Corporate Governance & Risk Management

Corporate Governance Report

As a Dutch public limited liability company whose Global Depositary Receipts are listed on the London Stock Exchange, X5 Retail Group N.V. is obliged to report on compliance with the Dutch Corporate Governance Code in its Annual Report and to explain any instances where it does not apply the principles or best practice provisions of the Code.

In accordance with the Code, a broad outline of the corporate governance structure of the Company is presented in this section, including any deviations from the Code's principles and best practice provisions. The Company adheres to the principles and best practice provisions of the Code as far as may be reasonably expected, while complying with local legislation and applying market practices in the countries in which the Company operates.

THE MANAGEMENT AND SUPERVISORY BOARDS

X5 Retail Group N.V. adopted a two-tier system of corporate governance, comprising a Management Board and a Supervisory Board. Both the Management Board and the Supervisory Board are accountable to the General Meeting of Shareholders for the performance of their duties.

Duties of the Management Board
The Management Board is responsible for X5's overall management. It is accountable for the Company's pursuit and achievement of corporate goals and objectives, its strategies and policies. The Management Board is responsible for complying with all relevant legislation and regulations, for managing the risks associated with the Company's activities, for financing and external communication. The Management Board is required to report related developments to, and discuss the internal risk management and control systems with the Supervisory Board and its Audit Committee.

Members of the Management Board
The Management Board currently consists of three members. The table below shows the current members of X5's Management Board and their respective terms of appointment.

Name	Year of Birth	Position	Year of Initial Appointment	End of Current Term of Appointment
Mr. Lev Khasis	1966	Chief Executive Officer, Chairman of Management Board	2006	2014
Mr. Evgeny Kornilov	1969	Chief Financial Officer	2008	2012
Mr. Frank Lhoëst	1962	Corporate Secretary	2007	2011

Lev Khasis, a Russian citizen, is the former Chairman of the Perekrestok Supervisory Board and a founding member of Investment Company Fosbourne, which invests in various businesses, including retail businesses in Russia. In addition to his activities at Perekrestok, Mr. Khasis previously held a number of senior board and management positions including Chairman of the Board of OJSC Trade House GUM, Chairman of the Board of OJSC Trade House TsUM and Chief Executive Officer of OJSC Samara Trading House. Mr. Khasis is a recognised business leader in Russia and has received a number of public awards including 2004 Businessman of the Year and 2003 Person of the Year in the Head of Retail Business category. For two consecutive years, in 2007 and in 2008, he was ranked Number 1 Retail Manager in a ranking by the National Association of Managers and Kommersant Publishing House.

Since February 2008 Mr. Khasis serves as Chairman of the Russian Association of Companies of Retail Trade (ACORT).

Mr. Khasis graduated from the Aircraft Construction Faculty of Samara Aircraft University, from the Banking Faculty of the Financial Academy of the Government of the Russian Federation and from the Law Faculty of the University of the Interior Ministry of the Russian Federation. He holds a PhD in Economics, Law and Technology.

Evgeny Kornilov, a Russian citizen, was appointed Chief Financial Officer of X5 on 18 January 2008. Mr. Kornilov was previously appointed as the Chief Financial Officer of Perekrestok in August 2006 and became the Deputy Chief Financial Officer of X5 in 2007. Prior to joining X5, Mr. Kornilov was the Chief Financial Officer and Chief Controller of SUN Interbrew in Russia and worked in the Management Consultancy and Audit Services practice of PricewaterhouseCoopers in Russia between 1992 and 1999. He graduated from the Moscow Foreign Affairs University with a degree in Economics, International Trade and Foreign Languages.

Frank Lhoëst, a Dutch citizen, was appointed a Director B and Corporate Secretary of X5 on 5 November 2007. Since 1991, Mr. Lhoëst has held several positions at Intertrust Group, from account manager in the Netherlands Antilles to founder and director of the Intertrust office in Vienna, Austria. In 2002, Mr. Lhoëst established the Intellectual Property Group of Intertrust in the Netherlands. Mr. Lhoëst graduated from the Leiden University with a degree in Law.

Duties of the Supervisory Board

The Supervisory Board is responsible for advising and supervising the Management Board and the general course of affairs of X5 and its businesses. In performing its duties, the Supervisory Board takes into account the relevant interests of the Company's stakeholders, and, to that end, considers all appropriate interests associated with the Company. Major business decisions require the approval of the Supervisory Board. The Supervisory Board also supervises the structure and management of systems of internal controls as well as the financial reporting process. The Supervisory Board meets at least four times per year.

Members of the Supervisory Board

The General Meeting of Shareholders determines the number of members of the Supervisory Board. The Supervisory Board currently consists of seven members, with one vacancy to be filled.

The Supervisory Board maintains a profile of its size and composition, which takes into account the nature of the Company's business and its activities and the desired expertise and background of the members of the Supervisory Board. The Supervisory Board generally aims for a diverse composition, but diversity is not a decisive factor when finding the most suitable candidate in line with the Supervisory Board profile. The Supervisory Board evaluates the profile annually.

According to the Rules governing the Principles and Practices of the Supervisory Board, a person may be appointed to the Supervisory Board for a maximum of three terms of four years. The Supervisory Board has prepared a Retirement and Re-appointment Schedule to prevent, to the greatest extent possible, re-appointments occurring simultaneously. Both the Supervisory Board profile and rotation plan can be viewed on the Company's website.

The table below shows the current members of the Supervisory Board and their respective terms of appointment.

Name	Year of Birth	Position	Year of Initial Appointment	End of Current Term of Appointment
Mr. Hervé Defforey	1950	Chairman	2006	2010
Mr. Mikhail Fridman	1964	Member	2006	2013
Mr. David Gould	1969	Member	2006	2010
Mr. Vladimir Ashurkov	1972	Member	2006	2012
Mr. Alexander Tynkovan	1967	Member	2008	2012
Mr. Stephan DuCharme	1964	Member	2008	2012
Mr. Christian Couvreux	1950	Member	2010	2014

Hervé Defforey, a French citizen, is a partner of GRP Partners, London and Los Angeles. He heads GRP Partners' European venture capital activities and serves on the boards of the following companies: IFCO Systems N.V. and Ulta, Corp., Chicago and Kyriba SA, Paris. Mr. Defforey formerly held positions at Carrefour, S.A. (Paris), Azucarera EBRO S.A. (Madrid), BMW A.G. (Munich) and graduated from the University of St. Gallen, Switzerland with a degree in Business Administration.

Mikhail Fridman, a Russian citizen, serves as Chairman of the Supervisory Board of Alfa Group and is one of Alfa Group's principal founders. He also serves as the Chairman of the Board of Directors of Alfa Finance Holdings S.A. and of TNK-BP and is a member of the Board of Directors of ABH Holdings S.A. (holding company for Alfa-Banking Group) and of VimpelCom. He is also a member of the International Advisory Board of the Council of Foreign Relations (USA). Mr. Fridman graduated from the Moscow Institute of Steel and Alloys.

David Gould, a U.S. citizen, has been serving as Deputy Director for Corporate Development, Finance and Control at Alfa Group Consortium since 2000. He also serves as a member of the Board of Directors of Alfa Finance Holdings S.A. and of ABH Holdings S.A. (holding company for Alfa-Banking Group). From 1992 to 2000, Mr. Gould held various positions at PricewaterhouseCoopers in Boston and in Moscow. He received his BA with honours from Colgate University in 1991 (concentration in Liberal Arts and minor concentration in Economics) and received his MBA-MS (Accounting) from Northeastern University in 1992. He qualified as a Certified Public Accountant in 1993 and as a Chartered Financial Analyst in 1999.

Vladimir Ashurkov, a Russian citizen, serves as Director of Group Portfolio Management and Control in Alfa Group. His main non-executive/ancillary positions include member of the Supervisory Board of Alfa Group, member of the Advisory Committee of Rosvodokanal, member of the Altimo Advisory Committee and member of the A1 Group Advisory Committee. Prior to joining Alfa Group, Mr. Ashurkov served as Vice President of Strategic Development in Industrial Investors Group (which owns the controlling stake in Far East Shipping Company) and gained experience in other transport and logistics companies and investment banks. Mr. Ashurkov graduated from the Moscow Institute of Physics and Technology with a Bachelor of Science (Physics) and from the Wharton School, University of Pennsylvania, with an MBA.

Alexander Tynkovan, a Russian citizen, is the founder and CEO of “M.Video”, a leading consumer electronics and home appliance retailer in the Russian Federation. Mr. Tynkovan graduated summa cum laude from the Moscow Energy Institute, majoring in Aircraft Electric Equipment.

Stephan DuCharme, a U.S. citizen, currently holds a portfolio of positions, including as member of the Investment Committee of Alfa Private Equity Partners, a Russian private equity fund. Previously, he held positions with SUN Group, Alfa Group, European Bank for Reconstruction and Development (EBRD) and Salomon Brothers Inc. Mr. DuCharme has served on the Boards of Directors of CSA Czech Airlines, Alfa Bank, SUN-Interbrew Ltd. and JSC SUEK. He graduated with distinction from the University of California at Berkeley and received his MBA from INSEAD.

Christian Couvreux, a French citizen, currently acts as a retail consultant in Asia, in particular, in Thailand, Vietnam, Indonesia and the Philippines. He formerly held several leadership positions at Group Casino, including the position of CEO from 1997 until 2003, as well as at CFAO (now part of PPR), in particular, of CFAO-Congo and La Ruche Meridionale. Mr. Couvreux holds a Master’s degree in Economic Sciences from the University of Paris and an MBA from the French business school H.E.C.

Committees of the Supervisory Board

While retaining overall responsibility, the Supervisory Board assigns certain tasks to its four permanent committees: the Audit Committee, the Nomination and Remuneration Committee, the Related Party Committee and the Strategy Committee. Each committee is composed of at least two members, at least one of whom must be independent within the meaning of the Dutch Corporate Governance Code. The members of each committee are appointed by and from the Supervisory Board. The committees operate pursuant to terms of reference established by the Supervisory Board, in accordance with the Dutch Corporate Governance Code. The terms of reference of these committees can be viewed on X5’s website.

Audit Committee. The Audit Committee assists the Supervisory Board in fulfilling its supervision and monitoring responsibilities in respect of the integrity of X5’s financial statements, system of internal business control and risk management, financing and finance related strategies and tax planning. It furthermore advises in respect of the appointment of the external auditor by the General Meeting of Shareholders and his remuneration.

Nomination and Remuneration Committee. The Remuneration Committee recommends the remuneration policy for the Management Board to be adopted by the General Meeting of Shareholders, prepares proposals to the Supervisory Board for remuneration of the individual members of the Management Board in line with the remuneration policy and advises the Management Board on the level and structure of compensation for other senior personnel. The Nomination and Remuneration Committee also advises in respect of the selection and appointment of members of the Supervisory Board and the Management Board. At least annually the Nomination and Remuneration Committee evaluates the size and composition of the Supervisory Board and the Management Board, as well as the functioning of the individual members, and reports the results of such evaluations to the Supervisory Board.

Related Party Committee. The Related Party Committee advises the Supervisory Board on handling and deciding on reported (potential) conflicts of interests and any other related party transactions which are contemplated between X5, on the one hand, and conflicted persons or entities, including but not limited to its shareholders, members of the Supervisory Board and members of the Management Board, on the other hand.

Strategy Committee. The Strategy Committee advises the Supervisory Board in respect of the general strategy of X5, including, but not limited to, the future direction to be taken by X5 as a whole and each of its affiliated businesses, overall growth and development strategy, mergers and acquisitions and financing strategy.

Composition of the Supervisory Board Committees

Name	Audit Committee	Nomination & Remuneration Committee	Related Party Committee	Strategy Committee
H. Defforey	Member	Member		Member
M. Fridman				
V. Ashurkov	Member	Member		Member
D. Gould	Chairman			
A. Tynkovan		Member	Chairman	Member
S. DuCharme		Chairman	Member	
C. Couvreux				Chairman

Appointment, Suspension and Dismissal

The General Meeting of Shareholders shall appoint the members of the Management and Supervisory Board from a list of nominees, containing names of at least two persons for each vacancy, to be drawn up by the Supervisory Board. The nomination by the Supervisory Board of the candidates is binding, and therefore the recommended candidate will be appointed by the General Meeting of Shareholders unless the nomination is deprived of its binding character by a qualified majority vote of at least two-thirds of the votes cast, representing more than one-half of the issued share capital of the Company. If the recommended candidate is rejected, the second nominee will be appointed unless similarly rejected by the General Meeting of Shareholders.

Supervisory Board members are appointed for a period of up to four years and may be re-elected twice. Members of the Management Board are also appointed for a period of four years. The Articles of Association do not limit the total term of office for Management Board members.

Each member of the Supervisory Board and Management Board may, at any time, be dismissed or suspended by the General Meeting of Shareholders. A member of the Management Board may at any time be suspended by the Supervisory Board. Such suspension may be discontinued by the General Meeting of Shareholders at any time.

Remuneration
The remuneration of the individual members of the Management Board will be decided by the Supervisory Board on the recommendation by the Nomination and Remuneration Committee of the Supervisory Board, based on the Company's Remuneration Policy. The remuneration of the members of the Supervisory Board is determined by the General Meeting of Shareholders.

The Remuneration Policy for members of the Management Board and Supervisory Board is incorporated in the Remuneration Report on page 72 and is available on the website of the Company.

Reporting on Conflicts of Interest
The Supervisory Board is responsible for deciding how to resolve conflicts of interest between members of the Management Board, members of the Supervisory Board and/or the external auditor on the one hand and the Company on the other hand.

A member of the Management Board or of the Supervisory Board is required to immediately report and provide all relevant information to the Chairman of the Supervisory Board (and to the other members of the Management Board, if it concerns a member of that board) on any conflict of interest, or potential conflict of interest, that he may have with the Company and that may be of material significance to him or the Company.

A decision by X5 to enter into a transaction involving a conflict of interest with a member of the Management Board or a member of the Supervisory Board that is of material significance to him or the Company requires the approval of the Supervisory Board and must be concluded on terms customary in the Russian retail sector. The Related Party Committee advises the Supervisory Board on the handling, and deciding on, reported conflicts of interest and prepares resolutions of the Supervisory Board in relation thereto.

In the event of legal proceedings between the Company and a member of the Management Board, the Company may be represented by a member of the Supervisory Board. In all other events in which a member of the Management Board has a conflict of interest with the Company, the Company may be represented by the Management Board, notwithstanding the discretionary power of the General Meeting of Shareholders to designate other person(s) to represent the Company upon execution of such a related party transaction.

SHAREHOLDERS AND THEIR RIGHTS

General Meeting of Shareholders
X5 Retail Group N.V. is required to hold a General Meeting of Shareholders within six months after the end of the financial year, among other things, to adopt the financial statements, to decide on any proposal concerning profit allocation and to discharge the members of the Management Board and Supervisory Board from their responsibility for the performance of their respective duties for the previous financial year.

Extraordinary meetings will be held as often as the Management Board or the Supervisory Board deems necessary. In addition, shareholders and holders of Global Depositary Receipts (GDRs) jointly representing 10% of the outstanding share capital may request the Management Board and the Supervisory Board that a General Meeting of Shareholders be held, stating their proposed agenda in detail.

The powers of the General Meeting of Shareholders are defined in the Articles of Association. Apart from the decisions taken at the Annual General Meeting of Shareholders, the main powers of the shareholders are to appoint (subject to the Supervisory Board's right of making binding nominations), suspend and dismiss members of the Management Board and Supervisory Board, to appoint the external auditor, to adopt amendments to the Articles of Association, to issue shares and grant subscriptions for shares, to authorise the Management Board or the Supervisory Board to issue shares and grant subscriptions for shares, to authorise the Management Board or the Supervisory Board to restrict or exclude pre-emptive rights of shareholders upon issuance of shares, to authorise the Management Board to repurchase outstanding shares of the Company, to adopt the remuneration policy of the Management Board, to determine the remuneration of members of the Supervisory Board, and to merge, demerge or dissolve the Company.

One or more shareholders or holders of GDRs representing at least 1% of X5's issued share capital or representing a value of EUR 50 million are entitled to propose items for the agenda of the General Meeting of Shareholders. Such proposals must be honoured by the Company provided that important Company interests do not dictate otherwise, and that the request is received by the Company at least sixty days before the date of the General Meeting of Shareholders.

General Meetings of Shareholders may only be held in Amsterdam, Haarlemmermeer (Schiphol Airport) or The Hague (the Netherlands). Notice of a General Meeting of Shareholders must be given to the shareholders and the holders of depositary receipts of shares no later than the fifteenth day before the date of the meeting and must include an agenda stating the items to be discussed during the meeting.

All shareholders and other persons who, pursuant to Dutch law or the Articles, are entitled to attend and/or vote at a General Meeting of Shareholders are entitled to address the General Meeting of Shareholders. X5 uses the Bank of New York Mellon, the depositary for X5's GDR facility, to enable GDR holders to exercise their voting rights represented by the shares underlying the GDRs. As described in the "Terms and Conditions of the Global Depositary Receipts", holders of GDRs may instruct the Depositary with regard to the exercise of the voting rights connected to the shares underlying their GDRs. Alternatively, upon request of the holders of such depositary receipts, the Depositary will grant a proxy to such holders who wish to vote in person at a General Meeting of Shareholders. Persons who hold a written proxy may represent shareholders at a General Meeting of Shareholders. The written proxy must be duly executed and legalised in accordance with the laws of the country where the proxy is issued.

Subject to the prior approval of the Supervisory Board, the Management Board may set a record date to establish which shareholders are entitled to attend and vote at the General Meeting of Shareholders.

Voting Rights

Each share confers the right to cast one vote at the General Meeting of Shareholders. There are no restrictions, either under Dutch law or in the Articles, on the right of non-residents of the Netherlands or foreign owners to hold or vote the shares, other than those also imposed on residents of the Netherlands. Resolutions of the General Meeting of Shareholders will be passed by a simple majority of the votes cast in a meeting where more than 25% of the issued share capital is present or represented. If 25% or less of the issued share capital is present or represented, a second meeting should be convened and held no later than four weeks following the first meeting. At such second meeting, no quorum requirement will apply. However, the General Meeting of Shareholders can only resolve on a merger or demerger with a majority of at least two/thirds of the votes cast, if less than fifty percent of the issued capital is represented in that meeting.

Dividend Rights

Any distribution of profits to shareholders will be made after the adoption by the General Meeting of Shareholders of the annual accounts of the Company from which it appears that such distribution is permitted. The Company may only declare profit distributions insofar as its net assets exceed the sum of its issued share capital plus any legal reserves required to be maintained pursuant to Dutch law and the Articles. A loss may only be applied against such reserves to the extent permitted by Dutch law. On a proposal of the Supervisory Board, the General Meeting of Shareholders will determine which part of the profits will be added to the reserves and the allocation of the remaining profits.

On a proposal of the Supervisory Board, the General Meeting of Shareholders may resolve to pay an interim dividend insofar as X5's net assets exceed the sum of its issued share capital and the reserves that are required to be maintained pursuant to Dutch law, as evidenced by an interim financial statement prepared and signed by all the members of the Management Board. In addition, on a proposal of the Supervisory Board, the General Meeting of Shareholders may resolve to make distributions to the shareholders out of any reserves that need not to be maintained pursuant to Dutch law.

Dividends and other distributions that have not been claimed within five years after the date on which they became due and payable revert to the Company.

Significant Ownership of Voting Shares

According to the Dutch Financial Markets Supervision Act *(Wet op het financieel toezicht)*, any person or legal entity who, directly or indirectly, acquires or disposes of an interest in X5's capital and/or voting rights must immediately give written notice to the Netherlands Authority for the Financial Markets ('AFM'), if the acquisition or disposal causes the percentage of outstanding capital interest and/or voting rights held by that person or legal entity to reach, exceed or fall below any of the following thresholds: 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%.

The following table lists the shareholders on record on 8 March 2010 in the AFM's public register that hold an interest of 5% or more in the share capital of the Company:

Shareholder	Date of disclosure	Capital interest and voting rights[1]
CTF Holdings Ltd.	2 August 2007	48.41%
Axon Trust	22 December 2009	11.43%
The Baker Trust	11 December 2009	8.42%

Securities Owned by Board Members

The members of the Management Board and Supervisory Board and X5's other senior management are subject to the Company's Code of Conduct with regard to Insider Trading, which contains rules of conduct to prevent trading in X5's Global Depositary Receipts of shares or other financial instruments when holding inside information. The Code of Conduct with regard to Insider Trading can be viewed on the Company's website.

The Code of Conduct includes a specific section on obligations of members of the Management Board to report to the Compliance Officer in case of changes in their holding of securities in any Dutch listed company, not being X5 securities, in accordance with the Dutch Corporate Governance Code.

[1] In accordance with the filing requirements the percentages shown include both direct and indirect capital interests and voting rights. Further details can be obtained at www.afm.nl.

Furthermore, under the Dutch Financial Markets Supervision Act, members of the Management Board and Supervisory Board shall notify the AFM of X5 securities and voting rights at their disposal. These positions can be viewed on the AFM's public register.

In addition, under the Disclosure and Transparency Rules in the United Kingdom, X5 must notify a Regulatory Information Service (RIS) of the occurrence of all transactions in X5 conducted –on their own account- and notified by members of the Management Board and Supervisory Board.

Repurchase by the Company of Its Own Shares
The Company may acquire fully paid shares, or depositary receipts thereof, in its capital for a consideration only following authorisation of the General Meeting of Shareholders and subject to certain provisions of Dutch law and the Company's Articles of Association, if:

- Shareholders' equity minus the purchase price is not less than the sum of X5's issued and fully paid-in capital plus any reserves required to be maintained by Dutch law or X5's Articles of Association; and

- X5 and its subsidiaries would not, as a result, hold shares or depositary receipts thereof with an aggregate nominal value exceeding half of the issued share capital.

The Management Board has been authorised to acquire up to 10% of the shares or depositary receipts thereof. This authorisation is valid through 12 December 2010. In addition, the Supervisory Board has resolved that in case a purchase of shares or depositary receipts thereof by X5 would lead to X5 holding more than 5% of the shares or depositary receipts thereof, the Management Board requires the Supervisory Board's prior approval for such purchase.

Authorisation by the General Meeting of Shareholders is not required if X5's own shares are acquired for the purpose of transferring those shares to X5 employees pursuant to any arrangements applicable to such employees.

Shares or depositary receipts thereof held by X5 or a subsidiary may not be voted on and are not taken into account for determining whether quorum requirements, if any, are satisfied.

Issue of New Shares and Pre-Emptive Rights
Shares in X5 may be issued, and rights to subscribe for shares may be granted, pursuant to a resolution of the General Meeting of Shareholders or another corporate body of X5 to which the General Meeting of Shareholders has delegated such authority for a time not exceeding five years. The General Meeting of Shareholders approved a delegation of this authority to the Supervisory Board, relating to the issuance and/or granting of rights to acquire up to 16,226,820 shares (23,90% of the issued share capital) through 12 December 2010.

Upon the issue of new shares, holders of X5's shares have a pre-emptive right to subscribe for shares in proportion to the aggregate amount of their existing holdings of X5's shares. According to the Company's Articles of Association, this pre-emptive right does not apply to any issue of shares to employees of X5 or a group company. Pre-emptive rights may be restricted or excluded pursuant to a resolution of the General Meeting of Shareholders or another corporate body of X5 to which the General Meeting of Shareholders has delegated such authority for a time not exceeding five years. The General Meeting of Shareholders has delegated the authority to restrict or exclude the pre-emptive rights of shareholders upon the issue of shares and/or the granting of rights to subscribe for shares to the Supervisory Board through 12 December 2010.

Articles of Association
X5's Articles of Association contain rules on organisation and corporate governance of the Company. The current text of the Articles of Association is available at the Trade Register of the Chamber of Commerce and Industry for Amsterdam and on X5's website.

Amendment of the Articles of Association of the Company requires a resolution of the General Meeting of Shareholders. The proposal to amend the Articles including the text of the proposed amendment must be made available to holders of shares and GDR holders for inspection at the offices of X5 as of the date of the notice convening the meeting of the General Meeting of Shareholders until the end of the meeting of the General Meeting of Shareholders at which the proposed amendment is voted on.

AUDITOR

The General Meeting of Shareholders appoints the external auditor upon nomination of the Supervisory Board. Both the Audit Committee and the Management Board make a recommendation to the Supervisory Board with respect to the external auditor to be proposed for (re)appointment by the General Meeting of Shareholders. In addition, the Audit Committee evaluates and, where appropriate, recommends the replacement of the external auditor. The Audit Committee also pre-approves the fees for audit and permitted non-audit services to be performed by the external auditor as negotiated by the Management Board. The Audit Committee shall not approve the engagement of the external auditor to render non-audit services prohibited by applicable laws and regulations or that would compromise their independence.

At least every four years, the Management Board, shall, together with the Audit Committee, thoroughly assess the functioning of the external auditor in the various entities and capacities in which the external auditor operates. The main conclusions of the assessment shall be notified to the General Meeting of Shareholders for the purpose of considering the nomination for the appointment of external auditor of the Company.

CORPORATE GOVERNANCE CODE

X5 is subject to the Dutch Corporate Governance Code (the "Code"), which came into effect on 1 January 2004. On 10 December 2008 the Dutch Corporate Governance Code Monitoring Committee (the "Committee") presented an amended Code, which became effective on 1 January 2009. The full text of the amended Code can be viewed on X5's website.

Some of the Code's best practice provisions have been incorporated into Dutch law, including the obligation for a listed company to state each year in its annual report how it applied the recommendations of the Code in the past financial year and to explain carefully, where applicable, why a provision was not applied in circumstances where the listed company departed from the recommendations of the Code.

X5's corporate governance policy with respect to the implementation of the Code was last discussed with its shareholders at the 2006 Annual General Meeting of Shareholders. Since then, there were no substantial changes in the corporate governance structure of the Company.

For the financial year 2009, the Committee has recommended that listed companies include a chapter in their annual report on the broad outline of their corporate governance structure and compliance with the amended Code and to present this chapter as a separate agenda item for discussion to the general meeting of shareholders in 2010. X5 follows this recommendation of the Committee.

X5 generally adheres to the Code, as amended, but does not comply with the following recommendations:

II.2.4: Grant of Options to Members of the Management Board
Pursuant to the Code, if a company grants options to its members of its management board, such grant should be subject to certain performance criteria and the options should not be exercisable within three years following the date of grant.

On 15 June 2007, the General Meeting of Shareholders approved the Company's Employee Stock Option Plan (the "ESOP"), under which options are granted to employees in four tranches over a period of three years with varying vesting periods. The vesting requirement of the programme is the continued employment of participants.

While the ESOP is considered long-term compensation for its participants, and the grant of options will be linked to pre-determined, measurable performance-based targets, X5 acknowledges that in terms of vesting period the ESOP deviates from the Code. However, since X5's operational activities are mainly based in the Russian Federation and Ukraine, and the grant of unconditional options with a shorter than three year vesting period was customary in these markets at the time the ESOP was designed (2007), it is important for X5 to deviate on this point from the Code in order to attract and reward the best professionals in these markets.

II.2.11: Claw-Back Clause
Pursuant to the Code, the supervisory board may recover from the management board members any variable remuneration awarded on the basis of incorrect financial or other data (claw-back clause).

X5 acknowledges that currently the contracts with the members of Management Board do not provide for a claw-back provision. The Supervisory Board will address this provision at the time of (re-)appointment of members of the Management Board.

II.2.14: Immediate Publication of Main Elements of Contracts with Members of the Management Board
Pursuant to the Code, the main elements of contracts with members of the management board should be made public following the entering into of such contracts but prior to the convening of the General Meeting of Shareholders where the relevant member is scheduled be appointed.

X5 acknowledges that on this point it has deviated from the Code. However, the main elements of the contracts with the members of the Management Board are included in the 2009 Remuneration Report, which will be made available on X5's website upon publication of the 2009 Annual Report. In 2010 the main elements of the contracts between X5 and its current Management Board members will be made public. Going forward such publication will take place no later than the date of the notice calling the meeting of the General Meeting of Shareholders where the (re-)appointment of Management Board members will be proposed.

II.3.4, III.6.3 and III.6.4: Disclosure of Transactions with Related Parties in the Annual Report
In accordance with the Code, transactions with members of the Management Board, Supervisory Board, or persons holding at least 10% of shares or depository receipts thereof in which there are significant conflicting interests will be published in X5's Annual Report. However, in deviation from the Code, a detailed statement of the relevant conflict of interest is not published if (i) this conflicts with the law, (ii) the confidential, share-price sensitive or competition-sensitive nature of the transaction prevents publication and/or (iii) the information is so competition-sensitive that the publication could damage X5's competitive position.

III.2.1: Independence of Members of the Supervisory Board
Pursuant to the Code, all, but one, of the members of the Supervisory Board must be independent.

Although the number of independent members of the Supervisory Board increased from two to four in 2008, three members of the Supervisory Board (i) have a substantial shareholder interest in X5 or (ii) are related to companies that are owned or controlled by companies that ultimately hold 10% or more of the shares or GDRs in X5. These members of the Supervisory Board are, therefore, not considered to be independent within the meaning of the Code. Mr. Defforey, Mr. Tynkovan, Mr. DuCharme and Mr. Couvreux are independent within the meaning of the Code.

X5 believes that the non-independent members of the Supervisory Board have an in-depth knowledge of the geographic market, of business in general and of food retail specifically in the markets in which X5 operates, which is of particular advantage to X5 and its stakeholders.

III.5: Committees of the Supervisory Board and Deviation from the Maximum of One Non-Independent Member of the Audit Committee
In July 2009, the Supervisory Board resolved to merge the Supervisory Board's Remuneration Committee and Selection and Appointment Committee to one "Nomination and Remuneration Committee" and accordingly X5 currently deviates from the Code, which requires these two committees to be separate. However, in light of the respective duties, responsibilities and composition of each of the Remuneration Committee and the Selection and Appointment Committee, and for reasons of practicality, X5 believes that it was in X5's best interest to merge these Committees.

In addition, X5 acknowledges that Mr. Gould and Mr. Ashurkov are non-independent members of the Audit Committee within the meaning of the Code whereas, pursuant to the Code, the terms of reference of each committee of the Supervisory Board may provide that a maximum of one member of each committee may not be independent. Considering Mr. Gould's and Mr. Ashurkov's financial expertise, and for reasons of continuity, X5 believes that it is in X5's best interest that Mr. Gould's and Mr. Ashurkov's membership of the Audit Committee be continued.

III.7.1: No Grant of Shares and Options to Members of the Supervisory Board
Pursuant to the Code, members of the Supervisory Board shall not be granted any shares and/or rights to subscribe for shares as remuneration for their membership of the Supervisory Board.

On 15 June 2007, 5 November 2007, 16 June 2008 and 15 January 2010 the General Meeting of Shareholders approved the granting of options to Mr. Defforey, Mr. Criado-Pérez Trefault and/or Mr. DuCharme, all of whom were members of the Supervisory Board at the respective grant dates. X5 acknowledges that such grants deviate from the Code. However, in order to attract and reward experienced individuals with a proven track record in the food retail industry, X5 believes it is necessary to grant stock options also to certain members of the Supervisory Board.

Risk Management & Internal Controls

This section provides an overview of X5's approach to risk management and internal controls in achieving its strategic objectives. ***Section 1*** describes the principal risks to which X5 is exposed as well as their mitigating factors, grouped into five categories: strategic, compliance (legal and regulatory), operational, financial and financial reporting risks. ***Section 2*** gives an overview of the system of internal control procedures and risk management techniques which are employed by management to manage and mitigate risk in an informed, controlled and transparent manner. This description covers all the components of the system of internal control and risk management determined by the Committee of Sponsoring Organisations (COSO) in its *Internal Control – Integrated Framework*: control environment, risk assessment, control activities, information and communication, monitoring.

SECTION 1: RISK PROFILE

Like any other entity X5 faces uncertainty in conducting its business. Uncertainty represents both risk and opportunity which are events, situations or possibilities that affect an entity's ability to achieve its objectives, maintain a good reputation and support value creation. The main challenge for any business is to develop appropriate controls and risk management techniques that would help to appropriately identify, assess, manage and mitigate the full set of risks facing the business. A properly functioning system will balance risks and opportunities helping the entity to achieve its objectives efficiently and effectively, which should ultimately enhance its value.

As a fast growing company operating in a developing market, exposed to a number of external risk factors related to a politically and economically changing environment, it is critical for X5's success to be able to utilise opportunities existing in the Russian food market. This requires the Company to constantly evaluate the risks related to operating in an unstable developing market environment and to accept a certain degree of economically justifiable risk. All these factors determine the Company's risk profile, and in particular its risk appetite, namely the level of risk required to achieve X5's active business expansion and growth.

The principal risks faced by the Company and relevant mitigating factors are presented below:

1. Strategic Risks

Business Strategy

We need to understand and properly manage strategic risks in order to deliver long-term profitable growth for the benefit of all of our stakeholders and secure and enhance X5's leadership in the Russian retail market.

In recent years, the growth in consumer demand in Russia has attracted new market participants and has produced an increasingly competitive environment. Despite the size and significant historical growth of the Russian food retail market it remains highly fragmented which poses both opportunities and challenges in increasing market share for X5.

To ensure the Company continues to pursue the right strategy, the Supervisory Board and its Strategy Committee as well as the Company's Executive Board hold specific sessions to discuss and take decisions on key strategic issues on a regular basis. We also invest significant resources in ensuring that our strategy is communicated well and understood not just by the parties who are key to its execution, but by all our stakeholders including customers, investors, suppliers, government and the media.

Strategic Objectives

X5's key strategic objectives are: (1) customer success through development of multi-format retail operations and ensuring strong value propositions; (2) operational excellence to maximise efficiency and support price leadership; (3) disciplined growth with focus on returns supported by prudent financial management (see detailed description in "Strategic Review" section of this Annual Report). The risks associated with the implementation of these strategic objectives can be described as follows:

(1) Risk of failure to differentiate value proposition of each format. To mitigate this risk X5 will continue to market and promote its store formats through advertising, promotional activities and loyalty programmes with an emphasis on how the value proposition of each store format serves the specific needs of its target customers.

(2) Risk of not achieving cost savings at the level adequate to support investment into prices. X5 is highly focused on controlling costs both at the operational level and at its headquarters. This resulted in considerable cost savings during the last several years. In addition, in 2009 X5 launched a multi-year Strategic Efficiency Programme to drive long-term operational excellence in line with international benchmarks. This Programme encompasses: (i) the creation of a fully integrated supply chain; (ii) the transformation of the Company's IT systems; (iii) in-store labour productivity improvement; (iv) business process improvement; and (v) asset efficiency in areas such as real estate, energy efficiency and asset management.

(3) Risk of lack of investment opportunities with returns sufficient to justify higher cost of capital, which has increased due to the current financial and economic crisis. X5 has adjusted its investment approach and closely examines all available opportunities and undertakes projects that offer the highest returns consistent with the Company's expansion strategy.

Economic & Market Conditions

While in recent years the economic situation in Russia has generally become more stable and conducive to investment, the Russian economy is vulnerable to fluctuations in the price of oil and natural gas on the world market. As Russia is a major producer and exporter of oil and natural gas, a decline in the price of oil and natural gas could significantly slow or disrupt the Russian economy.

Consumer demand in the markets in which X5 operates depends upon a range of factors which are largely outside of X5's control, including demographic factors, consumer preferences and discretionary consumer spending (which is in turn influenced by factors such as general economic conditions, the availability of disposable income and general levels of consumer confidence). In periods of economic uncertainty, such as the current financial and economic crisis, customers tend to reduce spending both by reducing the volume of their purchases and by shifting their purchasing pattern towards less expensive products.

X5's multi-format business model enables it to respond quickly to changes in consumer preferences and to cater to a diverse range of lifestyles and family budgets. We aim to have a broad appeal in product price and range in a way that allows us to compete successfully despite changing economic conditions that impact on consumer spending.

Importantly, product range, pricing policy, merchandising and marketing concepts are also adapted continually to account for changing consumer behavior. The feasibility and acceptance of the concepts are first verified in test markets and then implemented Company-wide.

Expansion

To maintain its leadership position, X5 must expand at a rate that equals or exceeds that of its competitors. The failure of X5 to open new stores will directly impact on its growth and profitability. Since the start of the financial and economic crisis in the latter part of 2008, numerous bankruptcies of retailers and store closures occurred across Russia. This allows strong and financially sound modern retailers to avail themselves of new opportunities to grow market share through both organic expansion and via acquisitions.

X5 management pays particular attention and allocates significant management resources to optimisation of its organic expansion strategy including identifying and acquiring appropriate sites on commercially reasonable terms, opening new stores on schedule, employing, training and retaining store and supervisory personnel and fully integrating new stores into X5's existing operations.

An important part of X5's expansion strategy includes the selective acquisition of attractive retail chains. The pursuit of any acquisition strategy presumes certain risks, including the failure to accurately assess the operations and / or financial condition of the target, overvaluing of the acquisition target, discovering, post-acquisition, undisclosed liabilities or contingent liabilities, the failure to properly integrate the target and realise economies and synergies, etc. To address these risks, the Company employs an experienced M&A team and utilises professional service providers (legal, tax, due diligence, valuation experts) in the due diligence, negotiation and documentation phases of any transaction. Additionally, appropriate integration plans ensure timely and effective integration of the target company, once acquired. Also, importantly, a system of monitoring and direct accountability for achievement of operational integration and target synergies is established.

2. Compliance Risks

Legal

Russia is still developing the legal framework required to support a market economy. Risks associated with the Russian legal system include inconsistencies between: (i) federal laws, presidential decrees and regulations issued by the federal government; and (ii) regional and local laws, rules and regulations. There is sometimes a lack of judicial independence from political, social and commercial forces, as well as a relative inexperience of judges and courts in interpreting new Russian legislation and complex commercial arrangements. This is exacerbated by a lack of binding judicial precedent and difficulty in enforcing court judgments.

We protect ourselves against legal (including litigation) risks by seeking to comply with all applicable laws and regulations, and by vigorously preparing and defending our cases and enforcing our rights in relation to contracts and using all means provided by law.

Regulatory Environment

X5's operations are subject to supervision and regulation by various government entities and agencies, in connection with obtaining and renewing various licenses and permits and with respect to various quality, health and safety, packaging, labeling and distribution standards. Russia is in a process of structural, economic and political transition and the regulatory regimes applicable to X5's operations are still developing. Many regulations applicable to X5 have only recently been enacted and there is uncertainty regarding their application and enforcement. Regulatory authorities often have little experience in analysing regulatory issues arising from commercial transactions and exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards.

The new Retail Legislation that came into force as at 1 February 2010 may have a significant impact on the operation of retail companies such as X5, as it implies, among other things: (i) the introduction of restrictions on the acquisition by retail chains of additional trade areas in municipal districts where a retail chain has a market share of over 25%; (ii) the reduction of deferral period for payments for goods, such period being dependent on the specific category of goods; (iii) the limitation of permitted grounds for payments from suppliers related with the supply of food retail products; (iv) the extension of powers of federal state bodies to regulate retail prices for socially important categories of goods. This may constrain the operation of X5's business and could prevent the Company's future expansion in selective regions.

The Company monitors regulatory developments and has a strong compliance regime enforced by regular reviews and audits of stores and distribution centres to ensure that compliance and training needs are regularly reviewed and addressed. We also engage with public and governmental organisations to ensure that the interests of our customers are represented and we are often consulted and invited to contribute to important government regulations regarding the retail industry.

Food Products Safety
The packaging, marketing, distribution and sale of food products entail an inherent risk of contamination or deterioration, which could potentially lead to product liability, product recall and, as a result, negative publicity. The quality and safety of our products is of the highest importance. We have strict product safety procedures for ensuring product integrity at all times. We work in partnership with suppliers to ensure mutual understanding of the standards required. The Company also monitors the changes in the regulations regarding food safety and regularly reviews its respective policies and procedures to ensure compliance.

Taxation
Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of X5 may be challenged by the relevant regional and federal tax authorities. In recent years the tax authorities in the Russian Federation have taken a more assertive approach in their enforcement of tax legislation, and it is possible that transactions and activities that have not been challenged in the past may now be challenged.

Management regularly reviews the Company's taxation compliance with applicable legislation, laws and decrees and current interpretations published by the authorities. It also thoroughly reviews the judicial precedents that come out of tax disputes of other companies operating in Russia. The Company further protects itself against tax risks by establishing provisions in its IFRS consolidated financial statements.

Note 34 "Commitments and Contingencies" to the IFRS consolidated financial statements in this Annual Report contains the description of the main tax uncertainties and an estimate of the related liability.

Fraud
Whilst we persistently strive to high integrity standards among our staff, there remains the potential for fraud and other dishonest activity at all levels of the business, from store level to senior management. X5 gives clear guidance on behaviour to employees through the Company values and its Guiding Principles of Business Conduct. The Company constantly emphasises its Corporate Code for Reporting of Alleged Irregularities (referred to as "Whistleblower Policy") and operates an ethics hot line. The Corporate Audit Department and /or the Security Department undertake investigations into fraud cases. Results of such investigations are highlighted to the Audit Committee of the Supervisory Board and the Supervisory Board as necessary.

3. Operational Risks

Reputational Risk

As X5's success depends to a significant extent upon brand recognition, the brand names Pyaterochka, Perekrestok and Karusel and their associated reputations are key assets of X5's business. X5 believes it has taken appropriate steps to protect its trademarks and other intellectual property rights but cannot be certain that such steps will be sufficient or that third parties will not infringe or challenge such rights. This is partly because Russia and the other countries in which X5 operates generally offer a lower level of intellectual property rights enforcement than countries in Western Europe and North America.

Additionally, we emphasise the Guiding Principles of Business Conduct in the way we conduct our business and deal with customers, employees and suppliers. X5 is committed to being a responsible corporate citizen that strives to meet international standards and best practices in the operation of its business and in its relationships with shareholders, partners and society.

The brand name Pyaterochka is additionally exposed, as it is used by a significant number of franchisee stores. We work only with the most successful and efficient partners and monitor their operations as well as compliance with franchise agreements separating from those who do not meet our high standards. In addition, the Company has a strategy of selective buy-outs of franchisees, which reduces this reputational risk exposure.

Furthermore, we focus on the importance of our corporate social responsibilities and place a high level of emphasis on charitable activities and the patronage of Russia's historical, cultural and spiritual heritage.

Performance Risk

There is a risk that the Company may not achieve its performance targets, particularly since the business is susceptible to economic downturn that affects consumer spending. Through our multi-format strategy we try to respond to the needs and behaviour of customers from different market segments. Our aim is to have broad appeal to all customers, minimising the impact of changes in the economic climate.

All of our business units, including soft discounters, supermarkets and hypermarkets, have stretch targets and their performance is monitored continually and reported monthly to the Executive Board and the Supervisory Board.

Human Resources

Our greatest asset is our employees. Though it is critical for our success to attract, retain, develop and motivate the best people with the right capabilities at all levels of operation, X5's competitive position and future prospects especially depend on its senior management experience and expertise and X5's ability to recruit and retain qualified personnel. The competition for attracting and retaining the best talent in Russia is particularly intense due to the relatively limited number of qualified individuals.

In 2008 X5 implemented a successful programme to develop and promote talented managers with vertical and horizontal career-building opportunities within the organisation. In addition, X5 uses a system of key performance indicators (KPIs) to determine compensation for executives and managers. X5 reviews its KPIs on an annual basis to ensure that they correspond with the Company's strategic objectives.

The Company has a strong commitment to employee education, operating 14 regional multi-format training and development centers and running numerous programmes to provide employees with professional development opportunities. Since 2008 X5 operates the X5 Corporate University to provide orientation for all new office employees on the Company's values, principles, operations and strategy.

Real Estate
X5's ability to open new stores is heavily dependent on identifying and leasing and/or purchasing properties that are suitable for its needs on commercially reasonable terms. The market for property in large metropolitan areas in Russia prior to the current financial and economic crisis was highly competitive and, when economic conditions are favourable, competition for, and therefore the cost of, high-quality sites may increase.

On the other hand, the prices of the properties may also decrease due to changes in the competitive environment, changes in the attractiveness of real property as an investment asset in Russia as a whole or in certain regional markets in which our real property is located. As a result of any unfavourable changes in the real property market, the value of X5's real property may decrease. As Russia recovers from the current financial and economic crisis, competition for, and therefore the cost of, high-quality sites may increase, as has been the case in the past.

In the process of identifying and leasing and / or purchasing suitable properties, the Company performs comprehensive feasibility studies to identify and reduce risks of not obtaining approvals from the various regional authorities required to undertake construction and to secure X5's rights to the use of stores or to refit or refurbish those stores. However, if X5 procures the rights to suitable sites, it may experience difficulty or delay in obtaining approvals from the various regional authorities required to undertake construction and to secure X5's rights to the use of stores or to refit or refurbish those stores. In addition, for all the potential investments into property we calculate cash flows and return on investment taking into account store locations, traffic and accessibility studies, etc. to make sure that we obtain attractive real estate that is suitable for our business and for which we do not over-pay.

Supply Chain & Logistics
X5 stores are part of a complex supply chain and the Company works in partnership with its suppliers to manage the risk of any delays or interruptions in this supply, which might affect its retail operations. The Company continues implementation of an ambitious long-term project to create a fully integrated supply chain infrastructure across the full geography of the Company's operations that will enable X5 to enhance its operational efficiency and competitiveness. The key steps involved in creating a fully integrated supply chain include: (i) the expansion and optimisation of the Company's distribution centre network; (ii) the enhancement of warehouse productivity; and (iii) improved efficiency of transportation. In 2008 and 2009, X5 made substantial progress in implementing these initiatives, which are described in detail in "Strategic Review" section of this Annual Report.

Much of Russia's transport infrastructure needs to be modernised with the help of long-term government and private sector investment programmes. Poor condition of physical infrastructure may disrupt the transportation of goods and adds costs to doing business in Russia. X5 relies on the satisfactory condition of roads to allow for movement of its goods by trucks between distribution centres and stores. X5 aims to improve the efficiency of X5's transportation management through the introduction of the Transportation Management System (TMS), which was initiated in 2009.

IT Systems & Infrastructure
X5 manages its inventory and logistical operations through a variety of electronic media, including intranet, networked personal computers and automated inventory management systems.

These operations are heavily dependent on the integrity of the electronic systems supporting them. The Company's systems and operations are vulnerable to interruption from natural disasters, power loss, breach of security and similar events. X5 has contingency plans in place to deal with such events, however, X5's information systems could suffer failures or delays and IT equipment breakdowns may result in temporary inoperability of the majority of stores trading software with the exception of cash registers.

X5 is in the process of implementing an IT systems upgrade as part of its Strategic Efficiency Programme. The Company has launched a phased implementation of the SAP system as its enterprise resource planning system to provide X5 with a strong platform for further scalable growth and to drive Company-wide efficiency gains. X5 believes SAP will enable it to facilitate controls over processes across all major levels of Company management, from store operations to strategic planning. In parallel, X5 is standardising and upgrading the IT systems in its store formats across the Company. Detailed information on the transformation of X5's IT systems is provided in "Strategic Review" section of this Annual Report.

4. Financial Risks

The main financial risks faced by the Company relate to the availability of funds to meet business needs and fluctuations in interest and foreign exchange rates. The central treasury function is responsible for managing the Company's liquid resources, funding requirements, interest rate, currency and credit exposures and the associated risks, as well as insurance of assets. The treasury function does not operate as a profit centre and the undertaking of speculative transactions is not permitted.

Funding and Liquidity Risk

The Company finances its operations by a combination of internal cash flows, long and medium-term debt, capital market issues, commercial paper, bank borrowings and leases. The objective is to ensure continuity of funding on the best available market terms. The policy is to diversify the Company's credit portfolio, to improve the debt maturity profile, to arrange funding ahead of requirements and to maintain sufficient undrawn committed bank facilities, and a strong credit rating so that maturing debt may be refinanced as it falls due.

As a result of the current global financial crisis the availability of financing in Russia has decreased dramatically, and the terms of any available financings have become significantly less favourable for borrowers. Nevertheless, the company enjoyed lower cost of funding at the end of 2009 compared to the beginning of the year. In addition, in the second half of 2009 the Company was able to increase the size of available credit facilities and improve its liquidity position. Management believes it has taken appropriate measures to resolve the risk of refinancing by securing several debt financing instruments, including available committed lines with major Russian and international banks and access to the Ruble bond market which can be utilised in addition to the cash balances and cash flows from operating activities that are used to finance X5's discretionary capital expenditure programme.

Interest Rate Risk

The objective is to limit our exposure to increases in interest rates while retaining the opportunity to benefit from interest rate reductions. From time to time, interest rate swaps are used to achieve the desired mix of fixed and floating rate debt.

Foreign Currency Risk

Our principal objective is to reduce the effect of exchange rate volatility and transactional currency exposures through available hedging instruments. From time to time, currency forwards and options are used to manage foreign currency exposures. The Company does not hedge non-cash accounting translation exposures.

Credit Risk
The Company is exposed to credit risk mainly through the use of financial instruments mentioned above and placement of cash balances with financial institutions. The objective is to reduce risk of loss arising from defaulting or insolvent counterparties. This is achieved primarily by the ongoing assessment of financial institutions credit strength and counterparty limits.

Note 30 “Financial Risks Management” to the Consolidated Financial Statements in this Annual Report contains the detailed description of the currency risk, interest rate risk, and liquidity risk as well as how the Company currently manages them.

Insurance
X5’s insurance policies cover most of its supermarket and hypermarket operations and part of its soft discount store operations. X5 also maintains third-party liability insurance to the extent required by Russian law. Still there is a risk that the Company’s insurance policies may be insufficient to cover losses arising as a result of a business interruption or damage to X5’s property as a result of fire, explosion, flood or other circumstances. The Company negotiated across-the-group schemes ensuring uniform cover for all its subsidiaries, which are arranged and managed centrally.

5. Financial Reporting Risk
Financial reporting risk relates to the failure in proper recording and classification of accounting entries arising from business activities of the Company, as well as to inability to make accurate and reliable estimates. All these factors may lead to misstatements in financial statements.

In preparing the consolidated financial statements, X5 management is responsible for maintaining proper accounting records, selecting suitable accounting policies and applying them consistently, and implementing and maintaining an effective and sound system of internal control over financial reporting, key elements of which are described below:

- The financial control team helps managers across the Company’s various departments to draw up and control budgets, participate in validation phases, propose action plans made necessary by discrepancies found in their implementation and to generally help ensure the reliability of the entire process and of the financial data collected. Each month, actual performance is compared to the budgeted performance and that of the previous year. A summary of the performance of the Company is presented to the Company’s Executive Board. The Supervisory Board is provided with a summary of trends in sales and of performance indicators on a monthly basis.

- The accounting function is centralised with the main accounting and financial reporting office located in Moscow and St. Petersburg and an accounting data processing centre located in Nizhny Novgorod.

- X5 uses legacy accounting software from a local provider which has been significantly improved to enable the Company to utilise a standard chart of accounts for all the entities that are consolidated into X5 Retail Group, as well as mapping and partial automation of the process of transforming statutory accounting records into a format consistent with International Financial Reporting Standards (IFRS). In addition to this, X5 is currently working on the implementation of SAP financial applications where simultaneously with statutory accounting the Company will maintain, on a daily basis, financial and managerial accounting records according to IFRS principles. The utilisation of SAP for finance and accounting purposes will also improve the internal controls over the financial reporting process and will allow X5 to adhere with best practices in this area.

- In addition, the Company utilises a reporting process that uses identical sources of accounting data for consolidated financial and managerial accounts, so periodic reconciliation of consolidated financial reporting to managerial accounting data helps to guarantee the reliability of external financial reporting.

SECTION 2: SYSTEM OF INTERNAL CONTROL PROCEDURES AND RISK MANAGEMENT

The Management Board of X5 is responsible for designing, implementing and operating an adequately functioning Internal Control and Risk Management Framework in the Company. Internal controls are designed and implemented by executive management and Company personnel under the control of the Management Board intended to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting;
- Compliance with applicable laws and regulations.

One of the goals of internal control procedures is to highlight, manage and monitor the risks resulting from the Company's activity and the risks of misstatements or fraud, especially in the accounting and financial fields. However, like any system of control, it cannot provide an absolute guarantee that these risks will be totally eliminated.

The Company has adopted criteria set forth by the Committee of Sponsoring Organisations (COSO) in its *Internal Control – Integrated Framework* and implemented it across the organisation. In addition, the Corporate Audit Department (the Company's internal audit function) has been actively using COSO requirements for its audit engagements by assigning its findings to COSO categories. Finally, the COSO criteria for evaluating the effectiveness of control systems are required to be used by business process owners during the implementation of new and the improvement of existing control procedures.

The Internal Control Environment
In order to develop a shared culture, X5 has enforced a Code of Business Conduct that outlines corporate values and rules, as well as guiding principles of ethical behaviour. Our key corporate values are: respect for people, customer orientation and commitment to excellence.

X5's Guiding Principles of Business Conduct are the following:

(1) Comply with the applicable laws of countries to which X5 is subject. Strictly adhere to corporate policies and procedures.

(2) Act in the best interest of X5 while performing your job for the Company.

(3) Ensure the accuracy of all Company business and financial records.

(4) Protect the Company's assets, and use those assets in the manner intended.

(5) Safeguard the Company's non-public information.

(6) Always deal fairly with customers and suppliers, treating them honestly and with respect. Do not engage in unfair, deceptive or misleading practices.

(7) Do not give or accept any gift where the value of the gift could cause, or give the appearance of causing, X5 to grant or receive any favor as a result.

Awareness and compliance with these corporate values and Guiding Principles of Business Conduct are enhanced first by training, but also by becoming part of the organisation and management of the Company. The values and corporate rules outlined in the Code of Business Conduct have been integrated into the system of evaluating top management performance.

Risk Assessment

The Company introduced the formal risk assessment & analysis process. It consists of a periodic identification, measurement and prioritisation of business risks with the help of risk maps. It is intended to identify potential internal and external risks, to measure their relative importance and the probability of their occurrence, as well as the significance of their impact. In performing risk assessment X5 utilises the standard “risk universe” for the retail business, which covers about 100 risks under strategic, operational, financial and compliance categories.

In 2009 the Company set up a central risk management office to ensure that the Management Board is continuously and promptly informed of important developments in risk management by a risk management officer. The establishment of a central risk management function will also facilitate the Company-wide exchange of information on risk relevant issues and develop risk management activities in all the corporate functions, as well as recording and systematic assessment of all essential risks according to uniform standards.

The most recent assessment of risks was performed at the end of 2009 by central risk management office with an active involvement of line managers and financial controllers who filled in questionnaires to assess respectively inherent risks and control activities that mitigate them. Residual risks were then assessed and risks maps produced. The evaluation of the residual risks has made it possible to develop remediation plans and to focus specifically on managing and mitigating the most critical risks that the Company needs to address.

Control Activities

Under the authority delegated by the Management Board, the management teams at all levels of the organisation are responsible for monitoring the risks and for designing internal control systems appropriate to their respective business processes. The finance function assists management at all levels in developing internal control procedures that are risk-oriented and built into the business processes. In addition, financial controllers are an integral part of the Company’s Internal Control and Risk Management System and perform ongoing monitoring of its effectiveness.

Communication of Risks and Controls

In an effort to focus all X5 personnel on their internal control responsibilities, approximately 360 line managers and financial controllers in the Company’s corporate center have been formally trained in the COSO internal control framework since 2007.

The Director of the Corporate Audit Department, who functionally reports to the Audit Committee, acts as the Compliance Officer for the Company’s Whistleblower Policy, and supervises the operation of the ethics hotline which was implemented in 2009. All the cases reported through the ethics hotline are thoroughly reviewed and investigations are performed by a professional forensic team when needed.

In addition, the quality of the Company’s systems of business controls and the findings of internal and external auditors are regularly reported to the Management Board and discussed on the Audit Committee of the Supervisory Board as well as on the Supervisory Board, as necessary.

Monitoring of Internal Controls by Corporate Audit Department

The main task of X5’s Corporate Audit Department (CAD) is to provide independent and objective assurance and value-adding advisory activity that assists the Company in achieving business objectives and improve operations.

The CAD conducts systematic and disciplined evaluations of operational, financial and information systems regarding risk management, internal control and governance processes aimed to improve the effectiveness of these processes. Additionally, during 2009 CAD's responsibilities were expanded to formally include forensic audit work which focuses on cases of fraud, misuse of company assets, abuse of authority, unlawful acts and other matters which are not consistent with the Company's policies.

The CAD's organisational independence is guaranteed by its reporting lines: CAD reports functionally to the Audit Committee of the Supervisory Board and, from an administrative standpoint, to the Management Board.

Following a risk based audit approach the CAD reviews the design of internal controls, and performs tests of controls on business processes that are critical for the Company's operations and provides recommendations on improvement of the respective internal controls. Implementation of such recommendations is carefully monitored and controlled by CAD, the Management Board and the Audit Committee of the Supervisory Board.

X5's CAD was the first internal audit department in Russia to successfully complete the external quality assessment procedures and has been certified by Ernst & Young on conformity with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

Management Summary

The Management Board has reviewed and analysed the strategic, operational, compliance, financial and financial reporting risks to which the Company is exposed, as well as the design and operating effectiveness of the Company's internal risk management and control systems over 2009. The outcome of this review and analysis has been shared with the Audit Committee of the Supervisory Board and the Supervisory Board and has been discussed with X5's external auditors.

The Management Board believes that the risk management and control systems regarding the financial reporting risks have worked properly during 2009, and provide reasonable assurance that the financial statements 2009 do not contain any errors of material importance.

In view of the above, the Management Board believes that it is in compliance with the requirements of II.1.4 and II.1.5 of the Dutch Corporate Governance Code.

In addition, in accordance with section 5.25c of the Dutch Financial Supervision Act the Management Board confirms that to the best of its knowledge:

- The annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and its consolidated companies; and

- The annual report gives a true and fair overview of the situation as per the balance sheet date, the state of affairs during the financial year of the Company and its group companies included in the annual financial statements, together with a description of principal risks it faces.

Lev Khasis, CEO
Evgeny Kornilov, CFO

8 April 2010

Report of the Supervisory Board

The Supervisory Board is charged with supervising the policies of the Management Board and the general course of affairs of the Company and the business connected with it, as well as assisting the Management Board by providing advice.

In performing its duties the Supervisory Board is charged with acting in accordance with the interests of the Company and its affiliated businesses. It shall take into account the relevant interest of the Company's stakeholders and, to that end, consider all appropriate interests associated with the Company.

While retaining overall responsibility, the Supervisory Board assigns certain tasks to its four permanent committees: The Audit Committee, the Nomination and Remuneration Committee, the Related Party Committee and the Strategy Committee.

COMPOSITION OF THE SUPERVISORY BOARD

X5's General Meeting of Shareholders determines the number of members of the Supervisory Board. Currently X5's Supervisory Board consists of seven members, with one vacancy to be filled.

The Supervisory Board reviews, on an annual basis, the profile of its size and composition taking into account the evolving nature of X5's business and activities and the desired expertise and background of the members of the Supervisory Board. The Supervisory Board profile is published on X5's corporate website.

The composition of the Supervisory Board changed in 2009, due to the resignation of Mr. Savin on 17 September 2009. Furthermore, as announced on 15 December 2009, Mr. Criado-Pérez Trefault resigned as per 1 January 2010. The Supervisory Board expresses its gratitude for the contributions that Mr. Savin and Mr. Criado-Pérez Trefault have made to the Company.

In November 2009 the Supervisory Board nominated Mr. Christian Couvreux as an additional board member. He was appointed by the Extraordinary General Meeting of Shareholders held on 15 January 2010. Mr. Couvreux is an independent Supervisory Board member with a considerable track record in the global retail industry. An overview of the current composition of the Supervisory Board is presented in the Corporate Governance Report.

Mr. Fridman and Mr. Savin were re-appointed by the Annual General Meeting of Shareholders on 12 June 2009 for an additional four-year term. In accordance with the retirement and re-appointment schedule of the Supervisory Board, the terms of both Mr. Defforey and Mr. Gould will expire in 2010. Both Mr. Defforey and Mr. Gould are eligible for re-appointment.

COMPOSITION OF THE COMMITTEES

Given the highly related nature of the respective duties and responsibilities of the Remuneration Committee and the Selection and Appointment Committee the Supervisory Board resolved to merge both committees in 2009 into the new "Nomination and Remuneration Committee".

Following the resignation of Mr. Criado-Pérez Trefault as per 1 January 2010, the Nomination and Remuneration Committee will be composed of four members. Mr. Criado-Pérez Trefault's position as chairman of the Related Party Committee was taken over by Mr. Tynkovan, while Mr. DuCharme replaced Mr. Defforey as member of the Related Party Committee. Furthermore, when Mr. Couvreux was appointed to the Supervisory Board in January 2010, he took over Mr. Ashurkov's position as chairman of the Strategy Committee, with Mr. Ashurkov remaining a member of this committee.

There were no further changes in the composition of the committees in 2009 and until the date of publication of this report. An overview of the current composition of the committees is presented in the Corporate Governance Report.

INDUCTION

Following his appointment Mr. Couvreux went through the strategic, financial, legal and reporting affairs of X5 Retail Group with senior directors of the Company. In addition, prior to his appointment in January 2010, Mr. Couvreux attended the meetings of the Supervisory Board in November and December 2009.

MEETINGS OF THE SUPERVISORY BOARD

The Supervisory Board meets at least four times per year. In 2009 the Supervisory Board held seven meetings, including two meetings by teleconference. On each of five occasions in 2009 the meeting of the Supervisory Board was preceded by meetings of the Audit Committee and the Nomination and Remuneration Committee. Furthermore, the Supervisory Board meetings in September and November were preceded by a meeting of the Strategy Committee.

All meetings were attended by the full Supervisory Board apart from the teleconference meetings on 16 November and 13 December 2009 which were not attended by Mr. Criado-Pérez Trefault. The members of the Management Board attended the meetings, and other members of senior management were regularly invited to present to the Supervisory Board. On two occasions the Supervisory Board meetings included private sessions, with no members of the Management Board present, to independently discuss matters related to the performance, functioning and development of the Management Board and members of senior management. The external auditor attended the meeting in April at which the 2008 Annual Report and financial statements were endorsed. In March 2009 the Supervisory Board discussed its own functioning, its profile, competence and composition, based on an elaborate self-assessment. The self-assessment was based on a questionnaire, completed by all Supervisory Board members and regular meeting attendees, as well as a series of interviews conducted by the Chairman of the Nomination and Remuneration Committee. The members of the Supervisory Board had frequent (telephone) meetings with members of the Management Board and other Company management in between the Supervisory Board meetings.

On an ongoing basis the Supervisory Board reviewed various matters related to the Company's activities, its operational results, strategies and management, including:

- The financial reporting process and, in particular, the approval of the 2008 Annual Report and review of the 2009 half-yearly and quarterly financial statements and management accounts;

- The regular assessment of the members of the Management Board of the Company, including the Company's talent management and succession planning;

- The nomination of the CEO for re-appointment in 2010;

- The remuneration of the Management Board, in accordance with the remuneration policy;
- The Employee Stock Option Programme, in particular the granting of options under the fourth tranche and adjustments to the plan (see: Remuneration Report);
- The next generation Long Term Incentive Plan, to be implemented in 2010;
- The appointment and remuneration of senior managers of the Company;
- The composition of the Committees of the Supervisory Board;
- The nomination of Mr. Fridman and Mr. Savin for re-appointment to the Supervisory Board, and the nomination of Mr. Christian Couvreux as new Supervisory Director;
- The Guiding Principles on Business Conduct and the Company's statute on fraud investigation and reporting protocol (Fraud Protocol);
- A review of the Company's Five Year Strategy Plan at the annual strategy meeting in November;
- The assessment of the Company's organisation structure in line with the evolution of the business;
- The Company's financing strategy, in particular the refinancing of the syndicated loan facility with maturity December 2010;
- The draft federal law on Retail Trade in Russia, and its impact on the retail industry and X5 in particular;
- The amendment of X5's Articles of Association, with respect to the threshold of transactions subject to approval of the Supervisory Board, and the merger of the Selection and Appointment Committee and the Remuneration Committee;
- The progress of post-merger integration efforts and synergy effects throughout the various operational and staff divisions of the group;
- The Company's M&A Strategy, in particular the acquisition of the retail chain "Paterson" during the fourth quarter;
- The review of the Enterprise Risk Management (ERM) and control systems of the group;
- The budget and key performance indicators for 2010.

MEETINGS OF THE COMMITTEES

Audit Committee
The role of the Audit Committee is described in its charter, which is available on the Company's website. On 31 December 2008 the Audit Committee consisted of Mr. Gould (Chairman), Mr. Defforey and Mr. Ashurkov.

In 2009 the Audit Committee held five meetings. All meetings were attended by the CFO, the external auditor and the Head of the Corporate Audit Department (CAD). Other members of senior management where invited when necessary or appropriate.

The Audit Committee discussed and approved the full year 2008 and quarterly 2009 consolidated financial statements of the Company audited / reviewed by PricewaterhouseCoopers, the Company's external auditor. It also reviewed press releases (financial results and trading updates) and analyst reports related thereto. The Audit Committee reviewed the external auditors' report with respect to accounting and audit issues in respect of their audit of the 2008 consolidated financial statements. In April 2009, the Audit Committee met with the auditors without the presence of management. Audit and review fees and permitted non-audit / review fees for 2009 and 2010 were approved in July and November, respectively.

During the fourth quarter the Audit Committee, together with management, conducted its periodic assessment of the functioning of the external auditor, and compliance with the Company's policy on external auditor independence, audit scope and approach within the various group entities and in the different capacities in which the external auditor acts. The main conclusions of this assessment shall be communicated to the 2010 Annual General Meeting of Shareholders for the purpose of assessing the nomination for the re-appointment of the external auditor.

Throughout the year the Audit Committee reviewed the financing strategy 2009/2010, including hedging strategies, with particular emphasis on the challenges in refinancing X5's syndicated loan facility maturing in 2010, given the pressure on the global financial debt markets as a result of the financial crisis. In April the Audit Committee reviewed the Company's estimated range of contingent tax liabilities and tax planning issues in general, including a tax risk assessment performed by the Company.

In March the Audit Committee reviewed and discussed the proposed USD 2.2 billion goodwill impairment charge in the fourth quarter of 2008, related to goodwill created as a result of the merger between Perekrestok and Pyaterochka in 2006.

An update of IT matters, in particular the implementation of SAP for Retail and SAP for Finance, was presented and discussed in July in the presence of X5's CIO and CFO. Additionally, outside of the Audit Committee, the Chairman of the Supervisory Board conducted a number of meetings during 2009 with key IT staff including X5's CIO to discuss strategic and other IT issues of importance.

In 2009 the Audit Committee reviewed the Company's internal risk management and control systems, and the proper functioning of operational and business processes mainly through the work of the CAD. The CAD assisted various departments to perform control self assessment testing and conducted their own diagnostic reviews, developed risk maps and built such findings into its annual audit plan. Additionally, management presented to the Audit Committee its plans with respect to ERM development, updated risk mapping with assignment to specific personnel, and general evolution of the risk management function in the ensuing years. Significant audit and forensic investigation findings of the CAD were reported to the Audit Committee on a regular basis. Status of follow-up actions by management in addressing CAD findings were regularly reviewed by the Audit Committee. The CAD's internal audit plan 2010 was discussed with the external auditor, and approved by the Audit Committee.

In 2009 the Audit Committee continued to assess the financial and management reporting function of the Company and paid particular attention during the year to impairment issues, including store-level impairment, ageing inventory (mark-down policy) and impairment of intangible assets (e.g. goodwill). In July the Audit Committee approved the Coordination Plan between CAD and the external auditor with respect to review of internal controls over financial accounting and reporting.

The Audit Committee reviewed regular updates on integrity matters. A new statute on fraud investigation and reporting (Fraud Protocol) was discussed and approved in July, complementing the Company's Whistleblower Policy that was revised and approved during the previous year. In November the Audit Committee approved the Company's financial reporting calendar and the black-out trading calendar for the year 2010.

Nomination and Remuneration Committee
The Nomination and Remuneration Committee combines the Selection and Appointment Committee and the Remuneration Committee, which committees were merged by the Supervisory Board in 2009, in light of the highly related nature of their respective duties and responsibilities.

The role of the Nomination and Remuneration Committee is described in its charter which is available on the Company's website. On 31 December 2009 the Nomination and Remuneration Committee consisted of Mr. DuCharme (Chairman), Mr. Defforey, Mr. Ashurkov, Mr. Criado-Pérez Trefault and Mr. Tynkovan.

The Nomination and Remuneration Committee held six meetings in 2009. During the first half of 2009 the Nomination and Remuneration Committee evaluated the performance of the members of the Management Board based on the achievement of corporate and personal objectives for 2008. In this context, and based on the Company's 2009 overall objectives and its budget, the Committee also discussed and proposed to the Supervisory Board the targets and remuneration levels for the members of the Management Board in 2009.

In the second half of the year, the components of the remuneration of the Company's Management Board and senior management were checked against market practice and trends.

The composition and succession planning of the Management Board was reviewed during the second half of the year, within the context of a broader review of the organisation structure, including talent management and succession planning at top executive level.

In April the Nomination and Remuneration Committee discussed and proposed the re-appointment of the Supervisory Directors Mr. Fridman and Mr. Savin for a new term until 2013, in accordance with the retirement and re-appointment schedule of the Supervisory Board. In November the Committee proposed the appointment of Mr. Couvreux as additional independent member of the Supervisory Board.

In April the Nomination and Remuneration Committee reviewed the allocation principles of options under the Employee Stock Option Programme (ESOP). Simultaneously, following the ESOP restructuring proposals in the previous year, the Committee proposed an extension of the exercise period of options granted under tranches 2, 3 and 4. These adjustments, aimed at preserving and optimising the long term incentive character of the ESOP, were approved by the Annual General Meeting of Shareholders in June 2009.

Revised remuneration principles for the Supervisory Board were proposed in July and approved by the General Meeting of Shareholders in January 2010.

In October the Nomination and Remuneration Committee conducted a separate meeting, partially in the presence of the Management Board and senior managers, to the Company's next generation Long Term Incentive Plan.

The Remuneration Policy for the Management Board was subject to further review during 2009, also against the background of further alignments with the Dutch Corporate Governance Code. The amended Remuneration Policy will be submitted to the General Meeting of Shareholders in 2010.

The Remuneration Report on page 72 provides further details on remuneration for the Management Board and the Supervisory Board, and includes current Remuneration Policy for the Management Board, as well as the outlook for 2010 and beyond. The Remuneration Policy is also available on the website of the Company.

Related Party Committee
The role of the Related Party Committee is described in its charter which is available on the Company's website. On 31 December 2009 the Related Party Committee consisted of Mr. Criado-Pérez Trefault (Chairman), Mr. Defforey and Mr. Tynkovan.

The Related Party Committee had three meetings in 2009, including one meeting held by teleconference. Further resolutions in writing were taken when necessary during the year. The Related Party Committee considered a number of transactions which gave rise to the appearance of a conflict of interest with the Company.
The following transactions were discussed and/or approved by the Related Party Committee and the Supervisory Board during 2009, with due observance of best practice provisions II.3.2 to II.3.4 and III.6.1 to III.6.4 of the Dutch Corporate Governance Code, and the rules set forth in Chapter VI (Conflict of Interests) of the Rules Governing the Principles and Practices of the Supervisory Board, which Rules are available on the Company's website:

- The approval of the budget 2009-2010 for advisory and administrative services rendered by CTF Holdings Ltd.;
- A Ruble Bond issue with Alfabank as Mandated Lead Arranger;
- Supplementary services agreements with Alfabank, in connection with factoring arrangements between Alfabank and X5 suppliers;
- Revolving credit facilities, and other credit products within approved credit limits, with Alfabank;
- Acquisition of store equipment from "Stolichnaya Torgovaya Compania", belonging to the retail chain Venetsiya operating under the tradename "Globus Gurmet";
- Mr. DuCharme's position as Supervisory Board member of OJSC Galnaftogaz in Ukraine.

Strategy Committee
The role of the Strategy Committee is described in its charter, which is available on the Company's website. On 31 December 2009 the Strategy Committee consisted of Mr. Ashurkov (Chairman), Mr. Defforey, Mr. Carlos Criado-Pérez Trefault and Mr. Tynkovan.

The responsibilities of the Strategy Committee include the review of the general strategy of the Company, including but not limited to the following main areas: overall growth and development strategy, financing strategy, budget and key performance indicators, mergers and acquisitions.

The Strategy Committee had a first meeting in September, and its annual conference in November. The meeting in November was attended by the CEO and CFO, as well as the chairmen of the Audit Committee and the Nomination and Remuneration Committee. The Committee addressed, in particular, the Company's Five Year Strategy Plan, including detailed reports and discussions on X5's retail format strategies, supply chain and logistics, HR strategy, IT strategy and investment strategy. The Committee also addressed the impact of the draft federal law on Retail Trade on the Russian retail industry and X5 in particular.

Furthermore, the Committee discussed the Company's key performance indicators and budget for 2010, as well as the organisational structure and performance indicators for the Company in the years to come.

CORPORATE GOVERNANCE

Both the Supervisory Board and the Management Board continued their efforts to ensure that the Company's practices and procedures comply with the Dutch Corporate Governance Code. In accordance with the Dutch Corporate Governance Code, a broad outline of the corporate governance structure of the Company is presented in the Corporate Governance Report.

FINANCIAL STATEMENTS

This annual report and the 2009 consolidated financial statements, audited by PricewaterhouseCoopers Accountants N.V., were presented to the Supervisory Board in the presence of the Management Board and the external auditor. PricewaterhouseCoopers' report can be found on page 145.

The Supervisory Board recommends that the Annual General Meeting of Shareholders adopts the 2009 consolidated financial statements of X5 Retail Group N.V. The Annual General Meeting of Shareholders will be asked to release the members of the Management Board from liability for the exercise of the management of the Company's affairs and management. The appropriation of results approved by the Supervisory Board can be found on page 144.

The Supervisory Board wishes to thank the Management Board and all employees of X5 for their outstanding contributions in 2009.

The Supervisory Board

8 April 2010

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