

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 nine months ended September 30, 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 nine months ended September 30, 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 September 30, 2021 – 72.7608 (as of September 30, 2020 – 79.6845);
- as of December 31, 2020 – 73.8757 (as of December 31, 2019 – 61.9057).

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

- as of September 30, 2021 – 84.8755 (as of September 30, 2020 – 93.0237);
- as of December 31, 2020 – 90.6824 (as of December 31, 2019 – 69.3406).

The average foreign exchange rates of RUB for the nine months ended September 30, 2021 and for the nine months ended September 30, 2020 were:

- to US Dollar – 74.0073 and 70.7778, respectively;
- to Euro – 88.5738 and 79.6400, respectively.

RESULTS OF OPERATION

(in RUB million)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Sales	2,373,164	1,398,070	6,725,132	4,301,218
Net gain (loss) from trading activity	126,155	(2,527)	130,491	11,911
Operating expenses	(1,874,285)	(1,251,075)	(5,202,452)	(3,944,332)
Impairment loss on financial assets	<u>(22,415)</u>	<u>(9,301)</u>	<u>(63,954)</u>	<u>(43,645)</u>
Operating profit	602,619	135,167	1,589,217	325,152
Finance income	93,479	67,698	421,457	527,050
Finance expenses	(72,119)	(536,968)	(289,834)	(1,277,952)
Share of profit of associates and joint ventures	<u>81,275</u>	<u>23,886</u>	<u>225,640</u>	<u>98,727</u>
Profit (loss) before profit tax	705,254	(310,217)	1,946,480	(327,023)
Current profit tax expenses	(115,800)	(19,588)	(245,891)	(57,376)
Deferred profit tax (expenses) income	<u>(5,037)</u>	<u>82,138</u>	<u>(120,651)</u>	<u>182,192</u>
Profit tax	(120,837)	62,550	(366,542)	124,816
Profit (loss) for the period	584,417	(247,667)	1,579,938	(202,207)
Other comprehensive income:				
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	82,163	23,412	175,756	(47,861)
Remeasurement of provision for post-employment benefits	<u>17,371</u>	<u>20,305</u>	<u>64,851</u>	<u>(14,786)</u>
Total other comprehensive income (loss) that will not be reclassified subsequently to profit or loss	99,534	43,717	240,607	(62,647)
Items that may be reclassified subsequently to profit or loss:				
Share of other comprehensive income (loss) of associates and joint ventures	380	4,966	358	(29,569)
Translation differences	(15,438)	228,958	(76,763)	401,034
Loss from hedging operations, net of tax	<u>(31,511)</u>	<u>(2,150)</u>	<u>(27,195)</u>	<u>(14,149)</u>
Total other comprehensive (loss) income that may be reclassified subsequently to profit or loss	(46,569)	231,774	(103,600)	357,316
Total other comprehensive income for the period, net of tax	52,965	275,491	137,007	294,669
Comprehensive income for the period	637,382	27,824	1,716,945	92,462
Profit (loss) for the period attributable to:				
Owners of PJSC Gazprom	581,801	(251,297)	1,550,299	(218,378)
Non-controlling interest	<u>2,616</u>	<u>3,630</u>	<u>29,639</u>	<u>16,171</u>
	584,417	(247,667)	1,579,938	(202,207)
Comprehensive income for the period attributable to:				
Owners of PJSC Gazprom	637,479	8,305	1,695,614	48,971
Non-controlling interest	(97)	19,519	21,331	43,491
	637,382	27,824	1,716,945	92,462

Sales

The following table sets out volumes and sales prices:

(in RUB million unless indicated otherwise)

	Three months ended		Nine months ended	
	September 30, 2021	2020	September 30, 2021	2020
Sales of gas				
<i>Europe and other countries</i>				
Gross sales ⁽¹⁾	1,268,841	484,365	3,134,460	1,414,845
Customs duties	(244,577)	(98,877)	(620,316)	(260,525)
Excise tax	(22,133)	(6,637)	(53,320)	(19,190)
Net sales	1,002,131	378,851	2,460,824	1,135,130
Volumes in bcm	55.1	56.2	175.7	154.4
Average price, US Dollar per mcm ⁽²⁾ (including excise tax and customs duties) ⁽³⁾	313.4	117.2	241.0	128.9
Average price, RUB per mcm ⁽²⁾ (including excise tax and customs duties)	23,025.4	8,622.6	17,838.9	9,165.0
<i>Former Soviet Union countries</i>				
Gross sales ⁽¹⁾	92,577	63,335	294,926	209,521
Customs duties	(12,975)	(3,072)	(27,623)	(9,975)
Net sales	79,602	60,263	267,303	199,546
Volumes in bcm	5.8	6.4	24.1	21.3
Average price, US Dollar per mcm ⁽²⁾ (including customs duties) ⁽³⁾	218.4	134.4	165.5	138.3
Average price, RUB per mcm ⁽²⁾ (including customs duties)	16,045.3	9,888.6	12,248.4	9,829.0
<i>The Russian Federation</i>				
Gross sales (net of VAT)	158,426	134,179	732,584	622,882
Net sales	158,426	134,179	732,584	622,882
Volumes in bcm	36.6	33.5	170.0	151.1
Average price, RUB per mcm ⁽²⁾ (net of VAT)	4,321.3	4,004.0	4,308.4	4,122.9
<i>Total gas sales</i>				
Gross sales (net of VAT)	1,519,844	681,879	4,161,970	2,247,248
Customs duties	(257,552)	(101,949)	(647,939)	(270,500)
Excise tax	(22,133)	(6,637)	(53,320)	(19,190)
Retroactive gas price adjustments	-	-	5	2,324
Net sales	1,240,159	573,293	3,460,716	1,959,882
Volumes in bcm	97.5	96.1	369.8	326.8
Net sales of refined products (net of excise tax, VAT and customs duties)	665,466	480,689	1,858,231	1,301,542
Net sales of crude oil and gas condensate (net of VAT and customs duties)	229,624	131,111	622,682	343,161
Electric and heat energy net sales (net of VAT)	116,559	96,227	415,744	348,467
Gas transportation net sales (net of VAT)	54,564	54,548	166,737	163,838
Other sales (net of VAT)	<u>66,792</u>	<u>62,202</u>	<u>201,022</u>	<u>184,328</u>
Total sales (net of excise tax, VAT and customs duties)	2,373,164	1,398,070	6,725,132	4,301,218

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 average foreign exchange rate of the RUB to the US Dollar.

Total sales (net of excise tax, VAT and customs duties) increased by RUB 2,423,914 million, or 56 %, to RUB 6,725,132 million for the nine months ended September 30, 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 51 % of total net sales for the nine months ended September 30, 2021 (46 % for the same period of the prior year).

Net sales of gas increased by RUB 1,500,834 million, or 77 %, from RUB 1,959,882 million for the nine months ended September 30, 2020 to RUB 3,460,716 million for the nine months ended September 30, 2021.

Net sales of gas to Europe and other countries increased by RUB 1,325,694 million, or 117 %, to RUB 2,460,824 million for the nine months ended September 30, 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 95 % and an increase in volumes of gas sold by 14 % for the nine months ended September 30, 2021 compared to the same period of the prior year. At the same time average prices denominated in the US Dollar increased by 87 % compared to the same period of the prior year.

Net sales of gas to Former Soviet Union countries increased by RUB 67,757 million or 34 %, to RUB 267,303 million for the nine months ended September 30, 2021 compared to the same period of the prior year. The change was due to an increase in average prices (including customs duties) denominated in the Russian Ruble by 25 % and an increase in volumes of gas sold by 13 % for the nine months ended September 30, 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 in the Russian Federation increased by RUB 109,702 million, or 18 %, to RUB 732,584 million for the nine months ended September 30, 2021 compared to the same period of the prior year. This change was explained by an increase in volumes of gas sold by 13 %, 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 556,689 million, or 43 %, to RUB 1,858,231 million for the nine months ended September 30, 2021 compared to the same period of the prior year. The change was mainly due to an increase in average prices in all geographic segments.

Net sales of crude oil and gas condensate (net of VAT and customs duties) increased by RUB 279,521 million, or 81 %, to RUB 622,682 million for the nine months ended September 30, 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 1,258,120 million, or 32 %, to RUB 5,202,452 million for the nine months ended September 30, 2021 compared to RUB 3,944,332 million for the same period of the prior year. Operating expenses as a percentage of sales decreased from 92 % for the nine months ended September 30, 2020 to 77 % for the nine months ended September 30, 2021. The table below presents a breakdown of operating expenses in each period:

(in RUB million)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Purchased gas and oil	480,567	186,211	1,162,705	627,733
Taxes other than on profit	374,121	310,796	1,133,061	928,475
Staff costs	210,801	212,998	650,598	627,585
Depreciation	206,150	197,744	619,993	594,635
Transit of gas, oil and refined products	170,804	165,575	503,217	477,998
Goods for resale, including refined products	92,446	69,930	207,012	154,976
Materials	63,612	67,101	184,051	177,451
Loss on derivative financial instruments	157,278	9,295	180,011	7,497
Repairs and maintenance	47,502	38,981	101,801	87,997
Electricity and heating	31,805	25,050	98,041	81,333
Foreign exchange differences on operating items	12,031	(103,115)	56,444	(166,574)
Social expenses	10,174	9,061	26,272	25,167
Insurance	7,777	8,667	24,535	25,867
Transportation expenses	7,555	7,659	23,219	21,683
Processing services	6,832	5,234	18,699	15,575
Research and development	2,344	5,085	14,028	14,386
Lease	1,325	4,238	10,156	12,786
Impairment loss on non-financial assets	704	1,314	4,400	15,514
Other	116,472	101,644	279,488	272,107
	2,000,300	1,323,468	5,297,731	4,002,191
Change in balances of finished goods, work in progress and other effects	(126,015)	(72,393)	(95,279)	(57,859)
Total operating expenses	1,874,285	1,251,075	5,202,452	3,944,332

Taxes other than on profit

Taxes other than on profit consist of:

(in RUB million)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Mineral extraction tax	340,508	190,531	962,378	579,975
Property tax	38,142	38,898	116,396	117,708
Excise tax	(27,739)	64,444	(7,011)	195,120
Other taxes	23,210	16,923	61,298	35,672
Total taxes other than on profit	374,121	310,796	1,133,061	928,475

Taxes other than on profit increased by RUB 204,586 million, or 22 %, to RUB 1,133,061 million for the nine months ended September 30, 2021 compared to RUB 928,475 million for the same period of the prior year. The change was mainly due to an increase in the mineral extraction tax expenses that was partially compensated by a decrease in the excise tax expenses.

Mineral extraction tax (MET) expenses increased by RUB 382,403 million or 66 % to RUB 962,378 million for the nine months ended September 30, 2021 compared to RUB 579,975 million for the same period of the prior year. MET expenses increased mainly due to an increase in crude oil prices, tax rate as a result of a tax maneuver and an increase in volumes of gas production for the nine months ended September 30, 2021 compared to the same period of the prior year.

Excise tax income amounted to RUB 7,011 million for the nine months ended September 30, 2021 compared to excise tax expenses amounted to RUB 195,120 million for the same period of the prior year. Excise tax expenses decreased mainly due to an increase in damping compensation and excise duty on oil feedstock due to changes in tax parameters, higher prices for crude oil and petroleum products, as well as implementation of investment premium mechanism.

Purchased gas and oil

The cost of purchased gas and oil increased by RUB 534,972 million, or 85 %, to RUB 1,162,705 million for the nine months ended September 30, 2021 compared to RUB 627,733 million for the same period of the prior year.

The cost of purchased gas included in the cost of purchased gas and oil increased by RUB 275,383 million, or 62 %, to RUB 722,842 million for the nine months ended September 30, 2021 compared to RUB 447,459 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 259,589 million, or 144 %, to RUB 439,863 million for the nine months ended September 30, 2021 compared to RUB 180,274 million for the same period of the prior year. The change was mainly due to an increase in the oil prices and growth in volumes of the oil purchase.

Goods for resale, including refined products

Cost of goods for resale, including refined products increased by RUB 52,036 million, or 34 %, to RUB 207,012 million for the nine months ended September 30, 2021 compared to RUB 154,976 million for the same period of the prior year. The increase in cost was mainly due to an increase in volumes of refined products purchases.

Loss on derivative financial instruments

Loss on derivative financial instruments increased by RUB 172,514 million to RUB 180,011 million for the nine months ended September 30, 2021 compared to the loss in the amount of RUB 7,497 million for the same period of the prior year. The increase in the loss was primarily attributable to the change in the fair value of derivative financial instruments due to an increase in gas prices.

Foreign exchange differences on operating items

The foreign exchange loss on operating items amounted to RUB 56,444 million for the nine months ended September 30, 2021 compared to the gain in the amount of RUB 166,574 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 US Dollar and the Euro against the Russian Ruble by 2 % and 6 %, respectively, for the nine months ended September 30, 2021 compared to the appreciation of the US Dollar and the Euro against the Russian Ruble by 29 % and 34 %, respectively, for the same period of the prior year.

Other operating expenses

Other operating expenses increased by RUB 7,381 million, or 3 %, to RUB 279,488 million for the nine months ended September 30, 2021 compared to RUB 272,107 million for the same period of the prior year. Other expenses include gas and gas condensate production expenses, services from gas distribution companies, bank charges, security services, legal and consulting services, charity and financial aid and advertising.

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

The income in the line item "Change in balances of finished goods, work in progress and other effects" increased by RUB 37,420 million, or 65 %, to RUB 95,279 million for the nine months ended September 30, 2021 compared to the income in the amount of RUB 57,859 million for the same period of the prior year. The change in this line item was due to a larger increase in the balances of finished goods for the nine months ended September 30, 2021 compared to an increase in the balances of finished goods for the same period of the prior year.

Impairment loss on financial assets

Impairment loss on financial assets increased by RUB 20,309 million, or 47 %, to RUB 63,954 million for the nine months ended September 30, 2021 compared to RUB 43,645 million for the same period of the prior year. The change was mainly due to an increase of impairment loss on gas trade accounts receivable from JSC Moldovagaz.

Operating profit

As a result of the factors discussed above, operating profit increased by RUB 1,264,065 million, or 389 %, to RUB 1,589,217 million for the nine months ended September 30, 2021 compared to RUB 325,152 million for the same period of the prior year. The operating profit margin increased from 8 % for the nine months ended September 30, 2020 to 24 % for the nine months ended September 30, 2021.

Net finance income (expense)

(in RUB million)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Foreign exchange gain	74,126	57,312	372,561	479,111
Foreign exchange loss	(53,820)	(521,656)	(236,925)	(1,228,563)
Net foreign exchange gain (loss)	20,306	(464,344)	135,636	(749,452)
Interest income	19,353	10,386	48,896	47,939
Interest expense	(18,299)	(15,312)	(52,909)	(49,389)
Net finance income (expense)	21,360	(469,270)	131,623	(750,902)

The net foreign exchange gain amounted to RUB 135,636 million for the nine months ended September 30, 2021 compared to the net foreign exchange loss of RUB 749,452 million for the same period of the prior year. The change was explained by the depreciation of the US Dollar and the Euro against the Russian Ruble by 2 % and 6 %, respectively, for the nine months ended September 30, 2021 compared to the appreciation of the US Dollar and the Euro against the Russian Ruble by 29 % and 34 % for the same period of the prior year. The gain and the loss were mainly related to the revaluation of borrowings denominated in foreign currencies.

Interest income increased by RUB 957 million, or 2 %, to RUB 48,896 million for the nine months ended September 30, 2021 compared to RUB 47,939 million for the same period of the prior year.

Interest expense increased by RUB 3,520 million, or 7 %, to RUB 52,909 million for the nine months ended September 30, 2021 compared to RUB 49,389 million for the same period of the prior year.

Share of profit of associates and joint ventures

Share of profit of associates and joint ventures increased by RUB 126,913 million, or 129 %, to RUB 225,640 million for the nine months ended September 30, 2021 compared to RUB 98,727 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 Sakhalin Energy Investment Company Ltd.

Profit for the period attributable to the owners of PJSC Gazprom

As a result of the factors discussed above, profit attributable to the owners of PJSC Gazprom amounted to RUB 1,550,299 million for the nine months ended September 30, 2021.

Liquidity and capital resources

The following table summarises cash flows for the nine months ended September 30, 2021 and for the nine months ended September 30, 2020:

(in RUB million)	Nine months ended September 30,	
	2021	2020
Net cash from operating activities	1,782,380	1,248,357
Net cash used in investing activities	(1,268,206)	(1,163,655)
Net cash used in financing activities	(213,343)	(366,493)

Net cash from operating activities

Net cash from operating activities increased by RUB 534,023 million, or 43 %, to RUB 1,782,380 million for the nine months ended September 30, 2021 compared to RUB 1,248,357 million for the same period of the prior year. This change was mainly driven by an increase in cash flow from operating activities before working capital changes for the nine months ended September 30, 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 104,551 million, or 9 %, to RUB 1,268,206 million for the nine months ended September 30, 2021 compared to RUB 1,163,655 million for the same period of the prior year. The change was mainly due to an increase in cash flow directed to capital expenditures partly compensated by an increase in proceeds from associates and joint ventures for the nine months ended September 30, 2021 compared to the same period of the prior year.

Net cash used in financing activities

Net cash used in financing activities decreased by RUB 153,150 million, or 42 %, to RUB 213,343 million for the

nine months ended September 30, 2021 compared to RUB 366,493 million for the same period of the prior year. This change was mainly due to a decrease in proceeds from long-term borrowings compared to the same period of the prior year, that was partly compensated by issue of perpetual bonds in the reporting period.

Capital expenditures

Total capital expenditures (excluding the effect of acquisitions of subsidiaries) by segments for the nine months ended September 30, 2021 and for the nine months ended September 30, 2020 denominated in the Russian Ruble are presented in the following table:

(in RUB million)	Nine months ended	
	September 30,	
	2021	2020
Transportation of gas	276,778	126,945
Refining	249,023	238,908
Production of gas	209,271	172,140
Production of crude oil and gas condensate	205,555	240,616
Electric and heat energy generation and sales	63,375	56,541
Distribution of gas	27,370	8,861
Gas storage	7,300	6,528
All other segments	74,759	54,018
Total	1,113,431	904,557

Total capital expenditures increased by RUB 208,874 million, or 23 %, from RUB 904,557 million for the nine months ended September 30, 2020 to RUB 1,113,431 million for the nine months ended September 30, 2021.

The amount of capital expenditures of the Transportation of gas segment increased by RUB 149,833 million, or 118 %, to RUB 276,778 million for the nine months ended September 30, 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.

The amount of capital expenditures of the Production of gas segment increased by RUB 37,131 million, or 22 %, to RUB 209,271 million for the nine months ended September 30, 2021, which is mainly caused by the ongoing development of the Kharasaveyskoye and Kovyktinskoye gas condensate fields.

The amount of capital expenditures of the Production of crude oil and gas condensate segment decreased by RUB 35,061 million, or 15 %, to RUB 205,555 million for the nine months ended September 30, 2021, mainly due to optimization activities within limitations under the OPEC+ agreement.

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 388,124 million, or 10 %, from RUB 3,872,695 million as of December 31, 2020 to RUB 3,484,571 million as of September 30, 2021. This change was mainly due to an increase in cash and cash equivalents.