Independent Auditors’ Report

To the Board of Directors and Shareholders of PJSC MegaFon

Opinion

We have audited the consolidated financial statements of PJSC MegaFon (the “Company”) and its subsidiaries (the “Group”), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated income statement, and the statements of other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Code of Ethics for Professional Accountants (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Audited entity: PJSC MegaFon
Registration No. in the Unified State Register of Legal Entities: 1027801695885.
Moscow, Russia

Independent auditor: JSC “KPMG”, a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.
Registration No. in the Unified State Register of Legal Entities 1027700125628.
Member of the Self-regulatory Organization of Auditors Association “Sodruzhestvo” (SRO AAS). The Principal Registration Number of the Entry in the Register of Auditors and Audit organisations: No.12006020351.
### Revenue recognition-technical complexity

Revenue is a material amount consisting of a high volume of individually low value transactions. The Group uses billing systems to process revenue related data and relies on the results of these systems.

The most significant risks of revenue misstatement arise due to:
- registration, processing and transfer of data on services parameters between billing systems and the accounting system; and
- correct application of tariffs, as these change throughout the year.

Our audit procedures included an assessment of the Group’s policies and controls in place over the IT system environment to determine their effectiveness in preventing and/or detecting revenue-related data distortion or loss.

We performed the following key audit procedures:
- we tested backup and replication frequency, and inspected the server rooms to ensure appropriate physical safeguards were in place;
- we tested the incident management procedure for timely resolution;
- we tested that only authorised access can be made to the billing systems by inspecting approved access requests for compliance with the internal policy;
- we tested that system program changes, including changes to tariff plans, were authorized in accordance with internal rules;
- we tested that authority to change tariff plans in billing systems is granted to authorized persons in accordance with internal rules;
- we reconciled information on new tariff plans entered into billing systems with approved orders and testing protocols;
- we tested processing of data on parameters of provided services at the stage of initial registration of data by the server equipment and subsequent transfer to the billing system, having examined processing of individual entries on connections, and then entries in the accounting system, including by checking significant manual adjustments made during transfer of data from billing systems to the accounting system;
- we recalculated the amounts accrued to subscribers on a sample basis, multiplying the parameters of the services provided by the corresponding tariffs.

The above procedures were performed with involvement of our IT specialists.

We also performed analytical tests and tests of details:
- we reconciled the revenue recognized in the accounting system adjusted for the amount of settlements with subscribers at the beginning and end of the reporting period, with the amount of payments in accordance with the accounting system;
- we reconciled the subscribers’ payments recognized in the accounting system with confirmations from paying agents and banks on a sample basis;
- we performed other analytical procedures to ensure that the overall trend and dynamics of revenue by type of service are consistent with our understanding of the Group and the industry in general.
### Revaluation of property and equipment

**Please refer to the Note 3.1 in the consolidated financial statements.**

**In 2019 the Group decided to transit from the historical cost model of accounting for certain groups of property and equipment to revaluation model.**

**In accordance with IAS 16 Property, Plant and Equipment, the Group recognized certain groups of property and equipment at fair value at the date of revaluation.**

We considered this matter to be a key matter due to significant part of the Group's total assets that are being revalued and significance of judgments and estimates made by management in determining the approach and key assumptions for calculation of fair value of property and equipment being revalued.

**Our audit procedures included the following:**

- We assessed professional competence of the qualified independent appraiser, which was engaged by the Group by considering the appraiser's reputation and experience based on publicly available sources.
- We involved KPMG valuation specialists to assist us in testing the appropriateness of the Group's methodology and key assumptions applied to determine the fair value of items of property and equipment being revalued.
- We assessed reasonableness of approaches used by independent appraiser for calculation of fair values of items of property and equipment being revalued based on our understanding of generally accepted valuation methods used for similar assets on the market.
- We evaluated the key assumptions used by the Group in its revaluation as follows:
  - we compared on a sample basis the specific cost of an individual item of property and equipment with average market prices, using the Group's tender documents obtained from independent suppliers;
  - we compared useful lives used to calculate physical depreciation with the periods given in the generally accepted in evaluation practices and recommended by specialized reference books for similar assets;
  - we compared the price change indices used in calculation with those published by the Russian Ministry of Construction, the Russian statistical agency, and the U.S. Bureau of Labor Statistics.

We assessed whether the related disclosures in the consolidated financial statements are appropriate.

### IFRS 16 Leases (First time adoption)

**Please refer to the Note 3.2 in the consolidated financial statements.**

**The Group applied IFRS 16 Leases starting from 1 January 2019.**

We considered this matter to be a key matter as application of the standard by the Group required significant judgment and estimates to be made by management, including when determining that a contract contains a lease, and estimating a lease term and discount rate that significantly affect the amount of recognized assets and liabilities.

**Our audit procedures included the following:**

- we assessed the appropriateness of defining a contract as a lease by analyzing, on a sample basis, the terms and conditions of contracts that could potentially contain lease components;
- we assessed the reasonableness of determining the lease term, including management’s judgments regarding the lease term, based on our experience, and discount rate by forming our own range of estimates for lease liabilities, including with the involvement of KPMG valuation specialists and comparing the data obtained with the estimates made by management.

We assessed whether the related disclosures in the consolidated financial statements are appropriate.
The key audit matter | How the matter was addressed in our audit
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**Valuation of investment in AliExpress Russia Holding PTE.LTD («AER») and net fair value of the investee’s identifiable assets and liabilities**

Please refer to the Note 3.4 in the consolidated financial statements.

<p>| In October 2019, the Group completed a transaction to exchange 9.97% of shares in Mail.Ru Group Limited for 24.3% of shares in AER. | Our audit procedures included the following: |
| | We assessed professional competence of the qualified independent appraiser, which was engaged by the Group by considering the appraiser’s reputation and experience based on publicly available sources. |
| The Company recognized the investment in AER at fair value. | We involved KPMG valuation specialists to assist us in testing the appropriateness of the Group’s methodology and key assumptions applied to determine the fair value of investment in AER and net fair value of the investee’s identifiable assets and liabilities. |
| In accordance with the requirements of IAS 28 Investments in Associates and Joint Ventures, the Group determined the net fair value of the investee’s identifiable assets and liabilities, including intangible assets representing trademarks mostly. | We assessed reasonableness of approaches used by independent appraiser for calculation of fair values based on our understanding of generally accepted valuation methods. |
| Fair value measurement is a complex process involving a number of judgments and assumptions in relation to input data. | We evaluated the key assumptions used by the Group as follows: |
| | With regard to measuring the fair value of the investment: |
| | • we compared the historical information used in the calculations with the financial statements of AER for previous periods; |
| | • we compared cross-border and local market shares and the required amount of additional investments in marketing with external market data; |
| | • we performed our own sensitivity analysis and assessed the impact of changes in key assumptions which we consider reasonably possible based on our industry knowledge. |
| | With regard to measuring the fair value of the trademarks: |
| | • we reconciled the royalty rate for trademarks, useful lives and market growth rates used in the models with external market data. |
| | We assessed whether the related disclosures in the consolidated financial statements are appropriate. |</p>
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<tr>
<th>The key audit matter</th>
<th>How the matter was addressed in our audit</th>
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<td><strong>Impairment testing of investment in the associate DTS Retail Limited («Svyaznoy Group»)</strong></td>
<td>Please refer to the Note 3.4 in the consolidated financial statements.</td>
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<td>During the reporting period indicators of impairment of the investment in DTS Retail Limited were identified, which requires investment impairment testing.</td>
<td>Our audit procedures included the following:</td>
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<td>Impairment testing is a complex process involving a number of judgments and assumptions in relation to input data. Estimation of a recoverable amount is based on a discounted cash flow model that mainly uses assumptions from internal sources.</td>
<td>- We assessed professional competence of the qualified independent appraiser, which was engaged by the Group by considering the appraiser’s reputation and experience based on publicly available sources.</td>
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<td>- We involved KPMG valuation specialists to assist us in testing the appropriateness of the Group’s methodology and key assumptions applied to determine the recoverable amount of investment in DTS Retail Limited.</td>
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<td>- We evaluated the key assumptions used by the Group in the discounted cash flow model as follows:</td>
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<td>• we compared the historical information used in the calculations with the financial statements of Euroset and Svyaznoy Logistica (DTS Retail Limited operating companies until integration in 2019) for the previous reporting periods;</td>
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<td>• we compared the forecast revenue growth rate with the average annual historical sales level and population growth rate in the forecast period obtained from external sources;</td>
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<td>• we performed our own sensitivity analysis and assessed the impact of changes in key assumptions which we consider reasonably possible based on our industry knowledge.</td>
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<td>We assessed whether the related disclosures in the consolidated financial statements are appropriate.</td>
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Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report but does not include the consolidated financial statements and our auditors’ report thereon.

The Annual Report is expected to be made available to us after the date of this auditors’ report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Group to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.
• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors’ report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors’ report is:

Yerkozha Akylbek
JSC “KPMG”
Moscow, Russia
24 March 2020