



## 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 corporate governance structure, 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 discusses the internal risk management and control systems with the Supervisory Board and its Audit Committee.

#### Members of the Management Board

The Management Board consists of three members, the CEO, the CFO and the Company Secretary. Since the third quarter of 2010 the composition of the Management Board changed. On 29 September 2010 Mr. Evgeny Kornilov resigned as CFO of the Company. His successor, Mr. Kieran Balfe, was appointed by the General Meeting of Shareholders on 22 February 2011. Furthermore, on 10 March 2011 Mr. Lev Khasis resigned as CEO of the Company. The Supervisory Board nominated Mr. Andrei Gusev as his successor, to be appointed by the upcoming Annual General Meeting of Shareholders in June 2011. Finally, the Supervisory Board proposes to the General Meeting of Shareholders the re-appointment of Mr. Frank Lhoëst, whose first term of appointment comes to an end in 2011.

The table below shows the 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. Andrei Gusev <sup>(1)</sup>	1972	Chief Executive Officer, Chairman of Management Board (appointment pending <sup>(1)</sup> )	2011	2015
Mr. Kieran Balfe	1969	Chief Financial Officer	2011	2015
Mr. Frank Lhoëst <sup>(2)</sup>	1962	Company Secretary	2007	2011

<sup>(1)</sup> The Supervisory Board nominated Mr. Andrei Gusev as member of the Management Board and CEO, to be appointed by the upcoming 2011 Annual General Meeting of Shareholders.

<sup>(2)</sup> Mr. Frank Lhoëst's first term of appointment comes to an end in 2011. He is nominated by the Supervisory Board for re-appointment.



**Andrei Gusev**, a Russian citizen, joined X5 in 2006 as M&A and Business Development Director. Prior to joining X5 Mr. Gusev worked in Alfa Group as Director for Investment Planning and Director for Group Portfolio Management and Control since 2001. Mr. Gusev was leading the merger process that led to the creation of X5 Retail Group. Prior to joining Alfa Group, Mr. Gusev worked many years in strategic consulting at Bain & Company and at Deloitte & Touche. Mr. Gusev graduated with honors from the Moscow State University, and holds an MBA degree from the Wharton School of Business at the University of Pennsylvania.

**Kieran Balfe**, an Irish citizen, was appointed Chief Financial Officer of X5 on 22 February 2011. Mr. Balfe has been working in Russia since 1994. Prior to his appointment at X5 Mr. Balfe was Deputy General Manager and CFO for Emerging Markets of the confectionary leader Wrigley. Following the acquisition of Wrigley by Mars Inc., Mr. Balfe played a key role in the integration of the two companies' Russian operations.

Previously, Mr. Balfe was Financial Controller at Japan Tobacco International, Deputy General Manager and Finance Director at American Home Products Corporation responsible for both operational and corporate finance for Russia and the CIS countries, and Finance Director for Glencore's copper operations in Kazakhstan. Mr. Balfe started his career as an Audit Supervisor and Audit Manager for Coopers & Lybrand, with whom he initially relocated to Moscow in 1994. Mr. Balfe graduated from the University College Dublin with a Master's degree in accountancy. He qualified as a Chartered Accountant in 1993 and was awarded a fellowship in the Institute of Chartered Accountants in Ireland in 2005.

**Frank Lhoëst**, a Dutch citizen, was appointed as statutory director and Company 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 internal control systems 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.

The Supervisory Board has prepared a profile of its size and composition, taking account of 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.

**Hervé Defforey**, a French citizen, is an operating partner in GRP Partners, Los Angeles, and sits on the boards of IFCO Systems N.V., Ulta Corp., Chicago and Kyriba S.A., Paris. Prior to joining GRP in 2001, Mr. Defforey was CFO and Managing Director of Carrefour S.A., from 1993 to 2001, where he remained on the board until 2004. Previously, Mr. Defforey was Treasurer at BMW Group and General Manager of various BMW AG group subsidiaries, and also held senior positions at Chase Manhattan Bank, EBRO Agricolos, S.A. and Nestlé S.A. Mr. Defforey 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.

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



**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 Altime 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 Couvreur**, 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. Couvreur 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 Nomination and 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 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
Mr. Hervé Defforey	Member	Member		Member
Mr. Mikhail Fridman				
Mr. Vladimir Ashurkov	Member	Member		Member
Mr. David Gould	Chairman			
Mr. Alexander Tynkovan		Member	Chairman	Member
Mr. Stephan DuCharme		Chairman	Member	
Mr. Christian Couvreur				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 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 elected 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 75, 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 of 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.

General Meetings of Shareholders may only be held in Amsterdam, Haarlemmermeer (Schiphol Airport) or The Hague (the Netherlands). The notice for a General Meeting of Shareholders needs to be published not later than the 42nd day prior to the day of the meeting. The mandatory record date, establishing which shareholders are entitled to attend and vote at the General Meeting of Shareholders, is fixed at the 28th day prior to the date of the meeting.

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 request a matter to be included on the agenda of the General Meeting of Shareholders. Such requests, if sufficiently substantiated and received by the Company at least sixty days before the date of the meeting, can only be refused on the grounds of exceptional circumstances, to be checked against the principles of reasonableness and fairness.

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 applicable laws, and may be submitted electronically.

On 1 July 2010 a bill on shareholders' rights came into force in the Netherlands, implementing the European directive on the exercise of rights of shareholders in listed companies. Apart from certain rules reflected in this section, the new bill introduces amendments relating to publication and content of the notice for a shareholders' meeting, publication of voting results and further rules on circulation of information. At the 2011 Annual General Meeting of Shareholders, X5's shareholders will be requested to approve the amendment of the Company's Articles of Association in accordance with the new bill on shareholders' rights.

### **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 10 March 2011 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 <sup>(1)</sup>
CTF Holdings Ltd.	2 August 2007	47.86%
Axon Trust	22 December 2009	11.43%
The Baker Trust	11 December 2009	8.42%

<sup>(1)</sup> 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](http://www.afm.nl).





### 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.

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 authorization 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 authorized to acquire up to 10% of the shares or depositary receipts thereof. This authorization is valid through 25 December 2011. 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.

Authorization 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 25 December 2011.



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 25 December 2011.

#### **Articles of Association**

X5's Articles of Association contain rules on organization 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.

The 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.

At the 2011 Annual General Meeting of Shareholders, X5's shareholders will be requested to approve the amendment of the Company's Articles of Association in accordance with the new

Dutch bill on shareholders' rights which came into force on 1 July 2010, implementing the European directive on the exercise of rights of shareholders in listed companies.

#### **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 2010 Annual General Meeting of Shareholders. Since then, there were no substantial changes in the corporate governance structure of the Company. 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 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. The final tranche of options under the ESOP vested on 19 May 2010.

While the ESOP is considered a long-term compensation for its participants, and the grant of options was 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 the 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 was important for X5 to deviate on this point from the Code in order to attract and reward the best professionals in these markets.

The Company's next generation long-term incentive plan launched in 2010 (the "Restricted Stock Unit Plan", see Remuneration Report on page 75) provides for vesting and lock-in periods in line with the Code's best practices.

#### **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.

Three out of seven members of the Supervisory Board have a substantial shareholder interest in X5, or 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. Hervé Defforey, Mr. Alexander Tynkovan, Mr. Stephan DuCharme and Mr. Christian Couvreur 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 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 2009, the Supervisory Board resolved to merge the Supervisory Board's Remuneration Committee and Selection and Appointment Committee to one 'Nomination and Remuneration Committee.' X5 currently deviates from the Code, which requires these two committees to be separate committees. 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. David Gould and Mr. Vladimir 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. David Gould's and Mr. Vladimir Ashurkov's financial expertise, and for reasons of continuity, X5 believes that it is in X5's best interest that Mr. David Gould's and Mr. Vladimir 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 and 5 November 2007, 16 June 2008 and 15 January 2010 the General Meeting of Shareholders approved the granting of options to Mr. Hervé Defforey and Mr. Stephan DuCharme, both members of the Supervisory Board. Furthermore, on 25 June 2010, the General Meeting of Shareholders approved the conditional grant of Restricted Stock Units to the Supervisory Board members Mr. Hervé Defforey, Mr. David Gould, Mr. Alexander Tynkovan, Mr. Stephan DuCharme and Mr. Christian Couvreur. X5 acknowledges that such grants deviate from the Code. However, in order to attract and reward experienced individuals with a track record that is of specific relevance to the Company, X5 believes it is necessary to allow members of the Supervisory Board to participate in the Company's long-term incentive plans.



## Risk Management & Internal Control

### Overview

X5, as any other company, is constantly dealing with risks and opportunities that can either negatively or positively influence its business. In order to minimize the negative impact of risks and in order to capitalize on opportunities a Company-wide risk management and internal control system should be established and fully integrated into the Company's operations.

The overall objective of this system is to obtain reasonable assurance that the Company's goals and objectives will be achieved and that the resources used for this will be effectively employed. This assurance can be achieved by identification of potential risk events encountered or likely to be encountered by the Company, the creation of risk-oriented decision-making processes and the implementation of internal controls that effectively mitigate identified risks. Moreover, this risk management and internal control system should provide X5 with the ability to identify and act with confidence in capitalizing on identified opportunities.

We do, however, understand that risk management and internal control gives a reasonable, but not an absolute guaranty we will achieve our goals. This is because:

- › Risk identification and assessment are almost always subject to uncertainty as they deal with the future;
- › Certain risks are out of the Company's sphere of influence and as such, preventive measures cannot be implemented;

- › Certain control procedures may be degraded by human mistake and/or neglect.

### Accountability

We believe that the risk management and internal control system will only be effective when every X5 employee is risk conscious and control oriented in their daily activities. Therefore, we define roles and responsibilities of X5 personnel as follows:

**The Supervisory Board and its Audit Committee**, as stated in Corporate Governance section of this Annual Report, is responsible for overall supervision and monitoring activities in respect of the internal control and risk management system.

**The Management Board and the Executive Board** have primary accountability for implementation and proper functioning of risk management and internal control system in the Company while X5's Management is responsible for identification and mitigation of risks, creation of necessary control procedures and action plans and their implementation.

**The Enterprise Risk Management (ERM) Team** is responsible for facilitation of the risk management process implementation and creation of an appropriate risk management methodology. Moreover it is performing all necessary reporting procedures based on the results of monitoring of risk management and internal control effectiveness.

**The Corporate Audit Department** is performing an independent assessment of overall risk management and internal control system effectiveness.



### Approach

Risk management and internal control strategy is aimed at the establishment of simple risk identification, assessment, mitigation and reporting framework that can be built on existing X5 processes. A way to implement the strategy is a “top-down” approach: from the strategic to the business-process level. This approach gives a common methodology and unique standards making it possible to identify, prioritize and compare all the risks and opportunities throughout the Company.

The risk management and internal control process in X5 is guided by the recommendations of the Committee of Sponsoring Organizations (COSO) and its “Enterprise Risk Management – Integrated Framework” and “Internal Control – Integrated Framework”.

Since 2009 the annual risk assessment has been based on X5’s “Risk Universe for Retail” by means of interviews, self-assessment workshops and questionnaires. In 2010 the ERM Team performed the annual risk assessment, including effectiveness of controls and residual risks status, based on interview sessions with senior management. Risks have been assessed and quantified based on available financial and other information on previous years’ performance, and on the existence and effectiveness of controls which are currently in place. The results of this assessment – X5’ Risk Profile – have been agreed with the Executive Board and the Management Board, discussed with the Corporate Audit Department and then presented to the Supervisory Board and its Audit Committee and X5’s external auditors.

### Risk Profile

This section describes the main risks X5 currently faces that can have a significant impact on the achievement of the Company’s strategic goals and objectives. X5 is of course exposed to additional risks that apply to all companies operating on

the Russian market, and the retail market globally, as well as other risks that are not presently known to us.

### Strategy

The consumer climate in Russia continues to improve as a result of gradually improving macro conditions, a healthier labour market and a likely increase in social spending ahead of the Duma elections in December 2011 and the Presidential elections in 2012. Nevertheless, the Russian retail market is still fragmented, immature and growing fast. These factors pose both opportunities and risks for X5.

› X5’s leadership on the Russian retail market and its reputation depend largely on how well we establish, communicate and follow the right strategic vision.

To ensure the Company continues to pursue the right strategy, the Supervisory Board and its Strategy Committee, together with senior management, hold specific sessions to discuss and take decisions on internal and external issues that may influence our strategy.

Our strategic initiatives are described in detail in the “Strategic Review” section of this Annual Report.

As a result, we believe that by choosing and pursuing a proper and well executed strategic vision we achieve long-term profitable growth for the benefit of our stakeholders and for enhancing X5’s leadership in the Russian retail market.

### Human Resources

The ability and quality of the achievement of the X5 strategy highly depends on our greatest asset – our employees. In order to be an attractive and stable employer we seek, develop and remunerate our employees using leading HR practices.



We constantly assess our HR policies in order to promptly address the following risk factors:

- › Our ability to recruit and retain the necessary number of staff on both the management and operational levels.
- › Our ability to create a balanced organizational structure that allows and motivates our personnel to achieve our objectives and corporate goals.
- › Success of our internal cross-functional communication that facilitates efficient and effective decision-making process.

A competitive compensation package is provided to our executive and line managers, whose performance is evaluated through key performance indicators (KPIs) to ensure their commitment to the Company's goals.

Due to X5's rapid growth we are constantly attracting a significant number of employees from the market and are constantly improving and developing new recruitment methods. In general, we have a strong commitment to employee integration and education, with programmes in place to develop and promote talented employees with vertical and horizontal career-building opportunities. Corporate activities organized during the year help us build a strong and motivated team eager to work for X5 and achieve its objectives.

**Expansion**

The general recovery after the economic crisis both in the real estate sector and in consumer spending strongly contributed to X5's accelerated growth. Our 2010 results and expansion plans for the ensuing years are highly influenced by:

- › Our ability to find and effectively manage necessary properties and negotiate appropriate purchase and lease terms.
- › Success in creation and implementation of effective procedures to support the organic growth process.

In the process of identifying and leasing and/or purchasing suitable properties, our internal real estate professionals perform 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 or refurbishment of stores. In addition, for all the potential investments into property we use a range of financial and non-financial metrics taking into account store locations, traffic and accessibility studies, etc. to make sure that we obtain attractive sites at an attractive price.

X5 Management pays particular attention and allocates significant management resources to optimization of its organic expansion strategy and supporting processes. As a result an increased number of store openings has been achieved in 2010.

Apart from organic growth an important part of X5's expansion strategy remains the selective acquisition of attractive retail chains. The pursuit of any acquisition strategy requires the proper selection and valuation of appropriate targets, which is effectively performed by our experienced M&A team. Once acquired the success depends mainly on:

- › Our ability to effectively perform integration process to realize economies of scale and synergies.

To ensure timely and effective integration, a special integration team is created including representatives from all major functions in the Company.





This integration team is creating and monitoring appropriate integration plans and taking into account the experience learned in previous integration processes. Importantly, we put in place an appropriate system of monitoring and direct accountability for achievement of operational integration.

### Operations

Our customers are our major focus. In order to provide them with the best quality of goods and services on the market at a reasonable price, we constantly analyze and improve key operational processes such as assortment management (including private label), pricing, supplier relationships, merchandising, sales and customer management. The key risks and points of attention are:

- › Our ability to define assortment that is in line with customer needs.
- › Success in building long-term relationships with suppliers and producers of private label goods in the necessary amounts and corresponding to our highest quality standards.
- › Our ability to create and control strict food products safety procedures at all times.
- › Our ability to maintain “price leadership” and a socially responsible status.
- › Success of stock management system which minimizes shrinkage and excessive inventory.
- › Transport and warehouse logistics facilities and our ability to ensure a proper delivery of goods.

Our “Close to the Customer” policy highlights the progress made and our plans towards improvement in pricing, assortment and safety controls based on each format’s value proposition strategy. Apart from this, the “Progress in Private Label” section describes how our private label policy creates a major opportunity to enhance X5’s differentiation and value for customers. The details are described in the “Strategic Review” section of this Annual Report.

Our social activities and commitments, as well as the projects and procedures on food products safety are described in the “X5 and Society” section of this Annual Report.

### Business Support

In order to realize the current plans for organic growth as well as to build a base for future development, X5 plans in advance for the long-term development of business support processes and necessary infrastructure. The key risk factors that we are considering while developing those processes are:

- › Sufficiency of IT facilities (programmes, servers, etc.) that provide business continuity.
- › Availability of internal electronic and physical document-flow systems.

We are constantly optimizing our efficiency by following our “Strategic Efficiency Programme”. In 2010, X5 made substantial progress in implementing this programme.

2010 has been a crucial year for establishing the base for further development and growth, including the roll-out of SAP for Retail and HR. We believe that these systems should provide a strong platform that not only supports our Company’s development, but also enhances internal control of major processes and drives Company-wide efficiency gains.



The details of the SAP implementation progress and other business support activities are described in detail in the “Strategic Review” section of this Annual Report.

**Financial and Management Reporting**

While SAP for Finance implementation in 2011 will allow to perform parallel accounting and automatic preparation of the consolidated IFRS reporting, we still believe that risk of 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 should be further decreased. Another crucial risk factor in this area is:

- › Availability of sufficient, useful and correct management reporting systems that support analysis of the results and provide the basis for effective decision-making processes.

We see even more considerable opportunities in the utilization of SAP for Finance – improvement of internal controls over the financial reporting process and availability of a wide range of management reports which will support decision-making process.

**Fraud**

- › Effective resource allocation depends highly on our ability to prevent corruption and fraud at all levels in the Company.

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 behavior to employees through its Company values and its Guiding Principles of Business Conduct. The Company constantly emphasizes its Corporate Code for Reporting of Alleged Irregularities (“Whistleblower Policy”) and operates an ethics hot line. The Fraud Investigation Team of the Corporate Audit Department and/or the Security

Department undertake investigations into fraud cases. Results of such investigations are highlighted to the CEO, the Executive Board, the Management Board, and the Supervisory Board and its Audit Committee, as necessary.

**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. Apart from this, new regulations have become applicable to X5 in 2010 or are expected to become applicable in 2011 such as UK Bribery Act and PCI DSS (payment card industry data security standard) and there is uncertainty regarding their application and enforcement. That is why our success depends on:

- › Our ability to prevent or detect and quickly respond to unfavorable changes in applicable laws and regulations due to changes in political and economic conditions.
- › Our ability to identify, and establish compliance with, newly applicable standards in a timely manner.

The Company monitors regulatory developments and enforces a strong compliance regime. Moreover we engage with public and governmental organizations to ensure that the interests of our customers are represented. In addition, X5 is consulted and invited to contribute to important government regulations regarding the retail industry.



### Legal Risks

X5's size, number of employees and amount of operations in various spheres of business including leasing or buying sites, conducting M&A transactions, dealing with suppliers, logistics providers, etc. make contract and litigation risks pervasive to our organization.

Our professional legal team participates in every stage of each transaction and analyses the acceptability of contract terms to minimize risks. In addition, we protect ourselves against these risks by seeking to comply with all applicable laws and regulations, and by vigorously preparing and defending our position in litigation and enforcing our rights in relation to contracts and using all means provided by law.

### 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.

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 resulting from tax disputes of other companies operating in Russia. The Company further protects itself against tax risks by establishing appropriate provisions in its IFRS consolidated financial statements.

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

### Financial Risks

The main financial risks faced by the Company relate to the availability of funds to meet business needs (liquidity and credit risks) 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.

Note 30 "Financial Risks Management" to the consolidated financial statements in this Annual Report contains the detailed description of financial risks the Company faces as well as the description of financial instruments the Company uses to mitigate risk exposures.

### Management Summary

The Management Board has reviewed and analyzed the risks to which the Company is exposed, as well as the effectiveness of the Company's internal risk management and control systems over 2010. The outcome of this review and analysis has been shared with the Audit Committee and the Supervisory Board and has been discussed with X5's external auditors.

The Management Board believes that the risk management & control system regarding the financial reporting risks have worked properly during 2010, and provide reasonable assurance that the financial statements 2010 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.

**The Management Board<sup>(1)</sup>**

**F. Lhoëst**

**12 April 2010**

<sup>(1)</sup> Mr. Andrei Gusev, acting CEO, was nominated as member of the Management Board and CEO on 10 March 2011, for appointment by the General Meeting of Shareholders in June 2011. Mr. Kieran Balfe was appointed to the Management Board as CFO on 22 February 2011. In view of Mr. Balfe's appointment after the end of the financial year 2010, the Company considers it inappropriate for him to sign this Annual Report.



## 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.

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.

At the Extraordinary General Meeting of Shareholders on 15 January 2010, Mr. Christian Couvreur was appointed as member of the Supervisory Board, following the resignation of Mr. Criado-Pérez Trefault as per 1 January 2010. Mr. Christian Couvreur is an independent Supervisory Board member with a considerable track record in the global retail industry.

Furthermore, at the Annual General Meeting of Shareholders on 25 June 2010, Mr. Hervé Defforey and Mr. David Gould were re-appointed for an additional four-year term.

An overview of the current composition of the Supervisory Board is presented in the Corporate Governance Report.

### Composition of the Committees

When Mr. Christian Couvreur was appointed to the Supervisory Board in January 2010, he took over Mr. Vladimir Ashurkov's position as chairman of the Strategy Committee, with Mr. Vladimir Ashurkov remaining a member of this committee. Mr. Criado-Pérez Trefault's position as chairman of the Related Party Committee was taken over by Mr. Alexander Tynkovan, while Mr. Stephan DuCharme replaced Mr. Hervé Defforey as a member of the Related Party.

There were no further changes in the composition of the committees in 2010 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. Christian Couvreur 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. Christian Couvreur attended the meetings of the Supervisory Board in November and December 2009. Throughout the year, members of the Supervisory Board visited several operating companies and other parts of the business to gain greater familiarity with senior management, and to develop deeper knowledge of local operations, opportunities and challenges.



### Meetings of the Supervisory Board

The Supervisory Board meets at least four times per year. In 2010 the Supervisory Board held six meetings, including one meeting by teleconference. Further resolutions in writing were taken when necessary during the year. On each of five occasions in 2010 the meeting of the Supervisory Board was preceded by meetings of the Audit Committee, the Nomination and Remuneration Committee and the Strategy Committee.

All meetings were attended by the full Supervisory Board. 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 2009 Annual Report and financial statements were endorsed. In April 2010 the Supervisory Board discussed its own functioning, its profile, competence and composition. This evaluation was conducted on the basis of an elaborate self-assessment, using the recommendations following the Board's assessment in the preceding year. 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.

Throughout the year the Supervisory Board reviewed and/or resolved various matters related to the Company's activities, its operational results, its strategies and its management, including:

- › The financial reporting process and in particular the approval of the 2009 Annual Report and review of the 2010 half-yearly and quarterly financial statements and management accounts;
- › The regular assessment of the members of the Management Board and the Executive Board, including the Company's talent management and succession planning;
- › The remuneration of the Management Board, in accordance with the Remuneration Policy;
- › The appointment and remuneration of senior managers of the Company;
- › The amendment of the Remuneration Policy for members of the Management Board;
- › The launch of the Company's next generation long-term incentive plan for members of the Management Board and other senior executives, and the conditional grant of Restricted Stock Units under the first tranche of the new Plan (see: Remuneration Report);
- › The composition of the Committees of the Supervisory Board;
- › The amendment of the Rules governing the Principles and Practices of the Supervisory Board;
- › The nomination of Mr. Hervé Defforey and Mr. David Gould for re-appointment to the Supervisory Board;
- › The appointment of Mr. Anton Volyanskiy as acting CFO, and subsequently the nomination of Mr. Kieran Balfe as CFO, following the resignation of Mr. Evgeny Kornilov in September;
- › The federal law on Retail Trade in Russia which came into force on 1 August 2010, and its impact on the retail industry and X5 in particular;



- › A review of the Company's three-year business plan, including a review of strategies as part of the annual strategic planning cycle;
- › The launch of a new retail format operating under the brand name "Pyaterochka-Maxi";
- › The Company's financing strategy, in particular the refinancing of the syndicated loan facility with maturity December 2010;
- › The Company's M&A Strategy, in particular the acquisition of the retail chains "Ostrov" in September and "Kopeyka" in December;
- › The progress of post-merger integration efforts and synergy effects throughout the various operational and staff divisions of the Group;
- › The assessment of the Company's organization structure in line with the evolution of the business;
- › Reviews of updates on the functioning IT systems, in particular the implementation of SAP;
- › The review of the Enterprise Risk Management (ERM) and control systems of the Group;
- › The budget and key performance indicators for 2011.

### 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 2010 the Audit Committee consisted of Mr. David Gould (Chairman), Mr. Hervé Defforey and Mr. Vladimir Ashurkov.

In 2010 the Audit Committee held five meetings in person. All meetings were attended by the CFO, the external auditor and the Head of the Corporate Audit Department (CAD). Other members of the Supervisory Board and senior management were invited when necessary or appropriate. Additional meetings were held by conference call to review the publication of financial press releases and trading updates.

The Audit Committee discussed with X5's external auditor the 2009 annual results and the 2010 first quarter, half-year and third quarter results. 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 2009 consolidated financial statements. In April 2010, the Audit Committee met with the auditors without the presence of management. Audit fees for 2011 were approved in September.

In July and November the Audit Committee reviewed the financing strategy 2010/2011, including hedging strategies, with particular emphasis on the re-financing of X5's syndicated loan facility maturing in December 2010, and in view of short- and medium-term M&A activities of the Company. In March 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.

An update of IT matters, in particular the implementation of SAP for Retail and SAP for Finance, was presented and discussed in July. Additionally, outside of the Audit Committee, the Chairman of the Supervisory Board conducted a number of meetings during 2010 with key IT staff to discuss strategic and other IT issues of importance.





Throughout the year the Audit Committee reviewed the Company's risk management and internal control systems, and the proper functioning of operational and business processes mainly through the work of the CAD. The CAD assessed processes in a number of departments in terms of their effectiveness and efficiency, compliance with laws and regulations, their safety and proper reflection in the Company reporting systems and developed recommendations to the Company management on enhancing controls and decreasing the inherent risks. 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. In November, the CAD's internal audit plan 2011 was discussed with the external auditor, and approved by the Audit Committee.

In November, management shared with the Audit Committee its risk management strategy and updated risk mapping with assignment to specific personnel, and general evolution of the enterprise risk management function in the ensuing years.

In 2010 the Audit Committee continued to assess the financial and management reporting function of the Company. In conjunction with the Strategy Committee, particular attention was given to ageing inventory, and progress made under the 'Aged Stock Action Plan'. 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.

In September and November the Audit Committee reviewed the Company's investment process, with particular emphasis on periodic evaluation of completed investments, both in terms of synergies and return on investment.

The Audit Committee reviewed regular updates on integrity matters, in particular through reports of the CAD's Fraud Investigation Team. In November the Audit Committee approved the Company's financial reporting calendar and the black-out trading calendar for the year 2010.

Additionally, after conducting a thorough search for a replacement for the Head of CAD, the Audit Committee appointed a new Head of CAD in July 2010.

#### **Nomination and Remuneration Committee**

The role of the Nomination and Remuneration Committee is described in its charter which is available on the Company's website. On 31 December 2010 the Nomination and Remuneration Committee consisted of Mr. Stephan DuCharme (Chairman), Mr. Hervé Defforey, Mr. Vladimir Ashurkov and Mr. Alexander Tynkovan.

The Nomination and Remuneration Committee held six meetings in 2010, including one meeting by teleconference. All meetings were attended by the chairman of the Audit Committee and four meetings were attended by the chairman of the Strategy Committee. A joint meeting with the Strategy Committee was held in April. One meeting was attended by the CEO. Other members of senior management were invited when necessary or appropriate.

During the first half of 2010 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 2009. In this context, and based on the Company's 2010 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 2010.



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 Nomination and Remuneration Committee discussed and proposed the re-appointment of the Supervisory Directors Mr. Hervé Defforey and Mr. David Gould for a new term until 2014, in accordance with the retirement and re-appointment schedule of the Supervisory Board. In April the Committee discussed the composition and profile of the Supervisory Board and its committees, as well as the retirement and re-appointment schedule of the Supervisory Board. The Committee evaluated the functioning of the Supervisory Board based on a self-assessment, and reported the results thereof to the Supervisory Board.

The composition and profile of the Management Board was reviewed, within the context of a broader review of the organization structure, including talent management and succession planning at top executive level. During the second half of the year the Committee particularly focused on the selection of a new CFO following the resignation of Mr. Evgeny Kornilov in September. Furthermore, following Mr. Lev Khasis' resignation as CEO of the Company in March 2011, the Committee proposed the nomination of Mr. Andrei Gusev as his successor, to be appointed by the upcoming Annual General Meeting of Shareholders in June 2011. Finally, the Committee proposed the re-appointment of Mr. Frank Lhoëst, whose first term as Company Secretary comes to an end in 2011.

Further to the thorough review of the Remuneration Policy for the Management Board (and the Executive Board) in 2009, the Committee proposed a new Remuneration Policy in 2010 which was supported by the Supervisory Board. The new Remuneration Policy, which also reflects the Company's next generation

long-term incentive plan launched in 2010, was approved by the General Meeting of Shareholders in June.

The Remuneration Report on page 75 provides further details on the remuneration for the Management Board and the Supervisory Board, and includes the current Remuneration Policy for the Management Board, as well as the outlook for 2011 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 2010 the Related Party Committee consisted of Mr. Alexander Tynkovan (Chairman) and Mr. Stephan DuCharme.

The Related Party Committee held five meetings in 2010, 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 main transactions were discussed and/or approved by the Related Party Committee and the Supervisory Board during 2010, 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 2010-2014 for advisory and administrative services rendered by CTF Holdings Ltd.;
- › The engagement of Alfa Bank for the potential purchase of RUR 4.5 billion of Ruble bonds issued by X5 Finance LLC;



- › The X5 Loyalty Card Project with Alfa Bank as co-branding partner;
- › A Treasury Master Agreement with Alfa Bank;
- › An insurance contract with “AlfaStrahovanie” (by auction);
- › A RUR 10 million guarantee from Alfa Bank in favour of X5’s group company LLC “IT-Business”;
- › Revolving credit facilities, and other credit products within approved credit limits, with Alfa Bank; increase of the credit limit with Alfa Bank to refinance the debt portfolio of “Kopeyka”;
- › The acquisition of land (by auction) from an A1 group company for the hypermarket project “Perm, Kosmonavtov”;
- › The acquisition of the retail chain “Globus Gourmet”.

### Strategy Committee

The role of the Strategy Committee is described in its charter which is available on the Company’s website. On 31 December 2010 the Strategy Committee consisted of Mr. Christian Couvreur (Chairman), Mr. Hervé Defforey, Mr. Vladimir Ashurkov and Mr. Alexander 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 held six meetings in 2010 including its annual two-day conference in September. All meetings were attended by the CEO, the CFO and other senior managers, as well

as the chairmen of the Audit Committee and the Nomination and Remuneration Committee. Joint meetings with the Nomination and Remuneration Committee and the Audit Committee were held in April and November, respectively.

The Committee addressed in particular the Company’s retail format strategy, the logistics development plan, food and non-food assortment strategy, loyalty programmes, private label and M&A strategy. During the year, the Committee evaluated the impact of the draft federal law on Retail Trade on the Russian retail industry and X5 in particular. The annual strategy conference in September was dedicated to the Company’s three-year business plan, including detailed reports and discussions on X5’s organizational strategy, talent management and succession planning, as well as IT and investment strategy.

Furthermore, the Committee discussed the Company’s key-performance indicators and budget for 2011, as well as the organizational 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 2010 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 172.



The Supervisory Board recommends that the Annual General Meeting of Shareholders adopts the 2010 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 171.

The Supervisory Board wishes to thank the Management Board and all employees of X5 for their outstanding contributions in 2010.

**The Supervisory Board**

**12 April 2011**



## Remuneration Report

This report has been prepared by the Supervisory Board of X5 Retail Group N.V. (the “Company”) in accordance with the Dutch Corporate Governance Code. It contains the remuneration policy of the Management Board of the Company (the “Remuneration Policy”) as well as the remuneration specifics of both the Management Board and the Supervisory Board for the financial year 2010. This report also addresses the way in which the Remuneration Policy will be pursued for the financial year 2011 and beyond.

### Nomination and Remuneration Committee

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

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

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

The Committee prepares its proposals independently after careful consideration, including taking into account the advice of independent advisors, when necessary. These advisors do not

advise the members of the Management Board personally on their remuneration.

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

### Current Remuneration Policy

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

The objective of the Remuneration Policy is twofold:

- › To create a remuneration structure that will allow the Company to attract, reward and retain qualified executives who will lead the Company in achieving its strategic objectives; and
- › To balance short-term operational performance with the long-term objectives of the Company and value creation for its shareholders, with due regard for the risks to which variable remuneration may expose the Company.

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



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

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

#### **Benchmarking with Industry Peers**

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

#### **Base Salary**

Base salaries are specified in the individual contracts with members of the Management Board and reflect competence and responsibilities of a member of the Management Board, his/her relevant experience, and other factors. The levels of base salaries are determined by (i) benchmarking with industry peers, as described above, and (ii) the specific responsibilities and achievements of the individual member of the Management Board. The annual review date for the base salary is December 31.

#### **Annual Cash Incentive**

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

The Supervisory Board sets the targets for the bonus scheme at the beginning of each financial (calendar) year. The quantitative corporate indicators include net sales and EBITDA, which are to be achieved cumulatively. The personal performance targets include targets related to divisional performance, mission-related or key project-related targets, as well as qualitative behavioral targets. Both the corporate and personal performance measures are considered success factors for the Company in the short-term, while also contributing to the achievement of the long-term objectives of the Company, including in particular building out and strengthening the Company's leading position in the Russian retail sector. X5 does not disclose the actual targets set, as this qualifies as commercially sensitive information.

#### **Long-term Incentive**

##### **Employee Stock Option Plan**

In 2007 the Company launched its long-term incentive plan for key employees and members of the Management Board through its Employee Stock Option Plan (the "ESOP"). The ESOP was approved by the General Meeting of Shareholders on 15 June 2007. The options granted under the ESOP each confer the right to a number of Global Depositary Receipts ("GDRs"), each GDR representing one fourth of an ordinary share of Euro 1 par value in the capital of the Company.



The aggregate number of GDRs for which options may be granted under the ESOP amounts to 11,261,264 GDRs, which number is within the limit approved by the General Meeting of Shareholders on 15 June 2007 (i.e. 5% of the issued share capital of the Company). The options were granted in four tranches issued over a period of three years (2007 through 2009). The options outstanding are conditional upon employment with the Group. The number of options granted to Management Board members and key employees were linked to pre-determined criteria of participation in the program, based on the level of responsibility within the Company.

#### **Restricted Stock Unit Plan**

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

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

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

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

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

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

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





### **Other Remuneration Components**

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

### **Contracts of Employment**

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

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

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

The severance payment is in principle limited to a maximum of one year's base salary (the 'fixed' remuneration component) of the relevant member of the Management Board. The Supervisory

Board reserves the right to agree to a different amount if required under individual circumstances.

### **Insurance and Indemnity Arrangements**

Members of the Management Board and Supervisory Board, as well as certain senior management members, are insured under X5's Directors and Officers Insurance Policy.

Although the insurance policy provides for a wide coverage, X5's directors and officers may incur uninsured liabilities. Members of the Management Board, as well as members of senior management, may be indemnified by the Company against any claims arising out of or in connection with the general performance of their duties, provided that such claim is not attributable to gross negligence, willful misconduct or intentional misrepresentation by such director or officer. In addition, the General Meeting of Shareholders approved the indemnity arrangements to be granted by the Company to members of the Supervisory Board.

## **Remuneration 2010**

### **Management Board Remuneration**

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

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



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

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

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

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

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

Base salary amounts were paid in either Russian Rubles or Euro and converted to USD for reporting purposes, using the average USD rate for 2010 to convert RUR amounts into USD, and average cross-rate EUR/USD for amounts paid in Euro. Cash bonus amounts will be paid in either Russian Rubles or Euro and converted to USD for reporting purposes, using the closing USD rate for 2010 to convert RUR amounts into USD, and closing cross-rate EUR/USD for amounts paid in Euro. The rates are

available in Note 2 to the consolidated financial statements included in this Annual Report.

#### Supervisory Board Remuneration

In the reporting year, the total remuneration of the Supervisory Board amounts to EUR 1,170,000 or USD 1,552,514 (2009: USD 1,197,294).

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

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



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

### Stock Options

Details of options held and options exercised in 2010 by members of the Management Board and Supervisory Board, are set forth below.

	Granted in 2007	Granted in 2008	Granted in 2009	Tranche	Vesting Date	Value per Vesting Date <sup>(1)</sup>	Exercised in 2010	Position 31 Dec. 2010	Exercise Price <sup>(2)</sup>	GDR Price on Exercise Date	Expiration Date
Mr. Lev Khasis <sup>(3)</sup>	810,000			2	18.05.2008	\$8,237,700		810,000	\$28.58		01.09.2011
		860,625		3	19.05.2009	nil		860,625	\$33.43		01.09.2011
			860,625	4	19.05.2010	\$16,515,394		860,625	\$13.91		01.09.2011
Mr. Evgeny Kornilov	30,000			2	18.05.2008	\$305,100	30,000		\$28.58	\$36.87	16.12.2011
		220,000		3	19.05.2009	nil	220,000		\$33.43	\$36.87	20.11.2012
			220,000	4	19.05.2010	\$4,221,800	220,000		\$13.91	\$32.52	20.11.2013
Mr. Frank Lhoëst			20,000	4	19.05.2010	\$383,800	20,000		\$13.91	\$34.00	20.11.2013
<b>Total Management Board</b>			<b>1,100,625</b>					<b>2,531,250</b>			
Mr. Hervé Defforey		42,500		3	19.05.2009	nil		42,500	\$33.43		20.11.2012
			70,000	4	19.05.2010	\$1,343,300		70,000	\$13.91		20.11.2013
Mr. Stephan DuCharme			32,500	4	19.05.2010	\$623,675		32,500	\$13.91		20.11.2013
<b>Total Supervisory Board</b>			<b>102,500</b>					<b>145,000</b>			

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

<sup>(2)</sup> 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'.

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



### Restricted Stock Units

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

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

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

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

### Remuneration Policy in 2011 and beyond

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

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

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

### The Supervisory Board

12 April 2011