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, 2005. 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 December 31, 2004 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.
- Refining: processing and refining of natural gas, gas condensate and other hydrocarbons, and sale of hydrocarbon products.
- Transportation: transportation of natural gas through the world's largest high-pressure trunk pipeline system. 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 gas distribution companies that own and operate medium- and low-pressure pipelines.
- Distribution: domestic and export sale of natural gas. We are the world's largest exporter of natural gas.

Other businesses primarily comprise banking, construction and media. These businesses are not separately reflected in our financial statements 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.

The gas business is subject to seasonal fluctuations with peak demand in the first and fourth quarters of each year. Typically approximately 60% of total annual gas volumes are shipped in the first and fourth calendar quarters.

RESULTS OF OPERATIONS

(RR million)	Nine months ended September 30, 2005	Nine months ended September 30, 2004
Sales (net of excise tax, VAT and customs duties)	902,235	683,330
Operating expenses	(587,338)	(496,738)
Operating profit	**314,897**	**186,592**
Net finance expense	(3,040)	(848)
Share of net income of associated undertakings and jointly controlled entities	10,935	4,092
Gains on available-for-sale investments	1,843	5,250
Profit before profit tax	**324,635**	**195,086**
Current profit tax expense	(78,183)	(35,068)
Deferred profit tax expense	(12,491)	(19,049)
Total profit tax expense	(90,674)	(54,117)
Profit for the period	**233,961**	**140,969**
attributable to:		

(RR million)	Nine months ended September 30, 2005	2004
Equity holders of OAO Gazprom	232,130	139,383
Minority interest	1,831	1,586

The following table sets out our volumes and realized prices for the nine months ended September 30, 2005 and 2004.

(RR million unless indicated otherwise)	Nine months ended September 30, 2005	2004
Sales of gas		
Europe		
Gross sales [1]	588,367	431,224
Excise tax	(132)	(1,018)
Customs duties	(161,726)	(113,985)
Net sales	426,509	316,221
Volumes in billion cubic meters (bcm)	115.7	113.4
Average price, U.S.$ per mcm [2] (including excise tax and customs duties) [3]	180.8	131.5
Gross average price, RR per mcm [2] (including excise tax and customs duties)	5,087.4	3,802.6
FSU		
Gross sales (net of value added tax (VAT))	103,876	63,599
Excise tax	(2,975)	(470)
Customs duties	(16,874)	(14,658)
Net sales	84,027	48,471
Volumes in bcm	59.0	47.5
Average price, U.S.$ per mcm [2] (including excise tax and customs duties, net of VAT) [3]	62.5	46.3
Gross average price, RR per mcm [2] (including excise tax and customs duties, net of VAT)	1,760.1	1,338.1
Russia		
Gross sales (net of VAT)	213,939	173,444
Excise tax	(1,165)	(1,322)
Net sales	212,774	172,122
Volumes in bcm	210.7	209.4
Gross average price, RR per mcm [2] (including excise tax, net of VAT)	1,015.4	828.4
Total sales of gas		
Gross sales (net of VAT)	906,182	668,267
Excise tax	(4,272)	(2,810)
Customs duties	(178,600)	(128,643)
Net sales	723,310	536,814
Volumes in bcm	385.4	370.3
Sales of gas condensate and oil and gas products (net of excise tax, VAT and customs duties)	115,268	87,133
Gas transportation sales (net of VAT)	18,032	21,307
Other sales (net of VAT)	45,625	38,076
Total sales (net of excise tax, VAT and customs duties)	**902,235**	**683,330**

Notes:

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

(2) One mcm is the equivalent of a thousand cubic meters.

(3) Calculated on the basis of average rate.

Total sales (net of excise tax, VAT and customs duties) increased by RR218,905 million, or 32%, to RR902,235 million in the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004. Net sales of gas accounted for 80% of total net sales in the nine months ended September 30, 2005 (79% in the same period of 2004) and were RR186,496 million, or 35%, higher than in the same period of 2004.

Net sales of natural gas to Europe increased by RR110,288 million, or 35%, to RR426,509 million in the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004. This increase resulted primarily from a 37% increase in gross average realized U.S. dollar export gas prices, as well as with a 2% increase in sales volumes. The increase in prices was offset by the appreciation of average RR rate against the U.S. dollar which was partly compensated by depreciation of the average RR rate against euro. The increase in sales volumes was primarily due to increased volumes sold to customers in Turkey, Belgium and Slovakia.

Net sales of natural gas to FSU countries increased by RR35,556 million, or 73%, to RR84,027 million in the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004. This was due to a 40% increase in prices in RR terms (net of excise tax, customs duties and VAT) and a 24%, or 11.5 bcm, increase in volumes. The 40% increase in the average net RR price (net of excise tax, customs duties and VAT) of gas to RR1,423.8 per mcm was primarily due to the change in the VAT rate to zero (from 18%) on sales to the countries of CIS, to which we sell gas (except for Moldova) and increase in sales prices to Ukraine, that was caused by sales of gas from underground gas storage facilities (UGS) in Ukraine. The increase in volumes of gas sold to FSU countries was primarily due to a 5.8 bcm increase in volumes of gas sales to Belarus due to contract disputes in the six months ended June 30, 2004 and 4.2 bcm increase in volumes of gas sold to Ukraine due to sales of gas from UGS in Ukraine.

Net sales of natural gas in the domestic market increased by RR40,652 million, or 24%, to RR212,774 million in the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004. This was primarily due to the increase in domestic gas tariffs set by the FTS, and 1%, or 1.3 bcm, increase in sales volumes.

Sales of gas condensate and oil and gas products increased by RR28,135 million, or 32%, to RR115,268 million in the nine months ended September 30, 2005 compared to RR87,133 million in the nine months ended September 30, 2004. The increase was primarily due to the increase in the domestic and export prices of oil and gas products. Sibur and its affiliated petrochemical companies accounted for 57% and 61% of our total sales of gas condensate and oil and gas products in the nine months ended September 30, 2005 and 2004, respectively. Sales of gas condensate and oil and gas products (net of excise tax, VAT and customs duties) accounted for 13% of our total sales (net of excise tax, VAT and customs duties) in each of the nine month ended June 30, 2005 and 2004.

Gas transportation sales decreased by RR3,275 million, or 15%, to RR18,032 million in the nine months ended September 30, 2005 from RR21,307 million in nine months ended September 30, 2004. This decrease primarily resulted from the termination of sales of gas transportation services to Eural Trans Gas from January 2005 and due to a RR1,836 million decrease in transportation sales to Trans Nafta, which supplied gas to Belarus during our contract disputes with Belarus in the first half of 2004. In the nine months ended September 30, 2004 gas transportation sales to Eural Trans Gas amounted to RR9,398 million. These factors more than offset the amount of transportation services of RR5,109 million in the nine months ended September 30, 2005, to RosUkrEnergo AG, a jointly controlled entity engaged from January 2005 in the sales of gas, produced in Russia and Central Asia to Ukraine and other countries.

Other sales increased by RR7,549 million, or 20%, to RR45,625 million in the nine months ended September 30, 2005 compared to RR38,076 million in nine months ended September 30, 2004. Other sales represent activities including media, construction works, refinery services, and sales of other services and goods.

Operating expenses

Operating expenses increased by 18% in the nine months ended September 30, 2005 to RR587,338 million from RR496,738 million in the nine months ended September 30, 2004. Operating expenses as a percentage of sales decreased from 73% in the nine months ended September 30, 2004 to 65% in the nine months ended September 30, 2005. The table below presents a breakdown of operating expenses in each period:

	Nine months ended September 30,	
(RR million)	**2005**	**2004**
Staff costs	97,420	88,404
Depreciation	87,286	77,714
Gas transit costs	79,194	79,355
Taxes other than on income	70,397	57,138
Purchased gas	50,292	41,857
Materials	43,329	43,856
Repairs and maintenance	36,868	22,127
Electricity and heating expenses	22,161	20,301
Social expenses	11,728	9,807
Cost of goods for resale, incl. refined products	11,066	12,650
Insurance	10,222	6,383
Transportation services	7,852	6,996
Equipment maintenance	6,767	3,860
Rental expenses	6,242	3,498
Provisions for liabilities and charges	5,070	4,647
Research and development	4,128	3,415
Release of provisions for impairment of assets	(3,953)	(18,587)
Other	41,269	33,317
Total operating expenses	**587,338**	**496,738**

Staff costs

Staff costs increased by 10% to RR97,420 million in the nine months ended September 30, 2005 from RR88,404 million in the nine months ended September 30, 2004. The increase primarily resulted from increases in average base salaries ин 10% effective from April 1, 2004 and 2005.

Depreciation

Depreciation increased by 12% to RR87,286 million in the nine months ended September 30, 2005 from RR77,714 million in the nine months ended September 30, 2004. The increase primarily resulted from our growing fixed assets base.

Gas transit costs

Gas transit costs decreased by less than 1% to RR79,194 million in the nine months ended September 30, 2005 from RR79,355 million in the nine months ended September 30, 2004. Transit costs relate principally to fees charged by Ukraine, Poland and other Eastern European countries and by some Central Asian countries. The decrease primarily resulted from a decrease in transit costs for transportation of gas through Kazakhstan and Uzbekistan, partially offset by an increase in tariffs for transportation through Poland. The decrease of expenses for the transportation through Kazakhstan and Uzbekistan resulted from a change in the arrangements by which gas of Middle Asia origin is transported to Ukraine. Starting from 2005, gas of Middle Asia origin is sold to Ukraine by RosUkrEnergo AG, a jointly controlled entity, which incurs transit costs on the territories of Kazakhstan and Uzbekistan. Prior to January 1, 2005 we incurred expenses for the transportation of gas of Middle Asia origin that Eural Trans Gas sold to Ukraine and included these costs in the amounts that we charged to Eural Trans Gas for transportation services.

Taxes other than on income

Taxes other than on income consist of:

(RR million)	Nine months ended September 30, 2005	2004
Natural resources production tax	55,901	45,354
Property tax	11,156	8,239
Other taxes	3,340	3,545
Taxes other than income tax	**70,397**	**57,138**

Natural resources production tax increased by 23% to RR55,901 million in the nine months ended September 30, 2005 from RR45,354 million in the nine months ended September 30, 2004 due to a change in tax legislation. From January 1, 2005, the natural resources production tax rate for natural gas increased from RR107 per mcm to RR135 per mcm. The increase in property tax can be explained by the increase of tax base for the revaluation of fixed assets for statutory reporting purposes, which we performed as of January 1, 2005 (except for the revaluation of trunk pipelines, which are exempted from the property tax base).

Purchased gas

Cost of purchased gas increased by 20% to RR50,292 million in the nine months ended September 30, 2005 from RR41,857 million in the nine months ended September 30, 2004. The increase was primarily related to purchases of gas from RosUkrEnergo for resale in European countries.

Materials

Cost of materials did not change significantly: the decrease was only 1% to RR43,329 million in the nine months ended September 30, 2005 from RR43,856 million in the nine months ended September 30, 2004.

Repairs and maintenance

Cost of repairs and maintenance increased by 67% to RR36,868 million in the nine months ended September 30, 2005 from RR22,127 million in the nine months ended September 30, 2004. The increase was primarily due to an increase in the volume of repairs and maintenance services rendered by external providers primarily in the transportation segment resulting from the ageing of pipeline assets.

Release of provisions for impairment of assets

Release of provision for impairment of assets decreased by 79% to RR3,953 million in the nine months ended September 30, 2005 compared RR18,587 million the nine months ended September 30, 2004. The release of impairment provision for impairment of assets 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 nine months ended September 30, 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. The release of provision for impairment of assets for nine months, ended September 30, 2005 also relates mainly to reassessment of impairment provision for receivables from NAK Naftogaz Ukraine.

Other operating expenses

Other expenses increased by 24% to RR41,269 million in the nine months ended September 30, 2005 from RR33,317 million in the nine months ended September 30, 2004. Other expenses include bank charges, financial aid and charity, security services, legal and consulting services and advertising.

Other items of operating expenses

Other items of operating expenses which individually comprise less than 5% of net sales changed due to a number of factors, none of which is individually significant. For example, electricity expenses increased mainly due to the rise in tariffs in electricity consumed and insurance expenses increased due to the disposal of the stake in Sogaz.

Net finance expense

(RR million)	Nine months ended September 30, 2005	2004
Net exchange (loss) gain	(1,402)	4,825
Interest income	15,539	10,598
Interest expense	(18,224)	(16,777)
Gains on and extinguishment of restructured liabilities	1,047	506
Net finance expense	**(3,040)**	**(848)**

We recognized a net exchange loss of RR1,402 million in the nine months ended September 30, 2005 compared to a net exchange gain of RR4,825 million in the nine months ended September 30, 2004. The change reflects the impact of the 2.7% depreciation of the RR against the U.S. dollar (in which a major part of our borrowings are denominated) and a 9.1% appreciation of the RR against the euro in the nine months ended September 30, 2005 compared to a 0.8% appreciation of the RR against the U.S. dollar and 2.3% appreciation of the RR against euro in the nine months ended September 30, 2004.

Interest income increased by 47% to RR 15,539 mln for 9 months ended September 30, 2005 from RR 10,598 mln for 9 months ended September 30, 2004 mainly due to an increase in our deposits held in external banks. Interest expense increased by 9% from RR 16,777 mln for 9 months, ended September 30 2004 to RR 18,224 mln for 9 months, ended September 30, 2005 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 RR6,843 million to RR10,935 million in the nine months ended September 30, 2005 compared to RR4,092 million in the nine months ended September 30, 2004. The increase was primarily due to commencement of operations of RosUkrEnergo, a jointly controlled entity, from January 2005, and higher net profit recorded by EuRoPol GAZ S.A., our associated undertaking engaged in transportation and sales of gas, following the rise of transportation tariffs for its services.

Gains on available-for-sale investments

Gains on available-for-sale investments decreased from RR5,250 million in the nine months ended September 30, 2004 to RR1,843 million in the nine months ended September 30, 2005 primarily due to additional impairment charges related to promissory notes and decreases in realized gains on the disposal of promissory notes held by our subsidiaries.

Profit tax

Total profit tax expense increased by RR36,557 million, or 68%, to RR90,674 million in the nine months ended September 30, 2005 compared to RR54,117 million in the nine months ended September 30, 2004 primarily due to increased profit before tax.

Our overall effective profit tax rate in the nine months ended September 30, 2005 and 2004 was 28%.

Our effective current profit tax rate increased to 24% in the nine months ended June 30, 2005 compared to 18% in the nine months ended September 30, 2004 primarily due to the decrease in the amount of tax loss carry forward, utilized by OAO Gazprom, partial reversal of taxable temporary differences in respect of property, plant and equipment and one-time reduction in current profit tax in 9 months, ended September 30, 2004 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.

Profit for the period

As a result of the factors discussed above, our profit for the period increased by RR92,992 million, or 66%, from RR140,969 million in the nine months ended September 30, 2004 to RR233,961 million in the nine months ended September 30, 2005.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes our statements of cash flows for the nine months ended September 30, 2005 and 2004:

(RR million)	Nine months ended September 30, 2005	2004
Net cash provided by operating activities	228,008	75,136
Net cash used for investing activities	(225,099)	(149,735)
Net cash provided by financing activities	78,194	83,018

Net cash provided by operating activities

Net cash provided by operating activities amounted to RR228,008 million for the nine months ended September 30, 2005 compared to RR75,136 million for the nine months ended September 30, 2004. This was primarily due to higher sales which rose mainly due to the upward trend in gas prices.

Net cash used for investing activities

Net cash used for investing activities amounted to RR225,099 million for the nine months ended September 30, 2005 compared to RR149,735 million for the nine months ended September 30, 2004. This increase was primarily due to a significant increase in cash capital expenditures for a number of major construction projects (described below) and an increase in cash used for the purchase of an additional 6.4% interest in the share capital of RAO UES and 3.02% interest in OAO Sibneft, included within the long-term available-for-sale investments as of 30 September 2005.

Net cash provided by financing activities

Net cash provided by financing activities amounted to RR78,194 million for the nine months ended September 30, 2005 compared to RR83,018 million for the nine months ended September 30, 2004. This decrease was primarily due to net cash outflows of RR4,906 million related to operations with treasury shares for the nine months ended September 30, 2005 compared to an inflow of RR9,939 million for the nine months ended September 30, 2004, a change in cash restricted on borrowings, which decreased by RR129 million and RR17,264 million for nine months ended September 30, 2005 and 2004, respectively and increase in interest paid from RR12,705 million for nine months ended September 30, 2004 to RR17,744 million for nine months ended September 30, 2005. Significant portion of cash restricted on borrowings depends on the schedule of borrowings repayments. This cash restricted on borrowings fluctuates with borrowings service and repayment schedules. These effects were offset by increased net proceeds from long-term borrowings (including current portion) which amounted to RR86,393 million for the nine months ended September 30, 2005 compared to RR53,337 million for the nine months ended September 30, 2004.

Capital expenditures

Total capital expenditures (excluding the effect of acquisitions of subsidiaries and reclassifications) increased by RR16,260 million, or 10%, from RR155,147 million in the nine months ended September 30, 2004 to RR171,407 million in the nine months ended September 30, 2005. Our cash capital expenditures increased by RR40,206 million, or 33%, from RR123,664 million in the nine months ended September 30, 2004 to RR163,870 million in the nine months ended September 30, 2005 primarily due to the increase in cash settlements for capital expenditures of prior periods.

Most of our capital expenditures during these periods were for production assets and transportation infrastructure. In the nine months ended September 30, 2005 capital expenditure on production assets were RR53,310 million, or 31% of total capital expenditure in the nine months ended September 30, 2005, decreasing from RR72,713 million, or 47% in the nine months ended September 30, 2004. Capital expenditures in the production segment in the nine months ended September 30, 2005 primarily include capital expenditures for the development of Pestsovaya area of Urengoyskoe field and Aneryakhinskoe and Kharvutinskaya areas of Yamburgskoye field. Capital expenditures on the transportation infrastructure comprised RR93,859 million, or 55% of total capital expenditure in the nine months ended September 30, 2005, increasing from RR61,931 million, which represented 40% of total capital expenditure in the nine months ended September 30, 2004. 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, the pipeline from Torzhok to Belostok, the gas transportation system in the Urengoy region and Pochinki-Izobilnoye pipeline.

Total capital expenditures by segment for the nine months ended September 30, 2005 and 2004 and budgeted total capital expenditures by segment for the year ended December 31, 2005 are as follows (excluding expenditures for certain of our subsidiaries, namely ZAO Purgaz, OAO AK Sibur, ZAO Stimul, OAO Vostokgazprom and OAO Zapsibgazprom):

	Nine months ended September 30, (4)		**Budget for the year ending**
(RR million)	**2005**	**2004**	**31 December 2005**(1) (3)
Transportation	93,859	61,931	145,623
Production	53,310	72,713	62,768
Refining	8,168	5,484	11,600
Distribution	4,098	4,283	8,397
Other (2)	11,972	10,736	8,515
Total	**171,407**	**155,147**	**236,903**

Note:

(1) An adjusted capital expenditure budget for 2005 of RR236,903 million, including the following major projects: RR57,574 million for construction of a pipeline from the northern region of the Tyumen Oblast to Torzhok, RR16,305 million for construction of a pipeline from Torzhok to Belostok, RR6,312 million to extend the gas transportation system in the Urengoy region, RR18,905 million for construction of Pochinki-Izobilnoye pipeline, RR7,961 million to develop the Pestsovaya area of Urengoyskoe field, RR13,092 million to develop the Aneryakhenskaya and Kharvutinskaya areas of the Yamburgskoe field, and RR8,008 million for restoration of the Orenburg Helium Plant. The adjusted budget was approved by the Board of Directors on September 28, 2005.

(2) Primarily includes expenditures for service activities such as drilling, transportation services (other than gas transportation services) and repair.

(3) Includes VAT.

(4) Without VAT

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 RR20,759 million, or 4%, from RR 499,855 million as of December 31, 2004 to RR520,614 million as of September 30, 2005. This was primarily due to increased borrowings, that are required to finance our future cash flow needs.