

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') (section A) as well as the remuneration specifics of both the Management Board and the Supervisory Board for the financial year 2008 (section B). This report will also address the way in which the Remuneration Policy will be pursued for the financial year 2009 and beyond (section C).

The Supervisory Board determines the remuneration of the individual members of the Management Board, on a proposal by the Remuneration Committee, within the scope of the Company's Remuneration Policy. The current members of the Remuneration Committee are Stephan DuCharme (chairman), Hervé Defforey, Vladimir Ashurkov, Carlos Criado-Pérez Trefault and Alexander Tynkovan.

A. Remuneration Policy

The 2007 Annual General Meeting 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:

- a. 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
- b. 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 with a maximum of 50% of the base salary subject to extraordinary achievement and qualitative performance in relation to the specific responsibilities of the Management Board member. Upon proposal of the 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.

Performance criteria are specified in advance per Management Board member. They mainly consist of quantitative criteria related to the performance of the Company which are determined from time to time by the Supervisory Board and include net revenues and EBITDA. These performance measures are

considered success factors for the Company in the short term. The specific targets related to the financial performance measures can not be disclosed as these qualify as commercially sensitive information. Performance criteria also include qualitative targets that are relevant to the responsibilities of an individual Management Board member.

Long Term Incentive: Employee Stock Option Plan

In 2007 the Company launched its long term incentive plan for key employees and members of the Management Board through its Employee Stock Option Plan (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 Depository 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.

Severance Payment

The severance payment is in principle limited to 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.

B. Remuneration 2008

Management Board Remuneration

On January 18, 2008 the Annual General Meeting accepted the resignation of Vitaliy Podolskiy as CFO of the Company as per 1 January 2008, and appointed Evgeny Kornilov as his successor.

As announced in the Remuneration Report for the financial year 2007, the USD denominated base salary of the CEO was increased to USD 2.000.000 in line with compensation levels in peer group companies. The level of short term incentive for the reporting year 2008 is determined at the 'on target' policy level of 100% of the base salary for the CEO and CFO, and 25% for the Company Secretary.

For the year ended 31 December 2008 the Management Board was entitled to a short term compensation of USD 5.932.441 (2007: USD 7.389.666). In 2008 the members of the Management Board were granted 1.080.625 share options under the ESOP. The total outstanding number of options amounted to 2.730.625

options (31 December 2007: 1.650.000 options). All options were outstanding as at the end of 2008. The intrinsic value¹ of the options at 31 December 2008 was zero (31 December 2007: USD 19.610.000).

Specification of the fixed and variable cash remuneration of the Management Board for the financial year 2008

Amounts in USD	Base salary	Cash Bonus	
L. Khasis	1.973.493	2.000.000	
E. Kornilov	806.323	800.000	Appointed 18 January 2008
F. Lhoëst	282.100	70.525	
Total	3.061.916	2.870.525	

All amounts are paid in either Russian Rubles or Euro and converted to USD for reporting purposes, using the average USD rate for 2008 to convert RUR amounts into USD, and year-end 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

The remuneration principle of the Supervisory Board, as approved at the General Meeting of Shareholders on October 16, 2006, was amended and approved at the General Meeting of Shareholders on November 5, 2007 as follows:

- Chairman of the Board: EUR 24.000 per meeting of the Supervisory Board with a minimum of EUR 120.000 per year;
- Board members who chair one or more committees: EUR 75.000 per year;
- Board members who chair no committee: EUR 50.000 per year;
- Independent Board members: EUR 120.000 per year;
- Independent Board members may be granted options.

In the reporting year, the total remuneration of the Supervisory Board amounts to EUR 610.416 or USD 860.993 (2007: USD 827.105). In 2008 the members of the Supervisory Board were granted 63.750 share options under the ESOP. The total outstanding number of options amounted to 83.750 options (31 December 2007: 50.000 options). The intrinsic value of the options at 31 December 2008 was zero (31 December 2007: USD 185.000).

Specification of the cash remuneration of the Supervisory Board for the financial year 2008

Amounts in USD	Remuneration 2008	
Hervé Defforey (Chairman)	169,260	
Mikhail Fridman	70,525	
Alexander Savin	70,525	
Vladimir Ashurkov	105,788	
David Gould	105,788	
Alexander Kosiyanenko	8,816	Resigned 13 February 2008
Tatyana Franus	20,569	Resigned 23 April 2008
Andrey Rogachev	20,569	Resigned 11 April 2008
Carlos Criado-Pérez Trefault	169,260	
Alexander Tynkovan	91,683	Appointed 16 June 2008
Stephan DuCharme	28,210	Appointed 29 October 2008
Total	860,993	

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

The remuneration amounts are presented on a pro rata basis, subject to appointment or resignation during the year. All remuneration amounts are paid in Euro and converted to USD for reporting purposes, using the year-end cross-rate EUR/USD. The rate is available in Note 2 to the consolidated financial statements included in this Annual Report.

Stock Options

During the reporting year the Supervisory Board took measures to neutralize the effects of the Company's Rights Offering in May 2008. As a result the exercise price of options granted under the first tranche was adjusted from USD 18,00 to USD 15,96 and the exercise price of options granted under the second tranche was adjusted from USD 30,62 to USD 28,58. Furthermore, the General Meeting of Shareholders approved an increase of the number of GDRs in respect of which options may be granted under tranches 3 and 4 of the ESOP from 6.991.008 GDRs to 7.428.264 as a result of which the total number of GDRs in respect of which options may be granted under the ESOP increased to 11.261.264 GDRs.

During the second half of the financial year 2008 the GDR price dropped significantly as a result of the global financial crisis and its impact on the Russian economy. In an effort to preserve and optimize the long-term incentive character of the ESOP, the Supervisory Board resolved to propose to the General Meeting of Shareholders to extend 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.

In 2008 the third tranche of options under the ESOP was granted. The vesting date for these options is 19 May 2009. Details of stock options held by members of the Management Board and Supervisory Board are set forth below.

	Granted in 2008	Tranche	Exercised in 2008	Position Dec. 31, 2008	Exercise price	Share price on exercise date	Expiration date
L. Khasis		1		810.000	\$15,96		19-11-2010
		2		810.000	\$28,58		16-12-2011
	860.625	3		860.625	\$33,43		20-11-2012
E. Kornilov		2		30.000	\$28,58		16-12-2011
	220.000	3		220.000	\$33,43		20-11-2012
Total Management Board	1.080.625			2.730.625			
H. Defforey		1	10.000		\$15,96	\$30,00	19-11-2010
		2	20.000		\$28,58	\$30,00	16-12-2011
	42.500	3		42.500	\$33,43		20-11-2012
C. Criado-Pérez Trefault		2		20.000	\$28,58		16-12-2011
	21.250	3		21.250	\$33,43		20-11-2012
Total Supervisory Board	63.750			83.750			

*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 tranche is defined as the price equal to the Average Market Value (as defined below) per Depositary receipt as of the grant date 19 May 2008.

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'

Insurance and Indemnity Arrangements

Members of the Management Board and Supervisory Board, as well as certain senior management members, are insured under X5's Directors and Officers Insurance Policy. Although the insurance policy provides for a wide coverage, X5's directors and officers may incur uninsured liabilities.

During the reporting year the Supervisory Board proposed that members of the Management Board, as well as members of senior management, may be indemnified by the Company against any claims arising out of or in connection with the general performance of their duties, provided that such claim is not

attributable to gross negligence, willful misconduct or intentional misrepresentation by such director or officer.

As the granting of an indemnity by the Company is to be considered as an additional element of remuneration, not covered by the current Remuneration Policy, approval of the General Meeting of Shareholders was obtained on 16 June 2008. In addition, the General Meeting of Shareholders approved the indemnity arrangements to be granted by the Company to members of the Supervisory Board.

C. Remuneration Policy in 2009 and beyond

As a consequence of the global financial crisis and its impact on the Russian economy, the design and structure of the variable remuneration (cash bonus and long term incentive scheme) will be subject to a review and scenario analyses to be performed by the Remuneration Committee in the course of 2009, taking into account all factors relevant to the long-term objectives of the Company. Also, starting 2009 the short term compensation payable to the members of the Management Board by the operational Russian subsidiaries will be denominated in Russian Rubles.

Any material changes to the Remuneration Policy as described in Section A of this report will be submitted for approval to the General Meeting of Shareholders.

On 10 December 2008 the Dutch Corporate Governance Code Monitoring Committee presented an amended Corporate Governance Code which becomes effective from the financial year starting on 1 January 2009 (the 'Revised Code'). The Remuneration Committee is currently reviewing the revised remuneration requirements for the Management Board as set forth in section II of the Revised Code which are relating to (i) the level and composition of the remuneration, and (ii) the determination and disclosure of remuneration. The Company will report on its compliance with the Revised Code in its annual report and Remuneration Report for the year ended 31 December 2009.

The Supervisory Board
9 April 2009