

# Independent Auditors' Report



## To the Shareholders and the Board of Directors 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 2021, 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 2021, 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 Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the IESBA Code. 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 number in the Unified State Register of Legal Entities:  
No. 1027809169585.

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation and a member firm of the KPMG global organization of independent member firms. All rights reserved. For more detail about the structure of the KPMG global organization please

 [visit home.kpmg/governance](https://home.kpmg/governance)

## Service revenue accounting

Please refer to **the Note 2.1 in the consolidated financial statements.**

Revenue is a material amount consisting of a high volume of individually low value transactions. The Group uses billing systems to calculate revenue, revenue data is automatically transferred from the billing systems to the accounting system through an intermediate database. Thus, the Group relies on the results of these systems.

The most significant risks of revenue misstatement arise due to potential overstatement of the volume of services provided, the application of tariffs and setting of algorithms for charging subscribers, and the transfer of revenue from the billing systems to the accounting system.

Our key 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.

**We performed the following key audit procedures:**

- we tested that only authorised access can be made to the billing systems by inspecting approved access requests and automatic access settings for compliance with the internal policy;
- we tested that system program changes in the billing systems, were authorized in accordance with internal rules;
- we tested the automatic filtering settings for duplicate records of the volume of services rendered by running a relevant query to the database for a selected period;
- we recalculated the amounts accrued to subscribers on a sample basis by multiplying the parameters of the services provided by the corresponding tariffs; we also tested that the algorithms for the suspension of charges in case of disconnection of services to subscribers are configured in accordance with the terms of tariffs and internal rules through recalculation of charges to disconnected subscribers on a sample basis;
- we tested the transfer of revenue data from the billing systems to accounting system through a corporate data warehouse by comparing revenue amounts in the systems on a sample basis.

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 recorded in the accounting system; we reconciled the amount of payments from subscribers with supporting documentation from payment services companies and banks on a sample basis;
- we reconciled revenue from interconnect services with supporting documents from counterparties 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.

The key audit matter

How the matter was addressed in our audit

## Impairment testing of investment in the associate DTSRETAIL Limited («Svyaznoy group»)

 Please refer to [the Note 3.4 in the consolidated financial statements](#).

During the reporting period mobile retail market remained volatile and investment in Svyaznoy group was tested for impairment.

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.

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 Svyaznoy group.

### Our key audit procedures included the following:

- we challenged the key assumptions applied by the Group in the discounted cash flow model by, among other things, comparing the projected EBITDA margin with those observed at company-analogues;
- based on our industry accumulated knowledge and inputs from publicly available sources we developed our own range of values representing the estimate of the recoverable amount of the investment using methodology and assumptions, including reasonable changes of key assumptions, which we consider appropriate.

## Accounting of disposal of First Tower Company ("FTC")

 Please refer to [the Note 5.1 in the consolidated financial statements](#).

### During the reporting period the Group entered into one significant transaction under which:

- the Group lost control over its tower operator FTC and leased back most of FTC's assets represented by fixed places on towers;
- as a result of the transaction, the Group obtained significant influence over a new entity, accounted for as an associate, to which an ownership interest in FTC and, subsequent to the reporting date, other assets representing telecom infrastructure companies were contributed.

We focused on this matter because its impact on the Group's consolidated financial statements is significant and the accounting treatment of such transaction is complex and requires exercise of significant judgement.

### Our key audit procedures included the following:

- analysing the documents supporting the transaction to fully understand its terms and conditions and to consider potential accounting implications, including the income tax effect;
- challenging the approach applied to determine the proportion of the previous carrying amount of the asset that relates to the right of use retained by the Group by assessing the underlying calculations for consistency with the applicable accounting pronouncements;
- challenging the approach applied to determine the cost of investment in the new associate on initial recognition, including with the involvement of KPMG valuation specialists;
- challenging the judgement applied by the Group in determining whether FTC represents a discontinued operation;
- challenging the approach applied to separate the non-lease component from lease payments as set out in the lease agreement to determine the carrying amount of the right of use asset;
- assessing the disclosures for the transaction in the notes to the consolidated financial statements to determine whether all key terms and judgements applied have been appropriately described.

## 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.

## 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.

## 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's 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.
- 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, actions taken to eliminate threats or safeguards applied.

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:



#### AMMOSOVA E.V.

Principal registration number of the entry in the Register of Auditors and Audit organizations 21906100260, acts on behalf of the audit organization based on the power of attorney No. 74/21 as of 25 May 2021  
JSC "KPMG"

Principal registration number of the entry in the Register of Auditors and Audit Organizations No. 12006020351

Moscow, Russia  
23 March 2022