

## 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, 2020. 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, 2020 should be read in conjunction with the consolidated financial statements for the year ended December 31, 2019 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 the US Dollar foreign exchange rate as determined by the Central Bank of the Russian Federation was as follows:

- as of September 30, 2020 – 79.6845 (as of September 30, 2019 – 64.4156);
- as of December 31, 2019 – 61.9057 (as of December 31, 2018 – 69.4706).

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

- as of September 30, 2020 – 93.0237 (as of September 30, 2019 – 70.3161);
- as of December 31, 2019 – 69.3406 (as of December 31, 2018 – 79.4605).

The average exchange rates of RUB for the nine months ended September 30, 2020 and for the nine months ended September 30, 2019 were:

- to the US Dollar – 70.7778 and 65.0789, respectively;
- to the Euro – 79.6400 and 73.1629, respectively.

## RESULTS OF OPERATION

(in RUB million)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Sales	1,398,070	1,621,588	4,301,218	5,698,339
Net gain (loss) from trading activity	(2,527)	12,224	11,911	(20,391)
Operating expenses	(1,251,075)	(1,421,299)	(3,944,332)	(4,617,986)
Impairment loss on financial assets	(9,301)	(20,760)	(43,645)	(87,331)
<b>Operating profit</b>	<b>135,167</b>	<b>191,753</b>	<b>325,152</b>	<b>972,631</b>
Finance income	67,698	181,215	527,050	534,853
Finance expenses	(536,968)	(163,471)	(1,277,952)	(287,964)
Share of profit of associates and joint ventures	23,886	64,679	98,727	179,934
<b>(Loss) profit before profit tax</b>	<b>(310,217)</b>	<b>274,176</b>	<b>(327,023)</b>	<b>1,399,454</b>
Current profit tax expenses	(19,588)	(44,932)	(57,376)	(242,426)
Deferred profit tax income (expenses)	82,138	(940)	182,192	(50,080)
Profit tax	62,550	(45,872)	124,816	(292,506)
<b>(Loss) profit for the period</b>	<b>(247,667)</b>	<b>228,304</b>	<b>(202,207)</b>	<b>1,106,948</b>
<b>Other comprehensive income (loss):</b>				
Items that will not be reclassified subsequently to profit or loss:				
(Loss) gain arising from changes in fair value of financial assets measured at fair value through other comprehensive income, net of tax				
	23,412	(9,901)	(47,861)	37,598
Remeasurement of provision for post-employment benefits	20,305	(6,743)	(14,786)	(84,595)
<b>Total other comprehensive (loss) income that will not be reclassified subsequently to profit or loss</b>	<b>43,717</b>	<b>(16,644)</b>	<b>(62,647)</b>	<b>(46,997)</b>
Items that may be reclassified subsequently to profit or loss:				
Share of other comprehensive (loss) income of associates and joint ventures				
	4,966	(691)	(29,569)	(5,020)
Translation differences	228,958	2,883	401,034	(137,745)
(Loss) gain from hedging operations, net of tax	(2,150)	(5,370)	(14,149)	4,654
<b>Total other comprehensive income (loss) that may be reclassified subsequently to profit or loss</b>	<b>231,774</b>	<b>(3,178)</b>	<b>357,316</b>	<b>(138,111)</b>
<b>Total other comprehensive income (loss) for the period, net of tax</b>	<b>275,491</b>	<b>(19,822)</b>	<b>294,669</b>	<b>(185,108)</b>
<b>Comprehensive income for the period</b>	<b>27,824</b>	<b>208,482</b>	<b>92,462</b>	<b>921,840</b>
<b>(Loss) profit for the period attributable to:</b>				
Owners of PJSC Gazprom	(251,297)	211,789	(218,378)	1,048,286
Non-controlling interest	3,630	16,515	16,171	58,662
	<b>(247,667)</b>	<b>228,304</b>	<b>(202,207)</b>	<b>1,106,948</b>
<b>Comprehensive income for the period attributable to:</b>				
Owners of PJSC Gazprom	8,305	192,778	48,971	872,366
Non-controlling interest	19,519	15,704	43,491	49,474
	<b>27,824</b>	<b>208,482</b>	<b>92,462</b>	<b>921,840</b>

## Sales

The following table sets out volumes and sales prices:

(in RUB million unless indicated otherwise)	Three months ended		Nine months ended	
	September 30, 2020	2019	September 30, 2020	2019
<b>Sales of gas</b>				
<i>Europe and other countries</i>				
Gross sales <sup>(1)</sup>	484,365	586,778	1,414,845	2,393,535
Customs duties	(98,877)	(121,802)	(260,525)	(462,427)
Excise tax	(6,637)	(14,587)	(19,190)	(47,128)
Net sales	378,851	450,389	1,135,130	1,883,980
Volumes in bcm	56.2	53.5	154.4	171.4
Average price, US Dollar per mcm <sup>(2)</sup> (including excise tax and customs duties) <sup>(3)</sup>	117.2	169.8	128.9	215.0
Average price, RUB per mcm <sup>(2)</sup> (including excise tax and customs duties)	8,622.6	10,961.6	9,165.0	13,966.2
<i>Former Soviet Union countries</i>				
Gross sales <sup>(1)</sup>	63,335	76,959	209,521	279,596
Customs duties	(3,072)	(6,085)	(9,975)	(28,984)
Net sales	60,263	70,874	199,546	250,612
Volumes in bcm	6.4	7.9	21.3	27.0
Average price, US Dollar per mcm <sup>(2)</sup> (including customs duties) <sup>(3)</sup>	134.4	150.2	138.3	159.5
Average price, RUB per mcm <sup>(2)</sup> (including customs duties)	9,888.6	9,698.7	9,829.0	10,361.2
<i>The Russian Federation</i>				
Gross sales (net of VAT)	134,179	147,869	622,882	666,125
Net sales	134,179	147,869	622,882	666,125
Volumes in bcm	33.5	36.5	151.1	162.9
Average price, RUB per mcm <sup>(2)</sup> (net of VAT)	4,004.0	4,050.7	4,122.9	4,089.5
<i>Total gas sales</i>				
Gross sales (net of VAT)	681,879	811,606	2,247,248	3,339,256
Customs duties	(101,949)	(127,887)	(270,500)	(491,411)
Excise tax	(6,637)	(14,587)	(19,190)	(47,128)
Retroactive gas price adjustments	-	-	2,324	8,009
Net sales	573,293	669,132	1,959,882	2,808,726
Volumes in bcm	96.1	97.9	326.8	361.3
Net sales of refined products (net of excise tax, VAT and customs duties)	480,689	548,555	1,301,542	1,591,926
Net sales of crude oil and gas condensate (net of VAT and customs duties)	131,111	190,434	343,161	573,381
Electric and heat energy net sales (net of VAT)	96,227	95,300	348,467	373,195
Gas transportation net sales (net of VAT)	54,548	49,866	163,838	160,020
Other sales (net of VAT)	<u>62,202</u>	<u>68,301</u>	<u>184,328</u>	<u>191,091</u>
<b>Total sales (net of excise tax, VAT and customs duties)</b>	<b>1,398,070</b>	<b>1,621,588</b>	<b>4,301,218</b>	<b>5,698,339</b>

Notes:

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

<sup>(2)</sup> One mcm is equivalent to 35,316 cubic feet.

<sup>(3)</sup> Calculated on the basis of average exchange rate between the RUB and the US Dollar.

Total sales (net of excise tax, VAT and customs duties) decreased by RUB 1,397,121 million, or 25 %, to RUB 4,301,218 million for the nine months ended September 30, 2020 compared to the same period of the prior year.

Net sales of gas accounted for 46 % of total net sales for the nine months ended September 30, 2020 (49 % for the same period of the prior year).

Net sales of gas decreased by RUB 848,844 million, or 30 %, from RUB 2,808,726 million for the nine months ended September 30, 2019 to RUB 1,959,882 million for the nine months ended September 30, 2020.

Net sales of gas to Europe and other countries decreased by RUB 748,850 million, or 40 %, to RUB 1,135,130 million for the nine months ended September 30, 2020 compared to the same period of the prior year. The change was due to the decrease in average prices (including excise tax and customs duties) denominated in the Russian Ruble by 34 % and the decrease in volumes of gas sold by 10 % for the nine months ended September 30, 2020 compared to the same period of the prior year. At the same time average prices denominated in the US Dollar decreased by 40 % compared to the same period of the prior year.

Net sales of gas to Former Soviet Union countries decreased by RUB 51,066 million, or 20 %, to RUB 199,546 million for the nine months ended September 30, 2020 compared to the same period of the prior year. The change was due to the decrease in volumes of gas sold by 21 % and the decrease in average prices (including customs duties) denominated in the Russian Ruble by 5 % for the nine months ended September 30, 2020 compared to the same period of the prior year. At the same time average prices denominated in the US Dollar decreased by 13 % compared to the same period of the prior year.

Net sales of gas in the Russian Federation decreased by RUB 43,243 million, or 6 %, to RUB 622,882 million for the nine months ended September 30, 2020 compared to the same period of the prior year. This change was explained by the decrease in volumes of gas sold by 7 %, which was partially compensated by the increase in average prices in the Russian Ruble (net of VAT) by 1 %.

Net sales of refined products (net of excise tax, VAT and customs duties) decreased by RUB 290,384 million, or 18 %, to RUB 1,301,542 million for the nine months ended September 30, 2020 compared to the same period of the prior year. The decrease in net sales of refined products was mainly due to a decrease in average prices denominated in the Russian Ruble in all geographic segments.

Net sales of crude oil and gas condensate (net of VAT and customs duties) decreased by RUB 230,220 million, or 40 %, to RUB 343,161 million for the nine months ended September 30, 2020 compared to the same period of the prior year. The change was mainly due to a decrease in net sales of crude oil primarily caused by a decrease in average prices of crude oil.

## Operating expenses

Operating expenses decreased by RUB 673,654 million, or 15 %, to RUB 3,944,332 million for the nine months ended September 30, 2020 compared to RUB 4,617,986 million for the same period of the prior year. Operating expenses as a percentage of sales increased from 81 % for the nine months ended September 30, 2019 to 92 % for the nine months ended September 30, 2020. 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,	
	2020	2019	2020	2019
Taxes other than on profit	310,796	329,674	928,475	1,063,183
Purchased gas and oil	186,211	321,773	627,733	1,051,552
Staff costs	212,998	189,634	627,585	570,768
Depreciation	197,744	177,169	594,635	525,044
Transit of gas, oil and refined products	165,575	161,144	477,998	497,197
Materials	67,101	45,430	177,451	192,823
Goods for resale, including refined products	69,930	69,078	154,976	194,924
Repairs and maintenance	38,981	46,400	87,997	99,761
Electricity and heating	25,050	31,079	81,333	88,223
Insurance	8,667	8,098	25,867	23,575
Social expenses	9,061	11,074	25,167	27,389
Transportation expenses	7,659	11,684	21,683	21,398
Processing services	5,234	5,498	15,575	15,994
Impairment loss on non-financial assets	1,314	3,076	15,514	4,878
Research and development	5,085	1,896	14,386	11,263
Lease	4,238	6,851	12,786	19,735
Loss (gain) on derivative financial instruments	9,295	(17,415)	7,497	(7,364)
Foreign exchange differences on operating items	(103,115)	16,623	(166,574)	68,013
Other	<u>101,644</u>	<u>72,950</u>	<u>272,107</u>	<u>292,167</u>
	<b>1,323,468</b>	<b>1,491,716</b>	<b>4,002,191</b>	<b>4,760,523</b>
Change in balances of finished goods, work in progress and other effects	<u>(72,393)</u>	<u>(70,417)</u>	<u>(57,859)</u>	<u>(142,537)</u>
<b>Total operating expenses</b>	<b>1,251,075</b>	<b>1,421,299</b>	<b>3,944,332</b>	<b>4,617,986</b>

### *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,	
	2020	2019	2020	2019
Mineral extraction tax	190,531	253,951	579,975	843,418
Excise tax	64,444	27,619	195,120	81,469
Property tax	38,898	37,307	117,708	112,056
Other taxes	<u>16,923</u>	<u>10,797</u>	<u>35,672</u>	<u>26,240</u>
<b>Total taxes other than on profit</b>	<b>310,796</b>	<b>329,674</b>	<b>928,475</b>	<b>1,063,183</b>

Expenses for taxes other than on profit decreased by RUB 134,708 million, or 13 %, to RUB 928,475 million for the nine months ended September 30, 2020 compared to RUB 1,063,183 million for the same period of the prior year. The change was mainly due to a decrease in the mineral extraction tax expenses that was partially compensated by an increase in the excise tax expenses.

Mineral extraction tax (MET) expenses decreased by RUB 263,443 million or 31 % to RUB 579,975 million for the nine months ended September 30, 2020 compared to RUB 843,418 million for the same period of the prior year. MET expenses decreased mainly due to a decrease in oil prices and a decrease in volumes of gas production for the nine months ended September 30, 2020 compared to the same period of the prior year.

Excise tax expenses increased by RUB 113,651 million, or 140 %, to RUB 195,120 million for the nine months ended September 30, 2020 compared to RUB 81,469 million for the same period of the prior year. Excise taxes expenses increased mainly due to the impact of the damper component, resulting from the reduction in export-parity prices for automobile gasoline and diesel fuel on the external market, arising from the lower oil price and the worsening epidemiological situation.

#### *Purchased gas and oil*

Cost of purchased gas and oil decreased by RUB 423,819 million, or 40 %, to RUB 627,733 million for the nine months ended September 30, 2020 compared to RUB 1,051,552 million for the same period of the prior year. The change was mainly due to a decrease in cost of purchased gas.

Cost of purchased gas included in the purchased gas and oil decreased by RUB 233,202 million, or 34 %, to RUB 447,459 million for the nine months ended September 30, 2020 compared to RUB 680,661 million for the same period of the prior year. The change was mainly due to a decrease in average prices and a decrease in volumes of purchased gas.

Cost of purchased oil included in the cost of purchased gas and oil decreased by RUB 190,617 million, or 51 %, to RUB 180,274 million for the nine months ended September 30, 2020 compared to RUB 370,891 million for the same period of the prior year. The change was mainly due to a decrease in prices of oil and volumes of purchased oil.

#### *Staff costs*

Staff costs increased by RUB 56,817 million, or 10 %, to RUB 627,585 million for the nine months ended September 30, 2020 compared to RUB 570,768 million for the same period of the prior year. The increase was mainly due to the growth of the minimal wage rate by 15 % since October 1, 2019 and by 3 % since January 1, 2020.

#### *Depreciation*

Depreciation increased by RUB 69,591 million, or 13 %, to RUB 594,635 million for the nine months ended September 30, 2020 compared to RUB 525,044 million for the same period of the prior year. The increase was mainly due to an increase in the fixed asset base.

#### *Goods for resale, including refined products*

Cost of goods for resale, including refined products decreased by RUB 39,948 million, or 20 %, to RUB 154,976 million for the nine months ended September 30, 2020 compared to RUB 194,924 million for the same period of the prior year. The decrease in cost was mainly due to a decrease in prices and volumes of refined products purchases in domestic and international markets.

#### *Foreign exchange differences on operating items*

The foreign exchange gain on operating items amounted to RUB 166,574 million for the nine months ended September 30, 2020 compared to the foreign exchange loss in the amount of RUB 68,013 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 appreciation of the US Dollar and the Euro against the Russian Ruble by 29 % and 34 %, respectively, for the nine months ended September 30, 2020 compared to the depreciation of the US Dollar and the Euro against the Russian Ruble by 7 % and 12 %, respectively, for the same period of the prior year.

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

The line item Change in balances of finished goods, work in progress and other effects changed by RUB 84,678 million, or 59 %, to the negative amount of RUB 57,859 million for the nine months ended September 30, 2020 compared to the negative amount of RUB 142,537 million for the same period of the prior year. The change in this line item was due to an increase in the balances of finished goods for the nine months ended September 30, 2020 was less than 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 decreased by RUB 43,686 million, or 50 %, to RUB 43,645 million for the nine months ended September 30, 2020 compared to RUB 87,331 million for the same period of the prior year. The decrease was mainly due to the termination of the accrual of the allowance for expected credit losses on accounts receivable due from NJSC Naftogaz of Ukraine as a result of the settlement of mutual debts in accordance with the agreement between NJSC Naftogaz of Ukraine and PJSC Gazprom.

#### **Operating profit**

As a result of the factors discussed above, operating profit decreased by RUB 647,479 million, or 67 %, to RUB 325,152 million for the nine months ended September 30, 2020 compared to RUB 972,631 million for the same period of the prior year. The operating profit margin decreased from 17 % for the nine months ended September 30, 2019 to 8 % for the nine months ended September 30, 2020.

## Net finance (expenses) income

(in RUB million)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Foreign exchange gain	57,312	157,642	479,111	463,093
Foreign exchange loss	<u>(521,656)</u>	<u>(145,313)</u>	<u>(1,228,563)</u>	<u>(232,277)</u>
Net foreign exchange (loss) gain	(464,344)	12,329	(749,452)	230,816
Interest income	10,386	23,573	47,939	71,760
Interest expense	<u>(15,312)</u>	<u>(18,158)</u>	<u>(49,389)</u>	<u>(55,687)</u>
<b>Net finance (expenses) income</b>	<b>(469,270)</b>	<b>17,744</b>	<b>(750,902)</b>	<b>246,889</b>

The net foreign exchange loss amounted to RUB 749,452 million for the nine months ended September 30, 2020 compared to the net foreign exchange gain of RUB 230,816 million for the same period of the prior year. The loss and the gain were mainly related to the revaluation of loans and borrowings denominated in foreign currencies. The change of the item was explained by the appreciation of the US Dollar and the Euro against the Russian Ruble by 29 % and 34 %, respectively, for the nine months ended September 30, 2020 and the depreciation of the US Dollar and the Euro against the Russian Ruble by 7 % and 12 %, respectively, for the same period of the prior year. The net foreign exchange loss had a major impact on the financial result of the Gazprom Group.

Interest income decreased by RUB 23,821 million, or 33 %, to RUB 47,939 million for the nine months ended September 30, 2020 compared to RUB 71,760 million for the same period of the prior year.

Interest expense decreased by RUB 6,298 million, or 11 %, to RUB 49,389 million for the nine months ended September 30, 2020 compared to RUB 55,687 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 decreased by RUB 81,207 million, or 45 %, to RUB 98,727 million for the nine months ended September 30, 2020 compared to RUB 179,934 million for the same period of the prior year. This change was mainly caused by a decrease in the share of profit of Sakhalin Energy Investment Company Ltd., Gazprombank (Joint-stock Company) and its subsidiaries, JSC Messoyakhaneftegas and PJSC NGK Slavneft and its subsidiaries.

## Loss for the period attributable to owners of PJSC Gazprom

As a result of the factors discussed above, loss attributable to owners of PJSC Gazprom amounted to RUB 218,378 million for the nine months ended September 30, 2020.

## Liquidity and capital resources

The following table summarises the cash flows for the nine months ended September 30, 2020 and for the nine months ended September 30, 2019:

(in RUB million)	Nine months ended September 30,	
	2020	2019
Net cash from operating activities	1,248,357	1,622,574
Net cash used in investing activities	(1,163,655)	(1,380,479)
Net cash used in financing activities	(366,493)	(66,130)

### *Net cash from operating activities*

Net cash from operating activities decreased by RUB 374,217 million, or 23 %, to RUB 1,248,357 million for the nine months ended September 30, 2020 compared to RUB 1,622,574 million for the same period of the prior year. This change was mainly driven by a decrease in cash flow from operating activities before working capital changes for the nine months ended September 30, 2020 compared to the same period of the prior year.

### *Net cash used in investing activities*

Net cash used in investing activities decreased by RUB 216,824 million, or 16 %, to RUB 1,163,655 million for the nine months ended September 30, 2020 compared to RUB 1,380,479 million for the same period of the prior year. The change was mainly due to a decrease in cash flows used in capital expenditures and loans issued for the nine months ended September 30, 2020 compared to the same period of the prior year.

### *Net cash used in financing activities*

Net cash used in financing activities increased by RUB 300,363 million, or 454 %, to RUB 366,493 million for the nine months ended September 30, 2020 compared to RUB 66,130 million for the same period of the prior year. This change was mainly due to an increase in repayment of borrowings for the nine months ended September 30, 2020 compared to the same period of the prior year and proceeds from sale of treasury shares for the nine months ended September 30, 2019.

### **Capital expenditures**

Total capital expenditures (excluding the effect of acquisitions of subsidiaries) denominated in the Russian Ruble by segments for the nine months ended September 30, 2020 and for the nine months ended September 30, 2019 amounted to the following:

(in RUB million)	Nine months ended	
	September 30,	
	2020	2019
Production of crude oil and gas condensate	240,616	198,537
Refining	238,908	263,581
Production of gas	172,140	177,314
Transportation of gas	126,945	329,864
Electric and heat energy generation and sales	56,541	47,434
Distribution of gas	8,861	10,554
Gas storage	6,528	8,047
All other segments	<u>54,018</u>	<u>82,599</u>
<b>Total</b>	<b>904,557</b>	<b>1,117,930</b>

Total capital expenditures decreased by RUB 213,373 million, or 19 %, from RUB 1,117,930 million for the nine months ended September 30, 2019 to RUB 904,557 million for the nine months ended September 30, 2020.

The largest portion of capital expenditures refers to the Production of crude oil and gas condensate segment. The amount of capital expenditures of the Production of crude oil and gas condensate segment increased by RUB 42,079 million, or 21 %, to RUB 240,616 million for the nine months ended September 30, 2020, mainly due to the investment programme implementation at new oil fields by Gazprom Neft Group entities.

The amount of capital expenditures of the Transportation of gas segment decreased by RUB 202,919 million, or 62 %, to RUB 126,945 million for the nine months ended September 30, 2020, mainly due to the completion of most part of works on the construction of the TurkStream and Nord Stream 2 gas pipelines as well as putting the Power of Siberia gas pipeline into operation in the end of 2019.

### **Debts obligation**

Net debt balance (defined as the sum of short-term borrowings and current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable, less cash and cash equivalents) increased by RUB 1,295,949 million, or 41 %, from RUB 3,167,847 million as of December 31, 2019 to RUB 4,463,796 million as of September 30, 2020. This change was mainly due to an increase in the amount of long-term borrowings denominated in the Russian Ruble caused by the appreciation of the US Dollar and the Euro against the Russian Ruble.