MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2004

You should read the following management's discussion in conjunction with our unaudited consolidated interim condensed financial information as of and for the three and nine months ended 30 September 2004. The interim condensed financial information has been prepared in accordance with International Accounting Standard 34 "Interim financial reporting" ("IAS 34"). These financial statements should be read together with the consolidated financial statements for the year ended 31 December 2003 prepared in accordance with International Financial Reporting Standards ("IFRS").

OVERVIEW

We are the world's largest natural 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 four main business segments:

- Production: exploration, development and production operations relating to natural gas and other hydrocarbons. These activities are primarily located within Russia.
- Refining: processing and refining of natural gas, gas condensate and other hydrocarbons (including crude oil), and sales of hydrocarbon products.
- Transportation: transportation of natural gas through the world's largest high-pressure trunk pipeline system (151,600 km). We own and operate a single centrally controlled system for natural gas production, processing, transportation, storage and deliveries. Beginning in the late 1990s, we began acquiring interests in regional gas distribution companies that own and operate medium-and low-pressure pipelines.
- Distribution: domestic and export sale of gas. We are the world's largest exporter of natural gas.

Other businesses primarily comprise banking, insurance, construction and media. These businesses are not separately reflected in our financial information because they do not represent individually material segments.

Our four main business segments are mutually dependent, with a significant portion of the revenues of one segment being a part of the costs of another segment. In particular, our Distribution and Refining segments purchase natural gas from our Production segment and transportation services from our Transportation segment. We establish internal transfer prices to provide funding requirements of the individual segments. Accordingly, the results of operations of these segments on a stand-alone basis do not necessarily represent that 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' millions)	Nine months ended 30 September 2004	Nine months ended 30 September 2003
Sales (net of excise tax, VAT and customs duties)	683,330	597,382
Operating expenses	(494,845)	(415,360)
Operating profit	**188,485**	**182,022**
Net finance costs	(2,741)	(1,011)
Share of net income of associated undertakings	4,092	4,194
Gains (losses) on available-for-sale investments	3,740	(1,626)
Profit before profit tax and minority interest	**193,576**	**183,579**
Current profit tax expense	(35,068)	(31,259)
Deferred profit tax expense	(19,049)	(23,939)
Profit tax expense	(54,117)	(55,198)

(RR' millions)	Nine months ended 30 September 2004	2003
Profit before minority interest	**139,459**	**128,381**
Minority interest	(1,586)	(1,942)
Net profit	**137,873**	**126,439**

The following tables set out our volumes and realized prices for the nine months ended 30 September 2004 and 2003.

(RR' millions, unless indicated otherwise)	Nine months ended 30 September 2004	2003
Europe		
Gross sales	431,224	427,167
Excise tax	(1,018)	(93,020)
Customs duties	(113,985)	(17,631)
Net sales	316,221	316,516
Volumes in billion cubic meters (bcm)	113.4	102.9
Gross average price, RR per mcm [(1)] (including excise tax and customs duties)	3,802.6	4,151.8
Net average price, RR per mcm [(1)] (net of excise tax and customs duties)	2,788.5	3,075.9
FSU		
Gross sales (net of value added tax (VAT))	63,599	41,872
Excise tax	(470)	(7,103)
Customs duties	(14,658)	(1,952)
Net sales	48,471	32,817
Volumes in bcm	47.5	31.3
Gross average price, RR per mcm [(1)] (including excise tax and customs duties, net of VAT)	1,338.1	1,339.8
Net average price, RR per mcm [(1)] (net of excise tax, VAT and customs duties)	1,020.4	1,050.1
Russia		
Gross sales (net of VAT)	173,444	143,956
Excise tax	(1,322)	(15,117)
Net sales	172,122	128,839
Volumes in bcm	209.4	212.8
Gross average price, RR per mcm [(1)] (including excise tax, net of VAT)	828.4	676.6
Net average price, RR per mcm [(1)] (net of excise tax and VAT)	822.1	605.4
Total sales of gas		
Gross sales (net of VAT)	668,267	612,995
Excise tax	(2,810)	(115,240)
Customs duties	(128,643)	(19,583)
Net sales	536,814	478,172
Volumes in bcm	370.3	347.0
Sales of gas condensate and oil and gas products (net of excise tax, VAT and customs duties)	87,133	62,269
Gas transportation sales (net of excise tax and VAT)	21,307	20,421
Other sales (net of VAT)	38,076	36,520
Total sales (net of excise tax, VAT and customs duties)	**683,330**	**597,382**

[(1)] Mcm is the equivalent of thousand cubic meters.

Net sales revenues increased by RR 85,948 million, or 14%, to RR683,330 million in the nine months ended 30 September 2004 compared to the nine months ended 30 September 2003. Net sales of gas accounted for 79% of total sales in the nine months ended 30 September 2004 (80% in the nine months ended 30 September 2003) and were RR58,642 million, or 12%, higher than in the same period of 2003.

Net sales of natural gas to Europe decreased by RR295 million, to RR316,221 million in the nine months ended 30 September 2004 compared to the nine months ended 30 September 2003. This was due to a 9% decrease in net prices in RR terms being almost offset by a 10%, or 10.5 bcm, increase in sales volumes. Average net prices in RR terms decreased as a result of average realized U.S. dollar export gas prices (including excise and customs duties) remaining almost flat; the 7% appreciation of the RR against the U.S. dollar; and the increase in the customs duties rate from 5% to 30% effective 1 January 2004, the effect of which more than offset the decrease in excise tax as a result of the abolishment of excise tax on natural gas produced after 1 January 2004. The increase in sales volumes was primarily due to increased volumes sold to Germany, Italy and France under existing long-term contracts, an additional short-term contract on gas supplies to France signed in the nine months ended 30 September 2004, and increased sales to the United Kingdom.

Net sales of natural gas to FSU countries increased by RR15,654 million, or 48%, to RR48,471 million in the nine months ended 30 September 2004 compared to the nine months ended 30 September 2003. This was due to a 52%, or 16.2 bcm, increase in volumes, which more than offset a 3% decrease in net prices in RR terms to RR1,020.4 per mcm. The 3% decrease in the net average RR prices resulted primarily from the 7% appreciation of the RR against the U.S. dollar for the nine months ended 30 September 2004 compared to the nine months ended 30 September 2003 and the increase in customs duties, which together more than offset a 7% increase in average realized U.S. dollar price (including excise tax and customs duties), and the effect of excise tax being abolished. The increase in volumes of gas sold to FSU countries was primarily due to an increase in shipments of gas to Ukraine, Kazakhstan, Belarus and shipments of gas to Armenia, Georgia and Azerbaijan.

Net sales of natural gas in the domestic market increased by RR43,283 million, or 34%, to RR172,122 million in the nine months ended 30 September 2004 compared to the nine months ended 30 September 2003. This was primarily due to the increase in domestic gas tariffs set by the Federal Tariffs Service, which was slightly offset by the 2%, or 3.4 bcm, decrease in sales volumes. Average domestic prices, including excise tax, increased by 22%, however, as excise tax was abolished for natural gas produced after 1 January 2004, net average domestic prices increased by 36%, from RR605.4 per mcm in the nine months ended 30 September 2003 to RR822.1 per mcm in the nine months ended 30 September 2004. The 2% decrease in domestic sales volumes was primarily due to the warmer winter.

Total excise taxes on natural gas sales decreased by RR112,430 million, or 98%, to RR2,810 million in the nine months ended 30 September 2004 from RR115,240 million in the nine months ended 30 September 2003, representing 0.4% and 18.8% of gross sales of natural gas (including excise tax and customs duties and net of VAT), respectively. The decrease was due to the fact that excise tax on natural gas produced after 1 January 2004 was abolished. This decrease more than offset the RR109,060 million increase in customs duties to RR128,643 million in the nine months ended 30 September 2004 compared to RR19,583 million in the nine months ended 30 September 2003.

Sales of gas condensate and oil and gas products increased by RR24,864 million, or 40%, to RR87,133 million in the nine months ended 30 September 2004 compared to RR62,269 million in the nine months ended 30 September 2003. This increase was primarily due to the acquisition of controlling interests in additional petrochemical companies in the six months ended 31 December 2003 and increased volumes and prices for sales on the domestic market. Sibur and its affiliated petrochemical companies accounted for 61% of sales of gas condensate and oil and gas products in both the nine months ended 30 September 2004 and 2003.

Gas transportation sales increased by RR886 million, or 4%, to RR21,307 million in the nine months ended 30 September 2004 from RR20,421 million in the nine months ended 30 September 2003. This was primarily due to a RR1,690 million increase in transportation sales to Trans Nafta who provided gas to Belarus during our contract disputes with Belarus during the first six months of 2004, and increased prices and volume of transportation services for gas transportation sales to a number of Russian gas producers, which together more than offset a reduction in the gas transportation sales to Eural Trans Gas and Itera.

Other sales increased by RR1,556 million, or 4%, to RR38,076 million in the nine months ended 30 September 2004 compared to RR36,520 million in the nine months ended 30 September 2003. Other sales represent activities including media, construction works, refinery services, and sales of other services and goods.

Operating expenses

Operating expenses increased by 19% in the nine months ended 30 September 2004 to RR494,845 million from RR415,360 million in the nine months ended 30 September 2003. Operating expenses as a percentage of sales increased from 70% in the nine months ended 30 September 2003 to 72% in the nine months ended 30 September 2004. The table below presents a breakdown of operating expenses in each period:

(RR' millions)	**Nine months ended 30 September 2004**	**2003**
Staff costs	88,404	64,511
Transit costs	79,355	80,062
Depreciation	77,714	71,095
Taxes other than on income	57,138	26,748
Materials	43,856	25,756
Purchased gas	41,857	20,872
Repairs and maintenance	22,127	22,316
Electricity	20,301	13,840
Cost of goods for resale, including refined products	12,649	11,844
Social expenses	9,807	6,522
Transportation services	6,996	4,120
Processing services	2,903	13,464
Provisions for liabilities and charges	4,647	5,427
Provisions for impairment of assets	(18,587)	4,245
Other	45,678	44,538
Total operating expenses	**494,845**	**415,360**

Staff costs

Staff costs increased by 37% to RR88,404 million in the nine months ended 30 September 2004 from RR64,511 million in the nine months ended 30 September 2003. The increase was primarily due to the increase in the number of employees following the acquisition of controlling interests in a number of petrochemical companies in 2003 (RR4,601 million) and the increase in average base salaries in June 2003, December 2003 and April 2004.

Transit costs

Transit costs decreased by 1% to RR79,355 million in the nine months ended 30 September 2004 from RR80,062 million in the nine months ended 30 September 2003. Transit costs relate principally to fees charged by Ukraine, Poland and other Eastern Europe and Central Asian countries for the transit of gas to markets in Europe. The decrease primarily resulted from a decrease in transit costs for transportation of gas across the Ukraine and Poland primarily due to the appreciation of the RR against U.S. dollar, as these costs are U.S. dollar denominated, and for Poland, a lower U.S. dollar denominated effective average gas transportation tariff from January 2004. The factors decreasing transit costs more than offset an increase in the transit costs through Belarus due to an increase in the tariff as agreed through intergovernmental agreements in May 2004 and an increase in volumes of gas transit.

Depreciation

Depreciation increased by 9% to RR77,714 million in the nine months ended 30 September 2004 from RR71,095 million in the nine months ended 30 September 2003. The increase primarily resulted from our growing fixed assets base.

Taxes other than on income

Taxes other than on income consist of:

(RR' millions)	Nine months ended 30 September 2004	2003
Natural resources production tax	45,355	15,207
Property tax	8,239	7,538
Other taxes	3,544	4,003
Taxes other than on income	**57,138**	**26,748**

Taxes other than on income increased by 114% to RR57,138 million in the nine months ended 30 September 2004 from RR26,748 million in the nine months ended 30 September 2003. The increase was primarily attributable to the change in tax legislation. From 1 January 2004, the natural resources production tax rate changed from 16.5% of the value of natural gas produced to a fixed rate of 107 roubles per mcm, and for gas condensate – from 16.5% of the value of gas condensate produced from gas condensate fields and RR 340 per ton of gas condensate produced from oil and gas condensate fields (the latter rate was subject to adjustments depending on fluctuations of oil prices and the RR exchange rate) to a single rate of 17.5% of the value of gas condensate produced. Also, effective 1 January 2004, the maximum property tax rate increased from 2.0% to 2.2%.

Materials

Cost of materials increased by 70% to RR43,856 million in the nine months ended 30 September 2004 from RR25,756 million in the nine months ended 30 September 2003. The increase was primarily related to the acquisition of controlling interests in a number of petrochemical companies in 2003, increased volumes of purchases and higher prices of materials.

Purchased gas

Cost of purchased gas increased by 101% to RR41,857 million in the nine months ended 30 September 2004 from RR20,872 million in the nine months ended 30 September 2003. The increase was primarily related to increased volumes of gas purchased by Sibur, purchases of Central Asian gas, both in Central Asia and in Europe, for resale to customers in Western Europe and FSU and purchases of gas for sale in the United Kingdom.

Electricity

Electricity expense increased by 47% or to RR20,301 million in the nine months ended 30 September 2004 from RR13,840 million in the nine months ended 30 September 2003, primarily resulting from the acquisition of controlling interests in additional petrochemical companies in 2003, the increased activity of Sibur (RR5,998 million) and higher electricity tariffs, set by the Federal Tariffs Service, in the nine months ended 30 September 2004 compared to the nine months ended 30 September 2003.

Processing services

Processing services decreased by 78% to RR2,903 million in the nine months ended 30 September 2004 from RR13,464 million in the nine months ended 30 September 2003. The decrease in the cost of processing services was due to the acquisition of controlling interests in additional petrochemical companies in 2003, who previously had provided processing services to the Group as external service providers.

Provisions for impairment of assets

We recognized a net release of provisions for impairment of assets of RR18,587 million in the nine months ended 30 September 2004 compared to a net charge of RR4,245 million in the nine months ended 30 September 2003. This was primarily due to a RR19,356 million release of impairment provision for accounts receivable and prepayments in the nine months ended 30 September 2004 compared to a RR3,004 million net charge in the nine months ended 30 September 2003. This was primarily due to the reassessment of the impairment provision for accounts receivable due from NAK Naftogaz Ukraine for gas shipments made from 1997-2000, which resulted in a RR19,671 million net release to income in the three months ended 30 September 2004. Reassessment of the impairment provision was based on the future recoverability of the accounts receivable balance by applying discounted future cash benefits of the accounts receivable settlement in accordance with agreements we signed with NAK Naftogaz Ukraine in August 2004.

Other expenses

Other expenses increased by 3% to RR45,678 million in the nine months ended 30 September 2004 from RR44,538 million in the nine months ended 30 September 2003. Other expenses include rental expenses, cost of equipment maintenance services, insurance expenses, research and development and other services.

Net finance costs

(RR' millions)	Nine months ended 30 September 2004	2003
Net exchange gains	2,932	8,042
Interest income	10,598	9,499
Interest expense	(16,777)	(22,601)
Gains on and extinguishment of restructured liabilities	506	4,049
Net finance costs	**(2,741)**	**(1,011)**

We recognized a net exchange gain of RR2,932 million in the nine months ended 30 September 2004 compared to RR8,042 million in the nine months ended 30 September 2003. The change primarily reflects the impact on foreign currency denominated borrowings of lower appreciation of the RR against the U.S. dollar, which decreased from 4% in the nine months ended 30 September 2003 to 1% in the nine months ended 30 September 2004.

Interest expense decreased by RR5,824 million to RR16,777 million for the nine months ended 30 September 2004 compared to RR22,601 for the nine months ended 30 September 2003 primarily due to the reduction of average borrowing rates and the principal amount of promissory notes outstanding. These factors more than offset the impact of an 7%, or RR35,995 million, increase in average total debt (total debt defined as the sum of short-term borrowings, current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings and long-term promissory notes payable) for the nine months ended 30 September 2004 compared to the nine months ended 30 September 2003, primarily as a result of net proceeds from long-term borrowings.

Share of net income of associated undertakings

Share in net income of associates decreased by RR102 million to RR4,092 million in the nine months ended 30 September 2004 compared to RR4,194 million in the nine months ended 30 September 2003. The decrease was due to the fact that higher net profits of associated undertakings recorded primarily by WINGAS GmbH and ZAO KazRosGaz were more than offset by net impairment provision charge against certain associated undertakings recorded in the nine months ended 30 September 2004 compared to net impairment provision release in the nine months ended 30 September 2003.

Gains (losses) on available-for-sale investments

We recognized a gain on available-for-sale investments of RR3,740 million in the nine months ended 30 September 2004 compared to a loss of RR1,626 million in the nine months ended 30 September 2003. The gain of RR3,740 million recognized in the nine months ended 30 September 2004 primarily relates to the disposal of promissory notes. In the nine months ended 30 September 2003 the loss primarily related to the disposal of third party promissory notes held by our subsidiaries.

Profit tax

Profit tax expense decreased by RR1,081 million, or 2%, to RR54,117 million in the nine months ended 30 September 2004 compared to RR55,198 million in the nine months ended 30 September 2003.

Our current profit tax expense increased by RR3,809 million, or 12%, to RR35,068 million in the nine months ended 30 September 2004 from RR31,259 million in the nine months ended 30 September 2003. Our effective current profit tax rate increased to 18% in the nine months ended 30 September 2004 compared to 17% for the nine months ended 30 September 2003 primarily as a result of fully utilizing the tax loss carry forward of OAO Gazprom in the nine months ended 30 September 2004 and an increase in non-deductible expenses, primarily social expenses, in the nine months ended 30 September 2004 compared to the nine months ended 30 September 2003. These factors more than offset a one-time reduction in current profit tax in the amount of RR2,003 million upon partial write off of the accounts receivable principal due from NAK Naftogaz Ukraine as a result of the agreements signed with NAK Naftogaz Ukraine in August 2004.

Our overall effective profit tax rate decreased to 28% in the nine months ended 30 September 2004, from 30% in the nine months ended 30 September 2003, primarily due to the non-recurring non-taxable gain recognized in the three months ended 30 September 2004 as a result of the agreements signed in August 2004 NAK Naftogaz Ukraine, a one-off reduction in the current profit tax following August 2004 agreements with NAK Naftogaz Ukraine, which together more than offset an increase in non-deductible expenses in the nine months ended 30 September 2004 compared to the nine months ended 30 September 2003 and the effect of certain non-recurring non-taxable gains on the extinguishment of restructured liabilities recognized in the nine months ended 30 September 2003.

Net profit

As a result of the factors discussed above, our net profit increased by RR11,434 million, or 9%, from RR126,439 million in the nine months ended 30 September 2003 to RR137,873 million in the nine months ended 30 September 2004.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the statements of cash flows for the nine months ended 30 September 2004 and 2003.

	Nine months ended 30 September	
(RR' millions)	2004	2003
Net cash provided by operating activities	57,412	115,314
Net cash used for investing activities	(132,011)	(99,293)
Net cash provided by financing activities	83,018	34,502

Net cash provided from operating activities

Net cash provided by operating activities amounted to RR57,412 million in the nine months ended 30 September 2004 compared to RR115,314 million in the nine months ended 30 September 2003. This was primarily due to higher negative changes in our net working capital position in the nine months ended 30 September 2004 compared to the nine months ended 30 September 2003. The increase in our working capital position as of 30 September 2004 compared to 31 December 2003 primarily reflected an increase in accounts receivable and prepayments, inventories and other current assets and a decrease in taxes payable, current portion of long-term borrowings and short-term promissory notes payable, which more than offset an increase in accounts payable and accrued charges and short-term borrowings and a decrease in short-term investments and restricted cash.

Net cash used for investing activities

Net cash used for investing activities amounted to RR132,011 million in the nine months ended 30 September 2004 compared to RR99,293 million in the nine months ended 30 September 2003. This was primarily due to the acquisition of a 5.2% interest in RAO UES in January 2004, the acquisition of an additional 6.48% interest OAO Mosenergo in the three months ended 30 September 2004, and an increase in cash capital expenditures for a number of major construction projects.

Net cash provided by financing activities

Net cash provided by financing activities amounted to RR83,018 million in the nine months ended 30 September 2004 compared to RR34,502 million in the nine months ended 30 September 2003. This was primarily due to net proceeds from short-term borrowings, a net cash inflow from the selling and purchasing of treasury shares, higher proceeds from long-term borrowings and a reduction of cash restricted on borrowings in the nine months ended 30 September 2004, partially offset by higher repayments of long-term borrowings and redemption of promissory notes.

Capital expenditures

Total capital expenditures (including cash advances to contractors and suppliers, which are recorded within other long-term assets, and excluding the effect of acquisitions of subsidiaries and reclassifications) increased by RR15,882 million, or 11%, from RR145,701 million in the nine months ended 30 September 2003 to RR161,583 million in the nine months ended 30 September 2004. Our cash capital expenditures increased by RR6,707 million, or 7%, from RR99,233 million in the nine months ended 30 September 2003 to RR105,940 million in the nine months ended 30 September 2004 in line with our strategy to continue to decrease our non-cash settlements.

Most of our capital expenditures during these periods were for production assets and transportation infrastructure. In the nine months ended 30 September 2004, capital expenditures on production assets were RR75,729 million, or 47% of total capital expenditures, decreasing from RR76,665 million, or 53% in the nine months ended 30 September 2003.

Capital expenditures exceeded the budget mainly at Yamburgskoe, Zapolyarnoe and Yen-Yakhinskoe gas and gas condensate fields. Capital expenditures on the transportation infrastructure comprised RR64,500 million, or 40% of total capital expenditures in the nine months ended 30 September 2004, increasing from RR56,316 million, or 39% of total capital expenditures in the nine months ended 30 September 2003. Budgeted capital expenditures for 2004 indicate our renewed focus on investing in our transportation network. Our primary transportation capital projects in the nine months ended 30 September 2004 were for the construction of a pipeline from the northern region of the Tyumen Oblast to Torzhok and construction of a pipeline from the Pestsovoe field to the Yamburg trunk pipeline.

Total capital expenditures by segment for the nine months ended 30 September 2004 and 2003 are as follows:

(RR' millions)	**Nine months ended 30 September** **2004**	**2003**
Production	75,729	76,665
Transportation	64,500	56,316
Refining	5,712	2,693
Distribution	4,461	2,427
Other [(1)]	11,181	7,600
Total	161,583[(2)]	145,701

[(1)]Primarily includes expenditures for service activities such as drilling and automobile transport and repair.

[(2)]Includes RR2,745 million related to Sibur, Vostokgazprom and Purgaz.

The actual amount and timing of capital expenditures made are subject to change depending on economic and political conditions. Management cannot rule out strategic acquisitions if opportunities arise.

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) increased by RR66,315 million, from RR425,910 million as of 31 December 2003 to RR492,225 million as of 30 September 2004. The increase in the net debt balance was primarily due to the new long-term borrowings, primarily U.S.$1,200 million of Loan Participation Notes issued in April 2004, U.S.$1,250 million of Structured Export Notes issued in July 2004 and a May 2004 U.S.$1,100 million loan from Calyon (the corporate banking unit for Credit Lyonnais S.A. and Credit Agricole Indosuez), and proceeds from short-term borrowings, which together more than offset repayment of current portion of long-term borrowings and redemption of promissory notes.