9	337.9
Gross average price, RR per mcm[2] (including excise tax and customs duties)	8,595.0	11,174.4
FSU (Former Soviet Union)		
Gross sales (net of value added tax (VAT))	216,658	170,803
Customs duties	(28,506)	(9,519)
Net sales	188,152	161,284
Volumes in bcm	31.6	21.1
Gross average price, U.S.$ per mcm [2] (including customs duties, net of VAT) [3]	227.8	245.1
Gross average price, RR per mcm [2] (including customs duties, net of VAT)	6,848.2	8,103.6
Russian Federation		
Gross sales (net of VAT)	343,587	248,215
Net sales	343,587	248,215
Volumes in bcm	150.7	142.8
Gross average price, RR per mcm [2] (net of VAT)	2,279.5	1,737.8
Total sales of gas		
Gross sales (net of VAT)	1,221,637	1,139,209
Excise tax	-	(290)
Customs duties	(163,460)	(144,617)
Net sales	1,058,177	994,302
Volumes in bcm	259.3	228.4
Net sales of refined products (net of excise tax, VAT and customs duties)	319,125	222,631
Net sales of electric and heat energy (net of VAT)	148,670	99,826
Net sales of crude oil and gas condensate (net of excise tax, VAT and customs duties)	93,520	79,285
Gas transportation net sales (net of VAT)	45,576	26,797
Other revenues (net of VAT)	56,225	47,694
Total sales (net of excise tax, VAT and customs duties)	**1,721,293**	**1,470,535**

Notes:

[1] VAT is not charged on sales to Europe and other 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 250,758 million, or 17%, to RR 1,721,293 million in the six months period ended June 30, 2010 compared to the same period of the prior year.

Net sales of gas accounted for 61% and 68% of total net sales in the six months periods ended June 30, 2010 and 2009, respectively.

Net sales of gas increased from RR 994,302 million in the six months period ended June 30, 2009 to RR 1,058,177 million in the six months period ended June 30, 2010 or by 6%.

Net sales of gas to Europe and other countries decreased in the six months period ended June 30, 2010 compared to the six months period ended June 30, 2009, by RR 58,365 million, or 10%, to RR 526,438 million. The overall decrease in net sales of gas to Europe and other countries was primarily driven by the decrease in average prices. The gross average RR price (including excise tax and customs duties) decreased by 23% in the six months period ended June 30, 2010, compared to the six months period ended June 30, 2009. At the same time volume of gas sold in the six months period ended June 30, 2010 increased by 19% compared to the same period of the prior year.

Net sales of gas to FSU countries increased in the six months period ended June 30, 2010 compared to the six months period ended June 30, 2009, by RR 26,868 million, or 17%, to RR 188,152 million. This increase was mainly due to increase in volumes of gas sold to FSU countries by 50% in the six months period ended June 30, 2010 compared to the six months period ended June 30, 2009. At the same time the gross average RR price (including customs duties, net of VAT) decreased by 15% in the six months period ended June 30, 2010 compared to the same period of the prior year.

Net sales of gas in the domestic market increased in the six months period ended June 30, 2010 compared to the same period of the prior year, by RR 95,372 million, or 38%, to RR 343,587 million. This increase was due to the increase in the gross average price for domestic gas sales by 31% in the six months period ended June 30, 2010 compared to the same period of the prior year due to increase in tariffs which are set by the Federal Tariffs Service (FTS), and increase in the volumes of gas sold by 6% in the six months period ended June 30, 2010 compared to the same period of the prior year.

Net sales of refined products (net of excise tax, VAT and customs duties) increased by RR 96,494 million, or 43%, to RR 319,125 million in the six months period ended June 30, 2010 in comparison with the same period of the prior year. The increase mainly resulted from the increase of world prices for refined products and increase in volumes sold, as well as the acquisitions of new subsidiaries by Gazprom neft Group in the six months period ended June 30, 2010 compared to the same period of the prior year. In the six months periods ended June 30, 2010 and 2009 Gazprom neft Group's sales comprised 83% and 85% of the total amount of our net sales of refined products, respectively.

Net sales of electric and heat energy (net of VAT) increased by RR 48,844 million, or 49% to RR 148,670 in the six months period ended June 30, 2010 compared to the same period of the prior year. This increase was mainly due to consolidation of TGC-1 starting from 31 December 2009 after control over that entity was obtained that resulted in an increase of RR 26,868 million and increase of sales of electric and heat energy related to activity of Mosenergo, WGC-2 and WGC-6 by RR 22,426 million, or 23%.

Net sales of crude oil and gas condensate (net of excise tax, VAT and customs duties) increased by RR 14,235 million, or 18%, to RR 93,520 million in the six months period ended June 30, 2010 compared to RR 79,285 million in the six months period ended June 30, 2009. The increase was mainly caused by the increase of oil and gas condensate price in the six months period ended June 30, 2010 compared to the same period of the prior year. Also the increase results from the increase of the volume of gas condensate and crude oil sold in the six months period ended June 30, 2010 compared to the same period of the prior year. Sales of crude oil included in net sales of crude oil and gas condensate (net of excise tax, VAT and customs duties), amounted to RR 80,835 million and RR 72,495 million in the six months periods ended June 30, 2010 and 2009, respectively.

Gas transportation net sales (net of VAT) increased by RR 18,779 million, or 70%, to RR 45,576 million in the six months period ended June 30, 2010 from RR 26,797 million in the six months period ended June 30, 2009. The increase was mainly caused by increased gas volumes transported for independent gas suppliers in the six months period ended June 30, 2010 compared to the same period of the prior year.

Other revenues increased by RR 8,531 million, or 18%, to RR 56,225 million in the six months period ended June 30, 2010 compared to RR 47,694 million in the six months period ended June 30, 2009.

Operating expenses

Operating expenses increased by 11% in the six months period ended June 30, 2010 to RR 1,151,334 million from RR 1,040,949 million in the six months period ended June 30, 2009. Operating expenses as a percentage of sales decreased from 71% in the six months period ended June 30, 2009 to 67% in the six months period ended June 30, 2010. The table below presents a breakdown of operating expenses in each period:

(RR million)	Six months periods ended 30 June, 2010	2009
Purchased gas and oil	282,530	362,526
Staff costs	148,946	122,170
Transit of gas, oil and refined products	145,316	111,265
Taxes other than on income	144,592	107,666
Depreciation	119,188	106,342
Repairs and maintenance	61,762	56,062
Materials	40,576	31,813
Cost of goods for resale, including refined products	32,431	38,011
Electricity and heating expenses	30,132	20,014
Rental expenses	11,349	8,868
Research and development expenses	11,070	10,668
Social expenses	10,030	8,430
Charge for impairment provisions	8,968	7,187
Insurance expenses	7,529	7,349
Exchange rate differences on operating items	6,975	(36,046)
Transportation services	6,659	2,723
Other	83,281	75,901
Total operating expenses	**1,151,334**	**1,040,949**

Purchased gas and oil

Cost of purchased gas and oil decreased by 22% to RR 282,530 million in the six months period ended June 30, 2010 from RR 362,526 million in the six months period ended June 30, 2009. The decrease in cost of purchased gas primarily relates to the decrease of volumes and price of gas purchased from Central Asian suppliers. The cost of purchased oil included in the cost of purchased gas and oil increased by RR 34,201 million, or 59%, and amounted to RR 91,952 million in the six months period ended June 30, 2010 in comparison with RR 57,751 million in the six months period ended June 30, 2009 due to increase in oil prices and increase in volumes of purchased oil.

Staff costs

Staff costs increased by 22% to RR 148,946 million in the six months period ended June 30, 2010 from RR 122,170 million in the six months period ended June 30, 2009. The increase mainly resulted from the salary indexation. The increase also reflects the consolidation of TGC-1 starting from 31 December 2009 after control over that entity was obtained and acquisitions of new subsidiaries by Gazprom neft Group.

Transit of gas, oil and refined products

Transit of gas, oil and refined products increased by 31% to RR 145,316 million in the six months period ended June 30, 2010 from RR 111,265 million in the six months period ended June 30, 2009. This growth mainly relates to increased costs of gas transportation through Ukraine.

Taxes other than on income

Taxes other than on income consist of:

(RR million)	Six months periods ended June 30, 2010	2009
Natural resources production tax	85,934	62,689
Property tax	21,433	17,421
Other taxes	37,225	27,556
Taxes other than on income	**144,592**	**107,666**

The natural resources production tax increased by 37% to RR 85,934 million in the six months period ended June 30, 2010 from RR 62,689 million in the six months period ended June 30, 2009. The increase mainly resulted from increase of natural resources production tax base due to increase in average world oil prices as well as from the increase of gas production.

Depreciation

Depreciation increased by 12% or RR 12,846 million to RR 119,188 million in the six months period ended June 30, 2010 from RR 106,342 million in the six months period ended June 30, 2009. The increase primary relates to the growth in the fixed asset base.

Repairs and maintenance

Cost of repairs and maintenance increased by 10% to RR 61,762 million in six months period ended June 30, 2010 from RR 56,062 million in the six months period ended June 30, 2009. This increase was caused by the increase of volume of repair services rendered by third parties to the Group in the six months ended June 30, 2010.

Materials

Cost of materials increased by 28% to RR 40,576 million in the six months period ended June 30, 2010 from RR 31,813 million in the six months period ended June 30, 2009. The increase mainly resulted from the increase of expenses of fuel in the segment "Electric and heat energy generation and sales".

Cost of goods for resale, including refined products

Cost of goods for resale, including refined products decreased by 15% to RR 32,431 million in the six months period ended June 30, 2010 from RR 38,011 million in the six months period ended June 30, 2009. The decrease in cost of goods for resale, including refined products, mainly results from decrease in volumes of purchased refined products performed by the Gazprom neft Group.

Electricity and heating expenses

Electricity and heating expenses increased by 51% to RR 30,132 million in the six months period ended June 30, 2010 from RR 20,014 million in the six months period ended June 30, 2009. The increase mainly resulted from the increase of electricity consumption and increase of tariffs.

Charge for impairment provisions

Impairment provisions increased by 25% to RR 8,968 million in the six months period ended June 30, 2010 from RR 7,187 million in the six months period ended June 30, 2009. The increase mainly resulted from the growth of impairment provision related to accounts receivable in respect of southern regions of Russian Federation.

Exchange rate differences on operating items

Exchange rate differences on operating items in the six months period ended June 30, 2010 amounted to a net loss of RR 6,975 million in comparison with exchange rate differences on operating items in the amount of a net gain of RR 36,046 million in the same period of the prior year. The change was primarily driven by depreciation of RUR against USD by 3% and by appreciation of RUR against EUR by 12% in the six months ended 30 June 2010 comparing to depreciation of RUR against USD and EUR by 7% and 6% respectively, in the same period of the prior year.

Other operating expenses

Other operating expenses increased by 10% to RR 83,281 million in the six months period ended June 30, 2010 from RR 75,901 million in the six months period ended June 30, 2009. Other operating expenses include refining services, heat energy transmission expenses, bank charges, security services, legal and consulting services, charity and financial aid, and advertising.

Operating profit

As a result of the factors discussed above, our operating profit increased by RR 145,783 million, or 34%, to RR 577,720 million in the six months period ended June 30, 2010 from RR 431,937 million in the same period of the prior year. Our operating profit margin increased from 29% in the six months period ended June 30, 2009 to 34% in the six months period ended June 30, 2010.

Finance income (expense)

(RR million)	Six months periods ended June 30, 2010	2009
Exchange gains	80,242	224,545
Exchange losses	(59,290)	(280,968)
Net exchange gain (loss)	20,952	(56,423)
Interest income	11,342	15,798
Interest expense	(24,154)	(36,105)
Gains on extinguishment of restructured liabilities	4	72
Net finance income (expense)	**8,144**	**(76,658)**

Exchange gains decreased by RR 144,303 million to RR 80,242 million in the six months period ended June 30, 2010, compared to RR 224,545 million in the six months period ended June 30, 2009. Exchange losses decreased by RR 221,678 million to RR 59,290 million in the six months period ended June 30, 2010 from RR 280,968 million in the six months period ended June 30, 2009. The decrease in exchange gains and exchange losses resulted from lower fluctuation of USD and EUR exchange rates against RR in the six months ended June 30, 2010 in comparison with the same period of the prior year.

Interest income decreased by 28% to RR 11,342 million in the six months period ended June 30, 2010 from RR 15,798 million in the six months period ended June 30, 2009, mainly due to deconsolidation of ZAO Gazenergoprombank in the second quarter 2010.

Interest expense decreased by 33% to RR 24,154 million in the six months period ended June 30, 2010 from RR 36,105 million in the six months period ended June 30, 2009, mainly due to decrease of average borrowings balance during six months period ended June 30, 2010, in comparison with the same period of the prior year.

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 37,155 million, or 235%, to RR 52,945 million in the six months ended June 30, 2010 compared to RR 15,790 million in the same period of the prior year. The increase of the Group's share of net income of associated undertakings and jointly controlled entities in the six months ended June 30, 2010 relates mainly to increase of net income of Sakhalin Energy Investment Company Ltd. due to the start of liquefied natural gas production in March 2009 and increase of net income of Gazprombank Group as a result of improved performance of banking and petrochemical businesses in the six months period ended June 30, 2010 compared to the same period of the prior year.

Profit tax

Total profit tax expense increased by RR 49,951 million, or 61%, to RR 131,964 million in the six months period ended June 30, 2010 compared to RR 82,013 million in the six months period ended June 30, 2009. The effective profit tax rate was 20.6% and 21.1% in the six months periods ended June 30, 2010 and 2009, respectively.

Profit for the period attributable to owners of OAO Gazprom

As a result of the factors discussed above, our profit for the period attributable to owners of OAO Gazprom increased by RR 198,441 million, or 67%, from RR 296,243 million in the six months period ended June 30, 2009 to RR 494,684 million in the six months period ended June 30, 2010.

Profit for the period attributable to non-controlling interest

Profit for the period attributable to non-controlling interest increased by RR 4,033 million, or 42%, to RR 13,550 million in the six months period ended June 30, 2010 compared to RR 9,517 million in the six months period ended June 30, 2009.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes our statements of cash flows for the six months ended June 30, 2010 and 2009:

	Six months periods ended June 30,	
(RR million)	2010	2009
Net cash provided by operating activities	747,782	524,187
Net cash used for investing activities	(493,954)	(617,817)
Net cash (used for) provided by financing activities	(126,509)	116,988

Net cash provided by operating activities

Net cash provided by operating activities amounted to RR 747,782 million in the six months period ended June 30, 2010 compared to RR 524,187 million in the six months period ended June 30, 2009. The increase was primarily due to growth of our operating profit in the six months period ended June 30, 2010 in comparison with the same period of the prior year, which was supplemented by positive dynamics of changes in working capital.

Net cash used for investing activities

Net cash used for investing activities decreased by RR 123,863 million, or 20%, to RR 493,954 million in the six months period ended June 30, 2010 compared to RR 617,817 million in the six months period ended June 30, 2009. This change relates mainly to the purchase of non-controlling interest in OAO Gazprom neft in 2009 for RR 138,527 million and receipt of proceeds from redemption of preference shares in Sakhalin Energy Investment Company Ltd in the six months period ended June 30, 2010. These effects were partly offset by the increase in cash and cash equivalents used for capital expenditures and decrease in cash and cash equivalents in the amount of RR 32,504 million due to deconsolidation of banking subsidiaries in the current period.

Net cash (used for) provided by financing activities

Net cash used for financing activities amounted to RR 126,509 million in the six months period ended June 30, 2010 compared to net cash provided by financing activities amounted to RR 116,988 million in the six months period ended June 30, 2009. This change was due to decrease in proceeds from long-term and short-term borrowings in the six months period ended June 30, 2010 compared to the same period of the prior year.

CAPITAL EXPENDITURES

Total capital expenditures (excluding the effect of acquisitions of subsidiaries) by segment for the six months periods ended June 30, 2010 and 2009 in nominal RR terms, amounted to the following:

	Six months periods ended June 30,	
	2010	2009
(RR million)		
Transport	143,884	119,784
Production of gas	112,076	114,167
Production of crude oil and gas condensate	41,795	38,529
Refining	26,869	28,636
Electric and heat energy generation and sales	19,056	6,792
Distribution	15,000	21,443
Gas storage	4,281	3,318
All other segments	11,005	7,356
Total	**373,966**	**340,025**

Total capital expenditures (excluding the effect of acquisitions of subsidiaries) increased by RR 33,941 million, or 10%, from RR 340,025 million in the six month period ended June 30, 2009 to RR 373,966 million in the six month period ended June 30, 2010. The increase of our capital expenditures in the Transport segment was primarily due to increased capital expenditure on the construction of major transportation projects, including Pipeline Sakhalin-Khabarovsk-Vladivostok, Pipeline Bovanenkovo-Uhta, 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 OAO Gazprom neft. The increase of our capital expenditures in the Electric and heat energy generation and sales segment was primarily due to increased capital expenditure of WGC-6 and consolidation of TGC-1 starting from 31 December 2009 after control over that entity was obtained.

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 397,574 million, or 29%, from RR 1,372,307 million as of December 31, 2009 to RR 974,733 million as of June 30, 2010. This decrease resulted from decrease of short-term and long-term borrowings, which was primarily caused by deconsolidation of the banking subsidiaries of the Group as of June 30, 2010 and increase of cash and cash equivalents.