MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2003

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 six months ended 30 June 2003. 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 2002 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 ("FSU") 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. Operations relating to refining of natural gas, gas condensate and oil significantly increased in the six months ended 30 June 2003 due to increase of OAO AK Sibur ("Sibur") activities following the completion of bankruptcy procedures in 2002.
- Transportation: transportation of natural gas through the world's largest high-pressure trunk pipeline system (155,000 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 subsidiaries within each segment. 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.

As the characteristics of the economic environment of the Russian Federation indicated that hyperinflation had ceased, effective from 1 January 2003 we no longer apply the provisions of IAS 29. However, all prior period amounts are stated in terms of the measuring unit current as of 31 December 2002.

RESULTS OF OPERATIONS

(RR' millions)	Six months ended 30 June 2003	2002
Sales	421,827	306,537
Operating expenses	(279,374)	(229,651)
Operating profit	**142,453**	**76,886**
Net finance benefit (costs)	2,419	(17,153)
Monetary gain	-	16,474
Net monetary effects and financing items	2,419	(679)
Share of net income from associated undertakings	2,554	2,582
(Losses) gains on available-for-sale investments	(2,633)	1,643

(RR' millions)	Six months ended 30 June 2003	2002
Profit before profit tax and minority interest	**144,793**	**80,432**
Current profit tax expense	(24,469)	(43,883)
Deferred profit tax expense	(15,767)	(26,547)
Profit tax expense	(40,236)	(70,430)
Profit before minority interest	**104,557**	**10,002**
Minority interest	(796)	375
Net profit	**103,761**	**10,377**

The following table set out our volumes and realized prices by destination for the six months ended 30 June 2003 and 2002.

(RR' millions, unless indicated otherwise)	Six months ended 30 June 2003	2002
Europe		
Gross sales (net of customs duties)	287,518	216,614
Excise tax	(65,183)	(49,461)
Net sales	222,335	167,153
Volumes in bcm	72.7	66.2
Average price, constant RR per mcm[1] (including excise tax, net of customs duties)	3,956.4	3,272.1
FSU		
Gross sales (net of value added tax (VAT) and customs duties)	29,914	31,302
Excise tax	(5,432)	(5,329)
Net sales	24,482	25,972
Volumes in billion cubic meters (bcm)	23.2	23.2
Average price, constant RR per mcm (including excise tax, net of VAT and customs duties)	1,288.1	1,349.0
Russia		
Gross sales (net of VAT)	110,807	68,166
Excise tax	(11,223)	(1,211)
Net sales	99,584	66,954
Volumes in bcm	166.2	151.3
Average price, nominal RR per mcm (including excise tax and net of VAT)	666.6	415.1
Average price, constant RR per mcm (including excise tax and net of VAT)	666.6	450.6
Total sales of gas		
Gross sales (net of VAT and customs duties)	428,239	316,082
Excise tax	(81,838)	(56,003)
Net sales	346,401	260,079
Volumes in bcm	262.1	240.7
Sales of gas condensate and oil and gas products (net of excise tax and VAT)	39,129	21,849
Gas transportation sales (net of VAT)	13,168	8,326
Other sales (net of VAT)	23,129	16,283
Total net sales (net of excise, VAT and customs duties)	**421,827**	**306,537**

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

Net sales revenues increased by RR115,290 million or 38% to RR421,827 million in the six months ended 30 June 2003 compared to the six months ended 30 June 2002. Net sales of gas accounted for 82% of total sales in the six months ended 30 June 2003 and were RR86,322 million or 33% higher than in the six months ended 30 June 2002.

Net sales of natural gas to Europe increased by RR55,182 million or 33% to RR222,335 million in the six months ended 30 June 2003 compared to the six months ended 30 June 2002. This was primarily due to a 21% increase in prices in constant RR terms and a 10% or 6.5 bcm increase in sales volumes. Following the increase in U.S. dollar oil prices, average U.S. dollar export gas prices increased 34% in the six months ended 30 June 2003 to U.S.$132 per mcm (including excise and customs duties) compared to the six months ended 30 June 2002. Nevertheless, average constant RR export gas prices to Europe, increased by only 21% to RR3,956.4 per mcm, as the 1% devaluation of the RR against the U.S. dollar for the six months ended 30 June 2003 compared to the six months ended 30 June 2002 continued to lag behind 6% inflation for the period from 30 June 2002 to 31 December 2002. The increase in sales volumes was primarily due to increased volumes sold to Germany, Romania, Hungary and Turkey under existing long-term contracts.

Net sales of natural gas to FSU countries decreased by RR1,490 million or 6% to RR24,482 million in the six months ended 30 June 2003 compared to the six months ended 30 June 2002. This was due to a 5% decrease in the average constant RR price of gas. The 5% decrease in the average constant RR price of gas to RR1,288.1 per mcm resulted from the fact that cumulative devaluation of the RR against the U.S. dollar continued to lag behind cumulative inflation, which more than offset the 4% increase in average realized U.S. dollar price to U.S.$41.2 per mcm. Although there was no change in the total volume of gas sold to FSU countries, shipments of gas to Baltic countries increased by 0.9 bcm, which more than offset the 0.3 bcm reduction in sales volumes to Ukraine from 14.0 bcm in the six months ended 30 June 2002 to 13.7 bcm in the six months ended 30 June 2003. In 2003 we continued to restrict our shipments to Ukraine to those required to cover transportation services, so called “transit-gas”, which mitigates our collection risk.

Net sales of natural gas in the domestic market increased by RR32,630 million or 49% to RR99,584 million in the six months ended 30 June 2003 compared to the six months ended 30 June 2002. This was due to the increase in domestic gas tariffs set by the Federal Energy Commission and the 10% increase in sales volumes. The nominal average domestic price increased by 61% from RR415.1 per mcm in the six months ended 30 June 2002 to RR666.6 per mcm in the six months ended 30 June 2003. However, due to the impact of inflation for the period from 30 June 2002 to 31 December 2002, the average constant RR domestic price increased by 48% in the comparable periods. The 10% increase in domestic sales volumes, which increased by 14.9 bcm to 166.2 bcm in the six months ended 30 June 2003 compared to the six months ended 30 June 2002, includes increase of sales by OAO AK Sibur (“Sibur”) (2.5 bcm), and gas sales through an electronic terminal by our subsidiary Mezhregiongaz which commenced at the end of 2002 (0.8 bcm).

Total excise tax on natural gas sales increased by 46% to RR81,838 million in the six months ended 30 June 2003 from RR56,003 million in the six months ended 30 June 2002, representing 19% and 18% of gross sales of natural gas, respectively. The increase was primarily due to higher natural gas sales to customers in Europe and Russia and the impact of the consolidation of regional trade houses in 2002 which increased excise tax by RR9,647 million in the six months ended 30 June 2003.

Sales of gas condensate and oil and gas products increased by RR17,280 million or 79% to RR39,129 million in the six months ended 30 June 2003 compared to RR21,849 million in the six months ended 30 June 2002. This increase was primarily due to higher oil product prices and the fact that Sibur increased its level of operations following the completion of bankruptcy procedures in September 2002. Sibur accounted for 57% of sales of gas condensate and oil and gas products in the six months ended 30 June 2003.

Gas transportation sales increased by 58% to RR13,168 million in the six months ended 30 June 2003 from RR8,326 million in the six months ended 30 June 2002. This was primarily due to the commencement of transportation sales to Eural Trans Gas starting from January 2003, which amounted to RR7,318 million in the six months ended 30 June 2003 and more than offset the RR3,019 million reduction in transportation sales to Itera. Eural Trans Gas is incorporated in Hungary, and was established to resell Central Asian gas to customers in Europe. Volume of gas transported under the contract with Eural Trans Gas in the six months ended 30 June 2003 was 17.0 bcm.

Operating expenses

Operating expenses increased by 22% in the six months ended 30 June 2003 to RR279,374 million from RR229,651 million in the six months ended 30 June 2002. The table below presents a breakdown of operating expenses in each period:

(RR' millions)	Six months ended 30 June 2003	2002
Transit costs	60,196	47,899
Depreciation	50,404	46,321
Staff costs	45,809	34,650
Taxes other than on income	17,990	22,140
Materials	14,732	19,062
Repairs and maintenance	12,632	10,247
Purchased gas	12,090	6,240
Processing services	11,592	4,225
Electricity	9,340	6,654
Cost of goods for resale, including refined products	8,933	6,856
Provisions	2,902	5,269
Research and development	2,780	944
Other operating expenses	29,974	19,144
Total operating expenses	**279,374**	**229,651**

Transit costs

Transit costs increased by 26% to RR60,196 million in the six months ended 30 June 2003 from RR47,899 million in the six months ended 30 June 2002. 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 increase was primarily due to the increased volume of gas sales to Europe, new transit contracts in Central Asia and higher transportation tariffs in Poland.

In the six months ended 30 June 2003, ZGG, our wholly owned subsidiary in Germany, started to purchase gas for resale to customers in Western Europe and incur transit costs primarily in the territory of Ukraine. Also, in January 2003 we commenced gas transportation sales to Eural Trans Gas, which resulted in increased transportation costs to third parties related to the transportation of gas across Kazakhstan and Uzbekistan. Our increased transit cost in Poland resulted from an increase in the U.S. dollar denominated gas transportation tariff by U.S.$1.35 to U.S.$2.68 per mcm per 100km in January 2003. The effect of increased tariffs was partially offset by the fact that transit costs are largely U.S. dollar denominated and the rate of devaluation of the RR against the U.S. dollar for the six months ended 30 June 2003 compared to the six months ended 30 June 2002 was below the rate of inflation for the period from 30 June 2002 to 31 December 2002.

Depreciation

Depreciation increased by 9% or RR4,083 million to RR50,404 million in the six months ended 30 June 2003 from RR46,321 million in the six months ended 30 June 2002. The increase primarily resulted from a decrease in gas in storage in the six months ended 30 June 2003 which in turn decreased the amount of depreciation that was capitalized as gas in storage and increased depreciation charged to expenses.

Staff costs

Staff costs increased by 32% to RR45,809 million in the six months ended 30 June 2003 from RR34,650 million in the six months ended 30 June 2002. The increase was primarily due to the rise in the average base salaries in February 2002, January 2003 and June 2003, the bonus paid for the 10th anniversary of OAO Gazprom and the impact of the fall in gas in storage which decreased the amount of staff costs that could be capitalized and increased staff costs charged to expenses. There was no significant change in the number of employees.

Taxes other than on income

Taxes other than on income consist of:

(RR' millions)	Six months ended 30 June 2003	2002
Mineral severance tax	10,447	10,937
Road users tax	-	5,053
Property tax	4,933	4,653
Other taxes	2,610	1,497
Taxes other than on income	**17,990**	**22,140**

Taxes other than on income decreased by RR4,150 million to RR17,990 million in the six months ended 30 June 2003 from RR22,140 million in the six months ended 30 June 2002. The decrease was primarily attributable to road users tax, which was abolished effective 1 January 2003.

Materials

Cost of materials decreased by RR4,330 million or 23% to RR14,732 million in the six months ended 30 June 2003 compared to RR19,062 million in the six months ended 30 June 2002. The decrease was primarily related to lower prices for material purchases as the Group reduced the use of non-cash settlements.

Purchased gas

Cost of purchased gas increased by RR5,850 million or 94% to RR12,090 million in the six months ended 30 June 2003 compared to RR6,240 million in the six months ended 30 June 2002. The increase was primarily related to purchases of gas from Central Asia for resale to customers in Western Europe, which commenced in January 2003.

Processing services

Processing services increased by RR7,367 million or 174% to RR11,592 million in the six months ended 30 June 2003 compared to RR4,225 million in the six months ended 30 June 2002. Processing services mainly pertains to the operations of Sibur, which increased its level of operations following the completion of bankruptcy procedures in September 2002. Expenses incurred by Sibur for processing services increased by RR5,234 million in the six months ended 30 June 2003 compared to the six months ended 30 June 2002.

Electricity

Electricity expense increased by RR2,686 million or 40% to RR9,340 million in the six months ended 30 June 2003 compared to RR6,654 million in the six months ended 30 June 2002 primarily resulting from an increase in electricity tariffs set by the Federal Energy Commission, and increased usage due to increased volumes of gas transportation in Russia in line with increased volume of gas sales.

Provisions

Provision expense decreased by RR2,367 million or 45% to RR2,902 million in the six months ended 30 June 2003 compared to RR5,269 million in the six months ended 30 June 2002. The decrease was a result of smaller impairment provisions for accounts receivable and inventory obsolescence in the six months ended 30 June 2003 compared to the six months ended 30 June 2002, partially offset by an increase in provisions for assets under construction.

The impairment provision expense for accounts receivable decreased by RR1,904 million or 41% to RR2,697 million in the six months ended 30 June 2003 from RR4,601 million in the six months ended 30 June 2002, which primarily related to domestic trade gas receivables and other debtors. As of 30 June 2003, the balance of provisions related to accounts receivable was RR130,477 million or 31% of the gross receivable balance.

The impairment provision expense for assets under construction of RR2,576 million in the six months ended 30 June 2003 was primarily due to changes in the current investment program which have reduced funding for certain projects. These projects include the development of the Kharasaveiskoye and Bovanenkovskoye fields, construction of part of the Obskaya-Bovanenkovskoye railroad; and the Novy Urengoi Chemical Complex. Although these projects have not been mothballed, under the current investment program we do not believe they will generate sufficient positive cash flows in the future to recover all costs incurred.

Because of our operating cycle, certain significant decisions about capital construction projects are made after the end of our fiscal year. Accordingly, we typically have larger charges in the fourth quarter of our fiscal year as compared to other quarters.

Other operating expenses

Other expenses increased by RR10,830 million or 57% to RR29,974 million in the six months ended 30 June 2003 compared to RR19,144 million in the six months ended 30 June 2002. The increase was primarily related to increases in losses on trading investments, costs of services of sub-contractors, equipment maintenance services, auto transportation services, insurance and charitable donations.

Net finance costs

(RR' millions)	Six months ended 30 June 2003	2002
Net exchange gain (loss)	9,191	(8,639)
Interest income	6,338	5,275
Interest expense	(16,313)	(20,468)
Gains on and extinguishment of restructured liabilities	3,203	6,679
Net finance benefit (costs)	**2,419**	**(17,153)**

We incurred a net exchange gain of RR9,191 million in the six months ended 30 June 2003 compared to a net exchange loss of RR8,639 million in the six months ended 30 June 2002. The change reflects primarily the impact on foreign currency denominated borrowings of a 5% appreciation in the six months ended 30 June 2003 compared to a 4% devaluation of the RR against the U.S. dollar in the six months ended 30 June 2002. Interest expense decreased by RR4,155 million to RR16,313 million in the six months ended 30 June 2003 primarily due to the decrease in our average cost of borrowings and higher capitalized interest.

Monetary gain

There was no monetary gain for the six months ended 30 June 2003 as the characteristics of the economic environment of the Russian Federation indicated that hyperinflation had ceased, effective from 1 January 2003 we no longer apply the provisions of IAS 29. Accordingly, no adjustments for the effects of changes in general purchasing power are recorded in the financial statements subsequent to December 31, 2002.

(Losses) gains on available-for-sale investments

Gains on available-for-sale investments were RR 1,643 million in the six months ended 30 June 2002 compared to losses of RR2,633 million in the six months ended 30 June 2003, primarily due to decreases in the fair value of third party promissory notes held by our subsidiaries.

Profit tax

Our current profit tax expense decreased by RR19,414 million to RR24,469 million in the six months ended 30 June 2003 from RR43,883 million in the six months ended 30 June 2002. Our effective current profit tax rate decreased to 17% in the six months ended 30 June 2003 compared to 55% in the six months ended 30 June 2002, primarily resulting from the effect of a "transition period" profit tax in the six months ended 30 June 2002 and the impact of increased tax depreciation and the utilization of tax losses at OAO Gazprom in the six months ended 30 June 2003. The transition period profit tax was a one time current tax charge of RR22,637 million resulting from the change in tax legislation, effective 1 January 2002, to recognize profit tax on an accrual rather than a cash basis. Transition period profit tax is payable over a period of five years.

Our overall profit tax rate decreased from 88% in the six months ended 30 June 2002 to 28% in the six months ended 30 June 2003. The decrease primarily resulted from the fact that from 1 January 2003 we no longer apply the provisions of IAS 29. The deferred tax expense resulting from the effect of inflation on our fixed assets for the six months ended 30 June 2002 totaled RR38,158 million.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the statements of cash flows for the six months ended 30 June 2003 and 2002.

(RR' millions)	Six months ended 30 June 2003	2003
Net cash provided by operating activities	67,722	26,711
Net cash used for investing activities	(58,773)	(48,751)
Net cash provided by (used for) financing activities	668	(11,034)

Net cash provided by operating activities

Net cash provided by operating activities amounted to RR67,722 million in the six months ended 30 June 2003 compared to RR26,711 million in the six months ended 30 June 2002. This was primarily due to higher operating income generated by our gas sales during the six months ended 30 June 2003. The impact of higher gas prices on our cash flow was partially offset by increase in our net working capital position and higher profit tax paid compared to the six months ended 30 June 2002. The increase in our net working capital position reflected an increase in accounts receivable and short-term investments and a decrease in taxes payable and was partially offset by lower gas inventories and an increase in accounts payable.

Net cash used for investing activities

Net cash used for investing activities amounted to RR58,773 million in the six months ended 30 June 2003 compared to RR48,751 million in the six months ended 30 June 2002. Included in net cash used for investing activities for the six months ended 30 June 2002 is the effect of the deconsolidation of OAO AKB National Reserve Bank, which resulted in a net cash outflow of RR4,058 million in the six months ended 30 June 2002. Absent this change, net cash used for investing activities increased by RR14,080 million in the six months ended 30 June 2003. This was primarily due to the increase in cash capital expenditures reflecting our ability to utilize higher cash flows generated by our operating and financing activities for major construction projects.

Net cash flows provided by (used for) financing activities

Net cash provided by financing activities amounted to RR668 million in the six months ended 30 June 2003 compared to net cash used for financing activities of RR11,034 million for the six months ended 30 June 2002. This change was primarily due to the increase in long-term borrowings, which exceeded repayments of short-term and long-term borrowings and redemption of promissory notes, an increase in net purchases of treasury shares partially offset by lower interest paid and a reduction of restricted cash.

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 from RR84,977 million in the six months ended 30 June 2002 to RR99,241 million in the six months ended 30 June 2003.

Most of our capital expenditures during these periods were for production assets and transportation infrastructure. In the six months ended 30 June 2003 capital expenditure on production assets were RR53,739 million, or 54% of total capital expenditure in the six months ended 30 June 2003, increasing from RR34,293 million or 40% in the six months ended 30 June 2002. The increase reflects our plan to develop gas fields, including Zapolyarnoye, Yamburgskoye and Pestsovoye, in order to maintain stable gas production volumes. Capital expenditures on the transportation infrastructure comprised RR33,669 million, or 34% of total capital expenditure in the six months ended 30 June 2003, decreasing from RR40,408 million, or 48% of total capital expenditure in the six months ended 30 June 2002. The major portion of these expenditure were for funding of major projects including the Zapolyarnoye-Urengoy pipeline and the Yamal-Europe pipeline.

Total capital expenditures by segment for the six months ended 30 June 2003 and 2002 and budgeted total capital expenditure by segment for the year ending 31 December 2003 are as follows:

(RR' millions)	Six months ended 30 June 2003	Six months ended 30 June 2002	Budget for the year ending 31 December 2003[1]
Production	53,739	34,293	93,486
Transportation	33,669	40,408	85,535
Refining	3,745	1,556	3,183
Distribution	1,044	4,091	52
Other	7,044	4,630	11,444
Total	99,241	84,977	193,700

[1]The Board of Directors initially approved a capital expenditure budget for 2003 of RR179,800 million, including RR21,128 million for construction of the Zapolyarnoye-Urengoy pipeline, RR20,950 million for construction of a pipeline from the northern region of the Tyumen Oblast to Torzhok and RR13,929 million for the development of the Zapolyarnoye gas field. In September 2003, the Board of Directors approved a RR13,900 million increase in the budget for 2003, including RR4,650 million for further development of the Zapolyarnoye field, RR3,950 million for the Pestsovoye field and RR3,100 million for booster compressor stations.

The Management Committee has approved a capital expenditures for 2004 of RR212,300 million, although the final allocation of funds will not be determined until late 2003.

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) decreased by RR12,210 million, or 3%, from RR401,673 million as of 31 December 2002 to RR389,463 million as of 30 June 2003. This was primarily due to the decrease in total borrowings.

In September 2003 we issued Euro 1 billion of Loan Participation Notes due 2010 at an interest rate of 7.8%.

In October 2003 our subsidiary AB Gazprombank (ZAO) issued USD 750 million of eurobonds due 2008 at an interest rate of 7.25%.