

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the unaudited consolidated interim condensed financial information for the three months ended March 31, 2021. This consolidated interim condensed financial information is prepared in accordance with International Accounting Standard 34 Interim Financial Reporting. The consolidated interim condensed financial information for the three months ended March 31, 2021 should be read in conjunction with the consolidated financial statements for the year ended December 31, 2020 prepared in accordance with International Financial Reporting Standards.

OVERVIEW

We are one of the world's largest gas and oil companies in terms of volume of reserves, production of gas and market capitalisation. Our sales are primarily derived from sales of natural gas, crude oil and other hydrocarbon products to countries of Western and Central Europe, the Russian Federation and other Former Soviet Union countries.

We are involved in the following activities:

- exploration and production of gas;
- transportation of gas;
- sales of gas within the Russian Federation and abroad;
- gas storage;
- production of crude oil and gas condensate;
- processing of oil, gas condensate and other hydrocarbons and sales of refined products;
- electric and heat energy generation and sales.

Other activities include production of other goods, other works and rendering of other services.

The official Russian Ruble ("RUB") to US Dollar foreign exchange rate as determined by the Central Bank of the Russian Federation was as follows:

- as of March 31, 2021 – 75.7023 (as of March 31, 2020 – 77.7325);
- as of December 31, 2020 – 73.8757 (as of December 31, 2019 – 61.9057).

The official Russian Ruble to Euro foreign exchange rate as determined by the Central Bank of the Russian Federation was as follows:

- as of March 31, 2021 – 88.8821 (as of March 31, 2020 – 85.7389);
- as of December 31, 2020 – 90.6824 (as of December 31, 2019 – 69.3406).

The average foreign exchange rates of Russian Ruble for the three months ended March 31, 2021 and for the three months ended March 31, 2020 were:

- to US Dollar – 74.3414 and 66.3818, respectively;
- to Euro – 89.7047 and 73.2348, respectively.

RESULTS OF OPERATION

(in RUB million)

	Three months ended March 31,	
	2021	2020
Sales	2,285,161	1,739,832
Net (loss) gain from trading activity	(4,897)	10,395
Operating expenses	(1,766,853)	(1,439,701)
Impairment loss on financial assets	<u>(23,218)</u>	<u>(17,067)</u>
Operating profit	490,193	293,459
Finance income	149,723	134,966
Finance expenses	(137,859)	(682,970)
Share of profit of associates and joint ventures	<u>71,429</u>	<u>45,825</u>
Profit (loss) before profit tax	573,486	(208,720)
Current profit tax expenses	(56,520)	(27,904)
Deferred profit tax (expenses) income	<u>(51,352)</u>	<u>128,542</u>
Profit tax	<u>(107,872)</u>	100,638
Profit (loss) for the period	465,614	(108,082)
Other comprehensive income (loss):		
Items that will not be reclassified subsequently to profit or loss:		
Gain (loss) arising from changes in fair value of financial assets measured at fair value through other comprehensive income, net of tax	71,934	(106,093)
Remeasurement of provision for post-employment benefits	<u>55,028</u>	<u>5,199</u>
Total other comprehensive income (loss) that will not be reclassified subsequently to profit or loss	126,962	(100,894)
Items that may be reclassified subsequently to profit or loss:		
Share of other comprehensive loss of associates and joint ventures	(71)	(33,085)
Translation differences	(991)	326,119
Gain (loss) from hedging operations, net of tax	<u>13,398</u>	<u>(11,945)</u>
Total other comprehensive income that may be reclassified subsequently to profit or loss	12,336	281,089
Total other comprehensive income for the period, net of tax	139,298	180,195
Comprehensive income for the period	604,912	72,113
Profit (loss) for the period attributable to:		
Owners of PJSC Gazprom	447,263	(116,249)
Non-controlling interest	<u>18,351</u>	<u>8,167</u>
	465,614	(108,082)
Comprehensive income for the period attributable to:		
Owners of PJSC Gazprom	589,345	42,037
Non-controlling interest	<u>15,567</u>	<u>30,076</u>
	604,912	72,113

Sales

The following table sets out volumes and sales prices:

(in RUB million unless indicated otherwise)

	Three months ended March 31,	
	2021	2020
Sales of gas		
<i>Europe and other countries</i>		
Gross sales ⁽¹⁾	930,077	558,452
Customs duties	(185,319)	(88,409)
Excise tax	(15,129)	(10,559)
Net sales	729,629	459,484
Volumes in bcm	64.5	51.6
Average price, US Dollar per mcm ⁽²⁾ (including excise tax and customs duties) ⁽³⁾	193.9	162.1
Average price, RUB per mcm ⁽²⁾ (including excise tax and customs duties)	14,423.6	10,832.8
<i>Former Soviet Union countries</i>		
Gross sales ⁽¹⁾	117,902	90,886
Customs duties	(4,633)	(3,767)
Net sales	113,269	87,119
Volumes in bcm	11.9	9.3
Average price, US Dollar per mcm ⁽²⁾ (including customs duties) ⁽³⁾	133.0	145.7
Average price, RUB per mcm ⁽²⁾ (including customs duties)	9,889.8	9,739.0
<i>The Russian Federation</i>		
Gross sales (net of VAT)	397,683	322,765
Net sales	397,683	322,765
Volumes in bcm	91.7	77.2
Average price, RUB per mcm ⁽²⁾ (net of VAT)	4,335.2	4,180.7
<i>Total gas sales</i>		
Gross sales (net of VAT)	1,445,662	972,103
Customs duties	(189,952)	(92,176)
Excise tax	(15,129)	(10,559)
Retroactive gas price adjustments	5	(3,762)
Net sales	1,240,586	865,606
Volumes in bcm	168.1	138.1
Net sales of refined products (net of excise tax, VAT and customs duties)	549,679	472,959
Net sales of crude oil and gas condensate (net of VAT and customs duties)	182,004	120,861
Electric and heat energy net sales (net of VAT)	187,505	158,083
Gas transportation net sales (net of VAT)	57,174	56,087
Other sales (net of VAT)	<u>68,213</u>	<u>66,236</u>
Total sales (net of excise tax, VAT and customs duties)	<u>2,285,161</u>	<u>1,739,832</u>

Notes:

⁽¹⁾ VAT is not charged on sales to Europe and other countries as well as Former Soviet Union countries.

⁽²⁾ One mcm is equivalent to 35,316 cubic feet.

⁽³⁾ Calculated on the basis of the average foreign exchange rate of the RUB to the US Dollar.

Total sales (net of excise tax, VAT and customs duties) increased by RUB 545,329 million, or 31 %, to RUB 2,285,161 million for the three months ended March 31, 2021 compared to the same period of the prior year. The increase in sales was mainly due to an increase in sales of gas, refined products, crude oil and gas condensate.

Net sales of gas accounted for 54 % of total net sales for the three months ended March 31, 2021 (50 % for the same period of the prior year).

Net sales of gas increased by RUB 374,980 million, or 43 %, from RUB 865,606 million for the three months ended March 31, 2020 to RUB 1,240,586 million for the three months ended March 31, 2021.

Net sales of gas to Europe and other countries increased by RUB 270,145 million, or 59 %, to RUB 729,629 million for the three months ended March 31, 2021 compared to the same period of the prior year. The change was due to an increase in average prices (including excise tax and customs duties) denominated in the Russian Ruble by 33 % and an increase in volumes of gas sold by 25 % for the three months ended March 31, 2021 compared to the same period of the prior year. At the same time average prices denominated in the US Dollar increased by 20 % compared to the same period of the prior year.

Net sales of gas to Former Soviet Union countries increased by RUB 26,150 million, or 30 %, to RUB 113,269 million for the three months ended March 31, 2021 compared to the same period of the prior year. The change was due to an increase in volumes of gas sold by 28 % and an increase in average prices (including customs duties) denominated in the Russian Ruble by 2 % for the three months ended March 31, 2021 compared to the same period of the prior year. At the same time average prices denominated in the US Dollar decreased by 9 % compared to the same period of the prior year.

Net sales of gas in the Russian Federation increased by RUB 74,918 million, or 23 %, to RUB 397,683 million for the three months ended March 31, 2021 compared to the same period of the prior year. This change was explained by an increase in volumes of gas sold by 19 % and an increase in average prices in the Russian Ruble (net of VAT) by 4 %.

Net sales of refined products (net of excise tax, VAT and customs duties) increased by RUB 76,720 million, or 16 %, to RUB 549,679 million for the three months ended March 31, 2021 compared to the same period of the prior year. The change was mainly due to an increase in average prices in all geographical segments.

Net sales of crude oil and gas condensate (net of VAT and customs duties) increased by RUB 61,143 million, or 51 %, to RUB 182,004 million for the three months ended March 31, 2021 compared to the same period of the prior year. The change was mainly due to an increase in net sales of crude oil primarily caused by an increase in average prices of crude oil.

Operating expenses

Operating expenses increased by RUB 327,152 million, or 23 %, to RUB 1,766,853 million for the three months ended March 31, 2021 compared to RUB 1,439,701 million for the same period of the prior year. Operating expenses as a percentage of sales decreased from 83 % for the three months ended March 31, 2020 to 77 % for the three months ended March 31, 2021. The table below presents a breakdown of operating expenses in each period:

(in RUB million)

	Three months ended March 31,	
	2021	2020
Taxes other than on profit	386,131	346,036
Purchased gas and oil	332,672	279,116
Staff costs	216,946	207,057
Depreciation	207,670	199,564
Transit of gas, oil and refined products	162,374	153,904
Materials	54,396	56,926
Goods for resale, including refined products	48,588	51,106
Electricity and heating	36,039	31,495
Foreign exchange differences on operating items	26,524	(115,584)
Repairs and maintenance	19,446	18,383
Insurance	8,100	8,686
Social expenses	7,697	7,266
Transportation expenses	7,400	7,477
Processing services	5,864	5,730
Research and development	5,836	4,941
Lease	4,465	3,974
Impairment loss on non-financial assets	2,910	14,051
Gain on derivative financial instruments	(711)	(454)
Other	95,130	91,173
	1,627,477	1,370,847
Change in balances of finished goods, work in progress and other effects	<u>139,376</u>	<u>68,854</u>
Total operating expenses	1,766,853	1,439,701

Taxes other than on profit

Taxes other than on profit consist of:

(in RUB million)

	Three months ended March 31,	
	2021	2020
Mineral extraction tax	301,879	236,640
Property tax	39,344	39,575
Excise tax	25,701	56,288
Other taxes	<u>19,207</u>	<u>13,533</u>
Total taxes other than on profit	386,131	346,036

Taxes other than on profit increased by RUB 40,095 million, or 12 %, to RUB 386,131 million for the three months ended March 31, 2021 compared to RUB 346,036 million for the same period of the prior year. The change was mainly due to an increase in mineral extraction tax expenses, which was partially compensated by a decrease in excise tax expenses.

Mineral extraction tax (MET) expenses increased by RUB 65,239 million, or 28 %, to RUB 301,879 million for the three months ended March 31, 2021 compared to RUB 236,640 million for the same period of the prior year. The increase in MET expenses mainly caused by an increase in crude oil prices and higher rate as a result of tax maneuver.

Excise tax expenses decreased by RUB 30,587 million, or 54 %, to RUB 25,701 million for the three months ended March 31, 2021 compared to RUB 56,288 million for the same period of the prior year. Excise tax expenses decreased mainly due to the impact of crude oil and petroleum products prices growth on damper component and excise deduction rates level.

Purchased gas and oil

The cost of purchased gas and oil increased by RUB 53,556 million, or 19 %, to RUB 332,672 million for the three months ended March 31, 2021 compared to RUB 279,116 million for the same period of the prior year.

The cost of purchased gas included in purchased gas and oil increased by RUB 17,032 million, or 8 %, to RUB 222,381 million for the three months ended March 31, 2021 compared to RUB 205,349 million for the same period of the prior year. The change was mainly due to an increase in average prices of gas purchase.

The cost of purchased oil included in the cost of purchased gas and oil increased by RUB 36,524 million, or 50 %, to RUB 110,291 million for the three months ended March 31, 2021 compared to RUB 73,767 million for the same period of the prior year. The change was mainly due to an increase in the oil prices.

Foreign exchange differences on operating items

The foreign exchange loss on operating items amounted to RUB 26,524 million for the three months ended March 31, 2021 compared to the foreign exchange gain in the amount of RUB 115,584 million for the same period of the prior year. This change was mainly due to the revaluation of accounts receivable from foreign customers and loans issued, which was caused by the depreciation of the Euro against the Russian Ruble by 2 % for the three months ended March 31, 2021 compared to the appreciation of the US Dollar and the Euro against the Russian Ruble by 26 % and 24 %, respectively, for the same period of the prior year.

Change in balances of finished goods, work in progress and other effects

The expense in the line item “Change in balances of finished goods, work in progress and other effects” changed by RUB 70,522 million, or 102 %, to RUB 139,376 million for the three months ended March 31, 2021 compared to the expense in the amount of RUB 68,854 million for the same period of the prior year. The change in this line item was due to a larger decrease in the balances of finished goods for the three months ended March 31, 2021 compared to a decrease in the balances of finished goods for the same period of the prior year.

Operating profit

As a result of the factors discussed above, operating profit increased by RUB 196,734 million, or 67 %, to RUB 490,193 million for the three months ended March 31, 2021 compared to RUB 293,459 million for the same period of the prior year. Operating profit margin increased from 17 % for the three months ended March 31, 2020 to 21 % for the three months ended March 31, 2021.

Net finance income (expense)

(in RUB million)

	Three months ended March 31,	
	2021	2020
Foreign exchange gain	137,417	114,624
Foreign exchange loss	<u>(121,117)</u>	<u>(666,020)</u>
Net foreign exchange gain (loss)	16,300	(551,396)
Interest income	12,306	20,342
Interest expense	<u>(16,742)</u>	<u>(16,950)</u>
Net finance income (expense)	11,864	(548,004)

The net foreign exchange gain amounted to RUB 16,300 million for the three months ended March 31, 2021 compared to the net foreign exchange loss of RUB 551,396 million for the same period of the prior year. The change was explained by the depreciation of the Euro against the Russian Ruble by 2 % and the appreciation of the US Dollar by 2 % for the three months ended March 31, 2021 compared to the appreciation of the US Dollar and the Euro against the Russian Ruble by 26 % and 24 %, respectively, for the same period of the prior year. The gain and the loss were mainly related to the revaluation of loans and borrowings denominated in foreign currencies.

Interest income decreased by RUB 8,036 million, or 40 %, to RUB 12,306 million for the three months ended March 31, 2021 compared to RUB 20,342 million for the same period of the prior year.

Interest expense decreased by RUB 208 million, or 1 %, to RUB 16,742 million for the three months ended March 31, 2021 compared to RUB 16,950 million for the same period of the prior year.

Share of profit of associates and joint ventures

The share of profit of associates and joint ventures increased by RUB 25,604 million, or 56 %, to RUB 71,429 million for the three months ended March 31, 2021 compared to RUB 45,825 million for the same period of the prior year.

This change was mainly caused by an increase in the share of profit of Gazprombank (Joint-stock Company) and its subsidiaries, JSC Arcticgas and PJSC NGK Slavneft and its subsidiaries.

Profit for the period attributable to owners of PJSC Gazprom

As a result of the factors discussed above, profit attributable to owners of PJSC Gazprom amounted to RUB 447,263 million for the three months ended March 31, 2021.

Liquidity and capital resources

The following table summarises cash flows for three months ended March 31, 2021 and for the three months ended March 31, 2020:

(in RUB million)

	Three months ended March 31,	
	2021	2020
Net cash from operating activities	642,996	590,101
Net cash used in investing activities	(495,418)	(493,007)
Net cash from (used in) financing activities	91,561	(113,117)

Net cash from operating activities

Net cash from operating activities increased by RUB 52,895 million, or 9 %, to RUB 642,996 million for the three months ended March 31, 2021 compared to RUB 590,101 million for the same period of the prior year. This change was mainly due to a decrease in profit tax payment for three months ended March 31, 2021 compared to the same period of the prior year.

Net cash used in investing activities

Net cash used in investing activities increased by RUB 2,411 million, or 0.5 %, to RUB 495,418 million for the three months ended March 31, 2021 compared to RUB 493,007 million for the same period of the prior year. This change was mainly due to an increase in placement of cash on the long-term deposits for the three months ended March 31, 2021 compared to the same period of the prior year.

Net cash from (used in) financing activities

Net cash from financing activities amounted to RUB 91,561 million for the three months ended March 31, 2021 compared to RUB 113,117 million of net cash used in financing activities for the same period of the prior year. This change was mainly due to a decrease in repayment of borrowings for the three months ended March 31, 2021 compared to the same period of the prior year.

Capital expenditures

Total capital expenditures (excluding the effect of acquisitions of subsidiaries) by segments for the three months ended March 31, 2021 and for the three months ended March 31, 2020 denominated in the Russian Ruble are presented in the following table:

(in RUB million)

	Three months ended March 31,	
	2021	2020
Production of crude oil and gas condensate	67,193	87,027
Refining	63,102	65,707
Transportation of gas	62,125	32,644
Production of gas	41,900	48,783
Electric and heat energy generation and sales	21,205	24,947
Distribution of gas	5,095	2,420
Gas storage	1,873	1,215
All other segments	<u>9,261</u>	<u>19,587</u>
Total	<u>271,754</u>	<u>282,330</u>

Total capital expenditures decreased by RUB 10,576 million, or 4 %, and amounted to RUB 271,754 million for the three months ended March 31, 2021 compared to RUB 282,330 million for the same period of the prior year.

The amount of capital expenditures of the Production of crude oil and gas condensate segment decreased by RUB 19,834 million, or 23 %, to RUB 67,193 million for the three months ended March 31, 2021, mainly due to optimization activities within limitations under the OPEC+ agreement.

The amount of capital expenditures of the Transportation of gas segment increased by RUB 29,481 million, or 90 %, to RUB 62,125 million for the three months ended March 31, 2021, mainly due to the construction of the Kovykta - Chayanda section of the Power of Siberia gas pipeline, as well as ongoing work on the construction of the Sakhalin - Khabarovsk - Vladivostok gas pipeline within the framework of the project to withdraw gas from the shelf of Sakhalin Island.

Debts obligation

Net debt balance (defined as the sum of short-term borrowings and the current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable, less cash and cash equivalents) decreased by RUB 135,308 million, or 3 %, from RUB 3,872,695 million as of December 31, 2020 to RUB 3,737,387 million as of March 31, 2021. This change was mainly due to an increase in cash and cash equivalents.