

Remuneration Report

This report has been prepared by the Supervisory Board of X5 Retail Group N.V. (the “Company”) in accordance with the Dutch Corporate Governance Code. It contains the remuneration policy of the Management Board of the Company (the “Remuneration Policy”) as well as the remuneration specifics of both the Management Board and the Supervisory Board for the financial year 2009. This report also addresses the way in which the Remuneration Policy will be pursued for the financial year 2010 and beyond.

NOMINATION AND REMUNERATION COMMITTEE

Apart from its responsibilities in the area of selection, appointment and assessment of the Management Board and Supervisory Board members, the Nomination and Remuneration Committee (the “Committee”) is responsible for:

- Preparing proposals for the Supervisory Board concerning the remuneration policy for the Management Board to be adopted by the General Meeting of Shareholders;
- Preparing proposals concerning the remuneration of individual members of the Management Board.

In carrying out its work in the area of remuneration, the Committee also takes into account the assessment and remuneration of the senior management reporting to the Management Board (the “Executive Board”) and the remuneration climate in general within the Company.

In 2009 the Committee engaged in a thorough review of remuneration, as follows:

- An independent salary survey of senior management of companies comparable with X5, based on distinct principles, in order to benchmark short and long term remuneration components, respectively, against the market;
- A defined set of allocation principles with respect to options granted under tranche 4 of the ESOP based on, inter alia, a newly introduced “Hay” function grading structure;
- A review, in the context of the annual performance targets, of how such targets contribute to the achievement of the short-term and long-term objectives of the Company;
- A definition of the principles and framework of the Company’s next generation long-term incentive plan, given that the final tranche of options under the current Employee Stock Option Programme was granted in 2009. The decision-making process for the next generation long term incentive plan included a comparative scenario analysis of different LTI arrangements currently in the market, their impact on the remuneration, motivation and retention of the individual members of the Management Board and senior management as well as the impact on the achievement of the Company’s long-term objectives.

This review, including further alignments with the Dutch Corporate Governance Code, will result in an amended policy that shall be submitted to the 2010 Annual General Meeting of Shareholders.

The Committee prepares its proposals independently after careful consideration, including taking into account the advice of independent advisors. In 2009, external advisors were engaged to provide advice regarding current market practices and developments relating to remuneration, and the next generation long term incentive plan in particular. These advisors do not advise the members of the Management Board personally on their remuneration.

The current members of the Nomination and Remuneration Committee are Stephan DuCharme (chairman), Hervé Defforey, Vladimir Ashurkov and Alexander Tynkovan.

CURRENT REMUNERATION POLICY

The 2007 Annual General Meeting of Shareholders adopted the Remuneration Policy 2007, which was amended and adopted in 2008 to reflect the further developments and insights gained in this area.

The objective of the Remuneration Policy is twofold:

- to create a remuneration structure that will allow the Company to attract, reward and retain qualified executives who will lead the Company in achieving its strategic objectives; and
- to provide and motivate these executives with a balanced and competitive remuneration.

The remuneration structure of the members of the Management Board may include four elements: base salary, annual incentive (cash bonus), long-term incentive (stock options and/or equity linked instruments), and other arrangements. The remuneration structure mirrors short-term and long-term elements of the responsibilities of members of the Management Board.

Upon proposal of the Remuneration Committee, and if in the interest of the Company, the Supervisory Board may at its own discretion deviate from the Remuneration Policy when offering a remuneration package to a newly appointed member of the Management Board or when amending the remuneration package of a current member of the Management Board, in the event of exceptional circumstances or if deemed appropriate.

Base Salary

Base salaries are specified in the individual contracts with members of the Management Board and reflect competence and responsibilities of a member of the Management Board, the relevant experience of a member of the Management Board, and other factors. The levels of base salaries are determined by (i) benchmarking with industry peers of comparable size and complexity, operating in comparable geographical areas; and (ii) the specific responsibilities and achievements of the individual member of the Management Board. The annual review date for the base salary is December 31.

Annual Incentive (Cash Bonus)

As a general rule, in accordance with the Remuneration Policy adopted in 2007, and amended and adopted in 2008, the annual performance bonus has an on-target level of 100% of the base salary, to be increased, upon proposal of the Committee and approval of the Supervisory Board, by a maximum of 50% of the base salary subject to extraordinary performance. Upon proposal of the Nomination and Remuneration Committee, and if in the interest of the Company, the Supervisory Board may deviate from the Remuneration Policy and further increase the annual performance bonus in the event of exceptional circumstances or if deemed appropriate.

The bonus scheme for the members of the Management Board rewards both financial performance (quantitative corporate indicators) and mission-related performance, including personal key objectives. Performance criteria are specified in advance for each Management Board member. Financial performance targets are determined from time to time by the Supervisory Board and include net sales and EBITDA. The mission-related performance targets, financial and non-financial, for each member of the Management Board consist of a limited number of personal objectives that may include targets related to divisional performance, mission-related or key project-related targets, as well as qualitative behavioral targets. Both the corporate and personal performance measures are considered success factors for the Company in the short term, while also contributing to the achievement of the long-term objectives of the Company, including in particular building out and strengthening the Company's leading position in the Russian retail sector. X5 does not disclose the actual targets set, as this qualifies as commercially sensitive information.

Long Term Incentive: Employee Stock Option Programme

In order to align the objectives of the Management Board and other key employees with the longer term value-creation objectives of shareholders, members of the Management Board and other key employees are granted options under the Company's Employee Stock Option Programme (the "ESOP"). The ESOP was approved by the General Meeting of Shareholders on 15 June 2007. The options granted under the ESOP each confer the right to a number of Global Depositary Receipts ("GDRs"), each GDR representing one fourth of an ordinary share of Euro 1 par value in the capital of the Company. The aggregate number of GDRs, for which options may be granted under the ESOP, amounts to 11.261.264 GDRs, which number is within the limit approved by the General Meeting of Shareholders on 15 June 2007 (i.e. 5% of the issued share capital of the Company). The options are granted in four tranches issued over a period of three years (2007 through 2009). The options outstanding are conditional upon employment with the Group. The number of options that are granted to Management Board members and key employees are linked to pre-determined criteria of participation in the program, based on the level of responsibility within the Company.

Other Remuneration Components

A number of other arrangements may be offered to members of the Management Board, such as expense and relocation allowance, medical insurance and accident insurance. The Company's policy does not allow personal loans and guarantees to members of the Management Board. The Company does not provide for pension arrangements in favor of members of the Management Board.

Severance Payment

The severance payment is in principle limited to a maximum of one year's base salary (the "fixed" remuneration component) of the relevant member of the Management Board. The Supervisory Board reserves the right to agree to a different amount should individual circumstances require this.

Contracts of Employment

The members of the Management Board have a written contract of employment with X5 Retail Group N.V. in The Netherlands and/or its operational Russian subsidiaries. The fixed and variable salary components stipulated in each employment contract reflect the relevant responsibilities of each member of the Management Board in The Netherlands and Russia.

The current members of the Management Board are employed and appointed for a four-year period, in accordance with the Dutch Corporate Governance Code. For future new appointments to the Management Board, the term of the contract is also set at four years.

REMUNERATION 2009

Management Board Remuneration

As announced in the Remuneration Report for the financial year 2008, starting in 2009 the short term compensation payable to the members of the Management Board by the operational Russian subsidiaries is denominated in Russian Rubles. The conversion was made by applying the USD/RUR exchange rate of 1 January 2009 (USD 1 = RUR 33) to the 2008 salaries of the CEO and the CFO.

In the context of the global financial and economic crisis, 2008 base salaries (in Russian Rubles) were maintained in 2009 throughout all levels of the Company, including the Management Board. In addition, no salary indexation was applied.

In 2009 the Supervisory Board reviewed the annual cash incentive policy for members of the Management Board and senior management. It was resolved that in 2009, 60% of the bonus opportunity at target level related to quantitative corporate targets and 40% to mission-related performance, including personal key objectives. For the year ended 31 December 2009 the Management Board was entitled to a total short term compensation of USD 5,326,668 (2008: USD 5,932,441).

In 2009, the members of the Management Board were granted 1,100,625 options under the ESOP.

On 30 November 2009 the CEO exercised 810,000 options granted under tranche 1 of the ESOP. At 31 December 2009 the total outstanding number of options amounted to 3,021,250 options (31 December 2008: 2,730,625 options). The intrinsic value⁽¹⁾ of the outstanding options at 31 December 2009 was USD 22,589,044 (31 December 2008: nil).

Specification of the fixed and variable cash remuneration of the Management Board for the financial year 2009:

Amounts in USD	Base Salary 2009	Cash bonus 2009 ⁽²⁾
L. Khasis	2,122,301	1,456,352
E. Kornilov	865,640	520,126
F. Lhoëst	278,653	83,596

All amounts are paid in either Russian Rubles or Euro and converted to USD for reporting purposes, using the average USD rate for 2009 to convert RUR amounts into USD, and average cross-rate EUR/USD for amounts paid in Euro. The rates are available in Note 2 to the consolidated financial statements included in this Annual Report.

Supervisory Board Remuneration

In the reporting year, the total remuneration of the Supervisory Board amounts to EUR 855,209 or USD 1,197,294 (2008: USD 860,993).

In 2009 the members of the Supervisory Board were granted 123,750 options under the ESOP.

⁽¹⁾ Intrinsic value is calculated as a difference between the exercise price of the option and the market quote of the underlying GDR as at the end of respective reporting period multiplied by number of options.

⁽²⁾ Bonus for the performance of the year reported and paid in cash in 2010.

On 11 December 2009, Mr. Criado-Pérez Trefault exercised 20,000 options granted under tranche 2 of the ESOP. Furthermore, in connection with his resignation as per 1 January 2010, Mr. Criado-Pérez Trefault waived his entitlement to options granted under the fourth tranche of the ESOP in exchange for a cash settlement in the gross amount of USD 200,000.

The total outstanding number of options amounted to 166,250 options (31 December 2008: 83,750 options). The intrinsic value of the options at 31 December 2009 was USD 1,843,975 (31 December 2008: nil).

Specification of the cash remuneration of the Supervisory Board for the financial year 2009:

Amounts in USD	Remuneration 2009	
Hervé Defforey (Chairman)	167,192	
Mikhail Fridman	69,663	
Alexander Savin	49,873	Resigned as per 17 September 2009
Vladimir Ashurkov	104,495	
David Gould	104,495	
Carlos Criado-Pérez Trefault	367,192	Includes remuneration (167,192) and cash settlement (200,000) in connection with resignation as per 1 January 2010
Alexander Tynkovan	167,192	
Stephan DuCharme	167,192	
Total	1,197,294	

All remuneration amounts are paid in Euro and converted to USD for reporting purposes, using the average cross-rate EUR/USD. The rate is available in Note 2 to the consolidated financial statements included in this Annual Report.

Stock Options

In 2009 the Committee proposed an extension of the exercise period of options granted under tranches 2, 3 and 4 up to four and a half years from the grant date of each respective tranche. These adjustments, aimed at preserving and optimizing the long-term incentive character of the ESOP, were approved at the Annual General Meeting of Shareholders in June 2009.

As a result, participants of the ESOP can exercise their options granted under the first, second, third and fourth tranches over the period from vesting until 19 November 2010, 16 December 2011, 20 November 2012 and 20 November 2013, respectively, at any time except during black-out periods defined by the Company's Code of Conduct with regard to Insider Trading.

In 2009 the fourth tranche of options under the ESOP was granted in accordance with the approved ESOP allocation principles. The vesting date for these options is 19 May 2010. Details of options held by members of the Management Board and Supervisory Board are set forth below.

	Granted in 2007	Granted in 2008	Granted in 2009	Tranche	Vesting date	Value per vesting date ⁽¹⁾	Exercised in 2009	Position 31 December	Exercise price ⁽²⁾	GDR price on exercise date	Expiration date
L. Khasis	810,000			1	15/06/2007	\$9,720,000	810,000		\$15.96	\$29.00	19/11/2010
	810,000			2	18/05/2008	\$8,237,700		810,000	\$28.58		16/12/2011
		860,625		3	19/05/2009	nil		860,625	\$33.43		20/11/2012
			860,625	4	19/05/2010			860,625	\$13.91		20/11/2013
E. Kornilov	30,000			2	18/05/2008	\$305,100		30,000	\$28.58		16/12/2011
		220,000		3	19/05/2009	nil		220,000	\$33.43		20/11/2012
			220,000	4	19/05/2010			220,000	\$13.91		20/11/2013
F. Lhoëst			20,000	4	19/05/2010			20,000	\$13.91		20/11/2013
Total Management Board			1,100,625					3,021,250			
H. Defforey	10,000			1	15/06/2007	\$120,000			\$15.96		19/11/2010
	20,000			2	18/05/2008	\$203,400			\$28.58		16/12/2011
		42,500		3	19/05/2009	nil		42,500	\$33.43		20/11/2012
			70,000	4	19/05/2010			70,000	\$13.91		20/11/2013
C. Criado-Pérez Trefault	20,000			2	18/05/2008	\$203,400	20,000		\$28.58	\$33.20	16/12/2011
		21,250		3	19/05/2009	nil		21,250	\$33.43		20/11/2012
			21,250	4	19/05/2010			Cash settlement	\$13.91		20/11/2013
S. DuCharme			32,500	4	19/05/2010			32,500	\$13.91		20/11/2013
Total Supervisory Board			123,750					166,250			

⁽¹⁾ Intrinsic value (GDR closing price per 15 June 2007: USD 30.00; 19 May 2008: USD 38.75; 19 May 2009: USD 15.18; exercise price tranche 1 on 15 June 2007, i.e. before adjustment in 2008: USD 18.00).

⁽²⁾ The exercise price, before adjustment, of the options under the first tranche is defined as the share price at the date of the merger between Pyaterochka Holding N.V. and Perekrestok Holdings Limited on 16 May 2006.

The exercise price, before adjustment, of the options under the second tranche is defined as the price equal to the Average Market Value (as defined below) per Depositary receipt as of 18 May 2007.

The exercise price of the options under the third and fourth tranche is defined as the price equal to the Average Market Value (as defined below) per Depositary Receipt as of the grant dates 19 May 2008 and 19 May 2009 respectively.

The Average Market Value is defined as 'on any particular day the volume weighted average price of a Depositary Receipt over the 30 immediately preceding calendar days. The volume weighted average price is calculated using the closing price of a Depositary Receipt taken from the Official List of the LSE'.

REMUNERATION POLICY IN 2010 AND BEYOND

In 2009 the Remuneration Policy as described in this report was applied, including taking into account the new ratio between qualitative and quantitative performance criteria for determining the annual cash incentive (as described in the previous section of this Report).

In 2010 the Company will finalize the development of its next generation long term incentive plan which, together with any further material changes to the Remuneration Policy in alignment with the Dutch Corporate Governance Code, will be submitted for approval to the 2010 Annual General Meeting of Shareholders. The next generation long term incentive plan will consist of performance shares with a three year vesting period for a select group of the most senior managers. In parallel, a deferred bonus program for a wider group of senior managers will be implemented. A full description, including performance criteria, will be set out in the Remuneration Policy 2010.

Furthermore, in an effort to create more consistency in the remuneration principles of the Supervisory Board and to adequately reflect the responsibilities and work-load of each Supervisory Board member, the Supervisory Board proposed the following new remuneration principles for its members in 2009:

- Supervisory Board membership: EUR 100,000
- Chairman of Audit Committee, Strategy Committee, Nomination and Remuneration Committee: EUR 200,000 (including remuneration for Supervisory Board membership)
- Chairman of the Supervisory Board: EUR 250,000 (including remuneration for Supervisory Board membership)

On 15 January 2010, these remuneration principles were approved by the General Meeting of Shareholders, with effective date 1 January 2010.

The Supervisory Board

8 April 2010