



## API Voting Recommendations for Extraordinary General Meeting

Company: PJSC Magnit (MGNT)

Meeting date: April 19, 2018

Record date: February 27, 2018

No.	EGM agenda item	API recommendation
1.	Early termination of powers of the Board of Directors of PJSC Magnit	<b>FOR</b>
2.	Election of members of the Board of Directors of PJSC Magnit	<b>API recommends voting FOR</b> <b>Oleg Zherebtsov</b> <b>Evgeny Kuznetsov</b> <b>Alexander Prisyazhnyuk</b> <b>Alexander Shevchuk</b>

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### In-depth EGM agenda review:

1.	EGM agenda item	API recommendation
	Early termination of powers of the Board of Directors of PJSC Magnit	<b>FOR</b>

#### **AGENDA ITEM 1 DETAILS:**

The early termination of powers of the Board of Directors reflects a change in the company's shareholding structure caused by the acquisition of 29,656,200 common shares (29.099996% of the voting shares) in PJSC Magnit by VTB Infrastructure Investments LLC from Sergey Galitsky, the company's founder and a member of its Board of Directors.

#### **DRAFT RESOLUTION ON AGENDA ITEM 1:**

Approve the early termination of powers of the Board of Directors of PJSC Magnit.

2.	EGM agenda item	API recommendation
	Election of members of the Board of Directors of PJSC Magnit	<b>FOR</b>

#### AGENDA ITEM 2 DETAILS:

The newly elected Supervisory Board of PJSC Magnit shall consist of 7 members.

The following 12 candidates are proposed for voting:

No.	Name	Candidate office / position (at the primary place of employment)	Nominated by*	Status (as disclosed by the company)
1.	Gregor William Mowat	Co-Founder & CFO, Nooli UK Limited	undisclosed (nominated by shareholder no. 2)*	independent director
2.	Timothy Demchenko	Global Head of Private Equity and Special Situations, VTB Capital plc	undisclosed (nominated by shareholder no. 1)*	non-executive director
3.	James Pat Simmons	Member of the Management Board, Mazovia Capital sp z o.o.	undisclosed (nominated by shareholder no. 1)*	independent director
4.	Oleg Zherebtsov**	CEO, Grotex LLC	undisclosed API members	independent director
5.	Evgeny Kuznetsov**	-	undisclosed API members	independent director
6.	Alexey Makhnev	Head of the Consumer Sector, Retail and Real Estate, Corporate and Investment Department, VTB Capital	undisclosed (nominated by shareholder no. 1)*	non-executive director
7.	Paul Michael Foley	Managing Partner, Foley Retail Consulting GmbH	undisclosed (nominated by shareholder no. 2)*	independent director
8.	Khachatur Pombukhchan	CEO, Public Joint-Stock Company Magnit	undisclosed (nominated by shareholder no. 2)*	executive director
9.	Alexander Prisyazhnyuk**	-	undisclosed API members	independent director
10.	Ilya Sattarov	Deputy CEO, Public Joint-Stock Company Magnit	undisclosed (nominated by shareholder no. 2)*	executive director
11.	Charles Emmitt Ryan	Chairman of the Board of Directors, UFG Asset Management	Undisclosed (nominated by shareholder no. 2)*	independent director
12.	Alexander Shevchuk**	Executive Director, Association of Institutional Investors	undisclosed API members	independent director

Please note: members of the Board of Directors are elected by cumulative voting in which the number of shares belonging to a shareholder is multiplied by the number of seats on the Board of Directors. The resulting votes can be cast for one candidate or distributed among several candidates at the shareholder's choice.

A shareholder owning 100 shares of PJSC Magnit will have 700 votes (100 x 7) when voting on the election of the new Board of Directors consisting of 7 members.

The API recommends, for example, distributing these 700 votes in equal parts among the four candidates nominated by the minority shareholders (175 votes for each). This approach will help avoid dispersion of votes and

elect the maximum possible number of independent directors.

\* 3 groups of shareholders have nominated candidates to the Board of Directors. The company does not disclose the shareholders nominating the Board members. We assume that the first group of candidates comprising VTB Capital representatives was nominated by VTB Group, the second group, according to comments from some shareholders, was allegedly nominated by Sergey Galitsky, the third group by API members.

\*\* The API officially supports these candidates at the EGM.

#### DRAFT RESOLUTION ON AGENDA ITEM 2:

Elect the candidates listed as follows to the Board of Directors of PJSC Magnit:

1. Gregor William Mowat;
2. Timothy Demchenko;
3. James Pat Simmons;
4. Oleg Zherebtsov;
5. Evgeny Kuznetsov;
6. Alexey Makhnev;
7. Paul Michael Foley;
8. Khachatur Pombukhchan;
9. Alexander Prisyazhnyuk;
10. Ilya Sattarov;
11. Charles Emmitt Ryan;
12. Alexander Shevchuk.

On March 29, 2018, the API Board of Directors decided to recommend that the shareholders of PJSC Magnit vote for 4 independent candidates nominated by the API members. Taking into account the historically established quorum of 77.6% and based on the assumption that the main shareholder would consolidate at least 35% of the votes (we suppose that VTB, founder of the Company, and, perhaps, some shareholders connected to them, will have the same view on voting) institutional investors need to consolidate at least 36% of the votes (84% of the Company's voting free float) to ensure the election of 4 independent directors and to distribute their votes in equal parts among the selected 4 candidates each of whom would then receive approximately 9% of the votes according to the cumulative voting procedure. In this case, 4 of the 7 seats on the Board would be occupied by independent directors making the Board independent in decision-making\*.

\* According to our estimates, the election of 5 independent directors is impossible with the current voting free float of about 42-45% of all the voting shares. The election of 5 independent candidates requires consolidation of about 60% of all the votes (12% for each candidate), which is almost 100% of the total free float.

Based on our calculations, the API Board of Directors decided to focus on choosing 4 independent candidates to be proposed to the other shareholders.

7 out of the 8 nominees referred to by the Company as independent candidates were invited to participate in the meeting of the API Board of Directors. Regretfully, the Company disclosed the candidates' details only on the day the API Board of Directors held the meeting. It turned out that the principal shareholder of VTB also proposed an independent candidate whom the API was technically unable to invite to the meeting for lack of time. However, the API contacted the candidate on March 30 (please see the related comments on the conversation below).

James Pat Simmons who is currently a partner at Mazovia Capital served as co-director of TPG Russia & CIS from 2007 to 2011 and participated in the acquisition of a stake in Lenta. From 2011 to 2013, Mr. Simmons served as a top manager (Chief Financial Officer) at Summa Group. No conflict of interest, the candidate meets the applicable

independence criteria, not affiliated with the Company's substantial shareholders and management.

Each of the candidates invited by the API was given an opportunity to make a personal presentation and to answer questions from the API Board members. Please see below the conflict of interest details for each of the considered candidates and the API Board members' judgments during the preferential voting based on what the candidates said answering the questions and their respective CVs:

- Oleg Zherebtsov**, an industry expert, a Russian businessman, the founder of the Russian Lenta and Norma hypermarket chains. He completely sold his stakes in the chains in 2009 and 2011, respectively.  
No conflict of interest, the candidate meets the applicable independence criteria, not affiliated with the Company's substantial shareholders and management. The nomination was proposed by API members\*.
- Alexander Prisyazhnyuk**, an industry expert, a former member of the Board of Directors of PJSC Magnit employed as the Company's chief financial officer from 1999 to 2008. He served as an independent director on the Boards of Directors of Dixy and M. Video.  
No conflict of interest, the candidate meets the applicable independence criteria, not affiliated with the Company's substantial shareholders and management. The nomination was proposed by API members\*.
- Evgeny Kuznetsov**, an expert in portfolio investments, ex-partner and Portfolio Manager at Genesis Investment Management, LLP in London (1996 to 2015).  
No conflict of interest, the candidate meets the applicable independence criteria, not affiliated with the Company's substantial shareholders and management. The nomination was proposed by API members\*.
- Charles Emmitt Ryan**, an expert in finance, a founder of UFG (a Russian investment bank); member of the Board of Directors and co-owner of UFG Asset Management; member of the Board of Directors of Yandex, Trans-Siberian Gold and other companies.  
No conflict of interest, the candidate meets the applicable independence criteria, not affiliated with the Company's substantial shareholders and management. The API Board members noted his current membership in 16 Boards of Directors and advisory boards. The nomination was proposed by representatives of VTB Group\*.
- Paul Michael Foley**, an industry expert, the founder and managing partner of Foley Retail Consulting GmbH with more than 40 years of experience in the retail sector; an independent director at GIPPO Belarus, a non-executive director at VOLI Retail Montenegro, a member of the Supervisory Board of AHT Cooling.  
Based on the candidate's answers to the questions, he cannot be recognized as an independent candidate because of his affiliation with the Company. In 2017, the amount of the company's contracts for consulting services provided to PJSC Magnit accounted for more than half of the remuneration paid to a Board member of Magnit\*\*. The nomination was proposed by representatives of VTB Group\*.
- Gregor William Mowat**, an expert in financial services; Director, partner and managing partner of KPMG (Kazakhstan and Central Asia, Thailand, Korea) from 2003 to 2015; member of the Board of Directors and Audit Committee Chairman at Nordgold; co-founder of a fintech company.  
No conflict of interest, the candidate meets the applicable independence criteria, not affiliated with the Company's substantial shareholders and management. According to the API Board members, his skills are less useful to PJSC Magnit under current conditions compared with other candidates. The nomination was proposed by representatives of KPMG following a related request by representatives of VTB Group\*.
- Alexander Shevchuk**, an expert in corporate governance, executive director of the Association of Institutional Directors (API), with more than 13 years of experience in serving on Boards of Directors of Russian public companies and representing shareholders' interests in their engagement with principal shareholders, management teams and Board members.  
No conflict of interest, the candidate meets the applicable independence criteria, not affiliated with the Company's substantial shareholders and management.

\*This wording summarizes the candidate's answer to the question "Who offered you to become a candidate to the Board of Directors and why?" asked by the API Board members.

\*\* According to the 2014 Corporate Governance Code and the Moscow Exchange Listing Rules (annex 1, clause 4 sub-clause 4), a person receiving from a company and/or its controlled entities remuneration and/or other material benefits exceeding half of the annual (base) fixed remuneration paid to a member of the company's Board of Directors in any of the last three years should be recognized as affiliated with that company.

Based on the results of consideration by the API Board members of all the presented candidates and given the need to select only 4 independent candidates, the API Board members voted for the following list:

1. Oleg Zherebtsov
2. Evgeny Kuznetsov
3. Alexander Prisyazhnyuk
4. Alexander Shevchuk

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For questions and/or comment, please contact us at: +7 (495) 510-5306 or via email: [polovnev@api-russia.org](mailto:polovnev@api-russia.org).