



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 2010. This report also addresses the way in which the Remuneration Policy will be pursued for the financial year 2011 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.

The Committee prepares its proposals independently after careful consideration, including taking into account the advice of independent advisors, when necessary. 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 Mr. Stephan DuCharme (chairman), Mr. Hervé Defforey, Mr. Vladimir Ashurkov and Mr. Alexander Tynkovan.

Current Remuneration Policy

X5’s Remuneration Policy for the Management Board was reviewed in 2009 in view of further developments and insights gained in this area, against the background of the Dutch Corporate Governance Code, as revised on 10 December 2008. The amended policy was adopted by the General Meeting of Shareholders on 25 June 2010.

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 balance short-term operational performance with the long-term objectives of the Company and value creation for its shareholders, with due regard for the risks to which variable remuneration may expose the Company.

The remuneration structure of the members of the Management Board includes four elements: base salary, annual cash incentive (performance-based cash bonus), long-term incentive (performance-based equity instrument), and other arrangements.



Upon proposal of the Nomination and 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.

The Supervisory Board resolved that the Remuneration Policy shall equally apply to members of the Executive Board.

Benchmarking with Industry Peers

As a company with operations mainly in Russia, however, with international exposure due to its governance structure and listing on the London Stock Exchange, distinct benchmarking is applied to X5 base salaries as well as variable salary components. Base salaries are benchmarked against mainly Russian peers while variable salary components, including long-term incentive elements, are benchmarked against western peers as well. More specifically, the peer groups are currently composed of (i) major Russian companies, equivalent in terms of size, complexity of operations and corporate governance, operating in different sectors of the economy and (ii) multinational companies in retail and fast moving consumer goods.

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, his/her relevant experience, and other factors. The levels of base salaries are determined by (i) benchmarking with industry peers, as described above, 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 Cash Incentive

The bonus scheme for the members of the Management Board rewards both quantitative corporate indicators and personal, mission-related, key objectives. Members of the Management Board receive an 'on target' bonus opportunity equal to 50% of their base salary for achieving quantitative corporate indicators and 50% of their base salary for achieving personal key objectives as set by the Supervisory Board. An additional 50% for 'stretch' performance is possible in case of extraordinary achievement.

The Supervisory Board sets the targets for the bonus scheme at the beginning of each financial (calendar) year. The quantitative corporate indicators include net sales and EBITDA, which are to be achieved cumulatively. The personal performance targets 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 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 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 were 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 granted to Management Board members and key employees were linked to pre-determined criteria of participation in the program, based on the level of responsibility within the Company.

Restricted Stock Unit Plan

The Company launched its next generation long-term incentive plan in 2010, in the form of a Restricted Stock Unit Plan (the "Plan"). The purpose of the Plan is to motivate and retain a small group of high-performance and high-potential senior executives while increasing the commitment of such participants to the business of X5 and promoting the alignment of their interests with those of the shareholders of the Company. The Plan was approved by the General Meeting of Shareholders on 25 June 2010.

Over a period of four calendar years starting 2010, the Plan provides for the annual grant of conditional rights to receive restricted stock units ('RSUs'), subject to (i) the achievement of specific performance criteria of the Group ('KPIs') and (ii) continuous employment with the Group until the completion of the vesting period. Up to one third of the conditional RSUs granted to the CEO, and up to one quarter of the conditional RSUs granted to other participants, will be subject to the employment condition only. Also members of the Supervisory Board may be granted conditional RSUs. These RSUs shall not be subject to performance criteria. The General Meeting of Shareholders determines the number of conditional RSUs granted to members of the Supervisory Board.

The number of conditional RSUs granted on any grant date shall in principle be based on 200% of each participant's annual base salary, divided by the average market value⁽¹⁾ of a GDR on the relevant grant date. On the first anniversary of each respective grant date, and based on the audited Company's financial results, the Supervisory Board shall evaluate whether the KPIs have been met. The actual number of RSUs subsequently awarded will depend on the level of achievement of the KPIs and will be 0%, 50% or 100% of the number of conditional RSUs granted, in addition to the RSUs granted subject to the employment condition only.

The KPIs mainly relate to (i) the performance of the Group compared to the performance of a selected group of (comparable) competitors in achieving sustained growth and an increasing presence in its markets of operation and (ii) without sacrificing the EBITDA of the Company.

All RSUs to be awarded are subject to a further two-year vesting period and the condition of continuous employment with the Group. The vesting dates of the RSUs awarded under the Plan shall therefore be 19 May 2013, 19 May 2014, 19 May 2015 and 19 May 2016. Upon vesting, the RSUs will be converted into GDRs registered in the participant's name, whereby each RSU is converted into one GDR. Subsequently, these GDRs are subject to a two-year lock-in period during which period the GDRs cannot be traded. As a result, any GDR acquired under a RSU awarded on (e.g.) 19 May 2011 shall not become freely transferable before 19 May 2015.

The Plan features standard "good leaver", "bad leaver" and accelerated vesting provisions in accordance with current international market practices for long-term incentive plans.

⁽¹⁾ The Average Market Value is defined as "on any particular day the volume weighted average price of a GDR over the thirty immediately preceding calendar days. The volume weighted average price is calculated using the closing price of a GDR taken from the Official List of the London Stock Exchange".



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, and life insurance, in accordance with general policies approved by the Supervisory Board. 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.

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 in 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.

The Supervisory Board may recover from the Management Board members any variable remuneration awarded on the basis of incorrect financial information. Furthermore, the Supervisory Board has the discretionary authority to adjust the value of variable pay components originally awarded if the outcome proves to be unfair as a result of exceptional circumstances during the performance period.

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 if required under individual circumstances.

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. 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. In addition, the General Meeting of Shareholders approved the indemnity arrangements to be granted by the Company to members of the Supervisory Board.

Remuneration 2010

Management Board Remuneration

In 2010 the base salary of a selected number of senior executives, including the CFO, was increased in line with compensation levels in peer group companies. Apart from this, and as in the preceding year, 2009 base salaries (in Russian Rubles) were maintained in 2010. In addition, no salary indexation was applied.

As described in the Corporate Governance Report on page 49, the composition of the Management Board changed substantially since the third quarter of 2010. On 29 September 2010 Mr. Evgeny Kornilov resigned as CFO of the Company. His successor, Mr. Kieran Balfe, was appointed by the General Meeting of Shareholders on 22 February 2011. Furthermore, on 10 March 2011 Mr. Lev Khasis resigned as CEO of the Company.



The Supervisory Board nominated Mr. Andrei Gusev as his successor, to be appointed by the upcoming Annual General Meeting of Shareholders in June 2011.

For the year ended 31 December 2010 the Management Board was entitled to a total short-term compensation of USD 3,402,025 (2009: USD 5,326,668).

Specification of the fixed and variable cash remuneration of the Management Board for the financial year 2010:

Amounts in USD	Base Salary 2010	Cash Bonus 2010 ⁽¹⁾	
Mr. Lev Khasis	2,213,063	0	Resigned 10 March 2011
Mr. Evgeny Kornilov	764,767	0	Resigned 29 September 2010
Mr. Frank Lhoëst	265,387	158,808	
Total	3,243,217	158,808	

⁽¹⁾ Bonus for the performance of the year reported and paid in cash in 2011.

Base salary amounts were paid in either Russian Rubles or Euro and converted to USD for reporting purposes, using the average USD rate for 2010 to convert RUR amounts into USD, and average cross-rate EUR/USD for amounts paid in Euro. Cash bonus amounts will be paid in either Russian Rubles or Euro and converted to USD for reporting purposes, using the closing USD rate for 2010 to convert RUR amounts into USD, and closing 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 1,170,000 or USD 1,552,514 (2009: USD 1,197,294).

Specification of the cash remuneration of the Supervisory Board for the financial year 2010:

Amounts in USD	Remuneration 2010
Mr. Hervé Defforey (Chairman)	331,734
Mr. Mikhail Fridman	132,694
Mr. Vladimir Ashurkov	132,694
Mr. David Gould	265,387
Mr. Alexander Tynkovan	159,232
Mr. Stephan DuCharme	265,387
Mr. Christian Couvreur	265,387
Total	1,552,514



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

Details of options held and options exercised in 2010 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 2010	Position 31 Dec. 2010	Exercise Price ⁽²⁾	GDR Price on Exercise Date	Expiration Date
Mr. Lev Khasis ⁽³⁾	810,000			2	18.05.2008	\$8,237,700		810,000	\$28.58		01.09.2011
		860,625		3	19.05.2009	nil		860,625	\$33.43		01.09.2011
			860,625	4	19.05.2010	\$16,515,394		860,625	\$13.91		01.09.2011
Mr. Evgeny Kornilov	30,000			2	18.05.2008	\$305,100	30,000		\$28.58	\$36.87	16.12.2011
		220,000		3	19.05.2009	nil	220,000		\$33.43	\$36.87	20.11.2012
			220,000	4	19.05.2010	\$4,221,800	220,000		\$13.91	\$32.52	20.11.2013
Mr. Frank Lhoëst			20,000	4	19.05.2010	\$383,800	20,000		\$13.91	\$34.00	20.11.2013
Total Management Board			1,100,625					2,531,250			
Mr. Hervé Defforey		42,500		3	19.05.2009	nil		42,500	\$33.43		20.11.2012
			70,000	4	19.05.2010	\$1,343,300		70,000	\$13.91		20.11.2013
Mr. Stephan DuCharme			32,500	4	19.05.2010	\$623,675		32,500	\$13.91		20.11.2013
Total Supervisory Board			102,500					145,000			

⁽¹⁾ Intrinsic value (GDR closing price per 19 May 2008: USD 38.75; 19 May 2009: USD 15.18; 19 May 2010: USD 33.10).

⁽²⁾ 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'.

⁽³⁾ Mr. Lev Khasis' employment contract terminates effective 1 June 2011. In accordance with the ESOP Rules, his vested options shall expire on 1 September 2011, three months after the employment termination date.



Restricted Stock Units

Details of conditional RSUs granted to members of the Management Board and Supervisory Board are set forth below:

	Tranche	Grant Date	Conditional RSUs Granted	RSU Value on Grant Date	Award Date	Vesting Date	End of Lock-Up Period
Mr. Lev Khasis ⁽¹⁾	1	19.05.2010	128,817	\$4,573,004	19.05.2011	19.05.2013	19.05.2015
Mr. Frank Lhoëst	1	19.05.2010	14,438	\$512,549	19.05.2011	19.05.2013	19.05.2015
Total Management Board			143,255	\$5,085,553			
Mr. Hervé Defforey	1	19.05.2010	9,024	\$320,352	19.05.2011	19.05.2013	19.05.2015
Mr. David Gould	1	19.05.2010	7,219	\$256,275	19.05.2011	19.05.2013	19.05.2015
Mr. Stephan DuCharme	1	19.05.2010	7,219	\$256,275	19.05.2011	19.05.2013	19.05.2015
Mr. Alexander Tynkovan	1	19.05.2010	4,331	\$153,751	19.05.2011	19.05.2013	19.05.2015
Mr. Christian Couvreur	1	19.05.2010	7,219	\$256,275	19.05.2011	19.05.2013	19.05.2015
Total Supervisory Board			35,012	\$1,242,926			

⁽¹⁾ Mr. Lev Khasis' employment contract terminates effective 1 June 2011. Consequently, two thirds of the number of RSUs to be awarded shall be forfeited, in accordance with the rules of the Restricted Stock Unit Plan.

Further details of the share based remuneration to managing and supervisory directors can be found in Notes 28 and 43 to the consolidated financial statements included in this Annual Report.

Remuneration Policy in 2011 and beyond

In 2010 the Remuneration Policy as described in this report was applied. Starting from the performance year 2011, the Supervisory Board proposes to adjust the reward mechanism for the annual cash incentive. In particular, it is proposed that the quantitative corporate indicators, including net sales and EBITDA, are no longer to be achieved cumulatively, but separately with equal

weight depending on the exact number of quantitative targets set. The proposed adjustment to the Remuneration Policy will be submitted for approval at the 2011 Annual General Meeting of Shareholders.

Apart from this, it is the intention that the current policy will in principle be continued in the next financial year and beyond.

The Supervisory Board

12 April 2011