

Our Risk Management



WE CONDUCT AUDITS AMONG OUR SUPPLIERS TO MONITOR PRODUCT SAFETY, ETHICAL, ENVIRONMENTAL, AND SOCIAL RISKS THAT MAY ARISE AND IMPACT OUR OPERATIONS.

As part of our overall risk management approach, we contract insurance coverage for external risks such as natural disasters (earthquakes, fires, floods etc.) and cyberattacks and we proactively manage our internal risks. We also procure some risk management services from multiple service providers in order to spread our service-procurement risks.

As part of our risk management process, we conduct sensitivity analysis and risk testing. This involves performing scenario analyses related to key risk areas, testing risk levels, and taking necessary precautions accordingly. We monitor financial risks on the basis of such performance

indicators as net debt, total debt, EBITDA, net debt/equity, operating profit margin, gross profit margin, and net profit margin. We monitor operational risks on the basis of such performance indicators and metrics as stock levels, stock loss rates, and stock disposal rates.

We mitigate risks in all our business processes by working with multiple suppliers and service providers. We also transfer risks through processes such as insurance and service-procurement diversification.

We conduct audits among our suppliers to monitor product safety, ethical, environmental, and social risks that may arise and impact our operations. Based on the results of these audits, we create action plans to address any identified risks. Detailed information about these issues is provided in the “Our Supplier Selection and Auditing Processes” section of this report.

We track compliance obligations related to quality, occupational health, food safety, customer satisfaction, and environmental management systems through our Integrated Quality Management System. We identify risks and opportunities in our company’s processes to increase positive impacts, prevent unwanted effects, and improve processes. We do this by taking into account stakeholder-specified expectations and needs. Whenever risks are identified, we formulate plans to manage them.

RISKS AND OPPORTUNITIES


WE ENCOURAGE
OUR EMPLOYEES TO
IDENTIFY AND REPORT
POTENTIAL RISKS
ASSOCIATED WITH OUR
OPERATIONS.

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We encourage our employees to identify and report potential risks associated with our operations as well as with the performance of their jobs. We collect risk-criteria information from every department each year to update our risk map. This helps senior management to identify and assess risks and to formulate plans to mitigate them. When significant risks related to specific operations are identified, we ensure that the risks are recorded by the units that may be affected by them. We use OHS Incident and Near-Miss report forms submitted by employees to monitor physical risks. We also collect employee feedback to update and improve our risk management processes. Every year we work with each department to review and update material risk criteria based on this employee feedback.

To manage risks material to operational, functional, and financial performance, the **Migros Internal Control System** first defines the risks in detail. Each risk is then independently examined and verified and the results are then shared with all company managers.

We use training to raise employees' awareness of our risk management principles. The training resources offered to our employees consist of classroom and online courses dealing with first aid, emergency response, earthquake preparedness, and other risks. Detailed information about this training is provided in the **"OHS Training & Inspections"**  section of this report. All employees have to complete a three-part online "Corporate Governance and Risk Management Training Package" course that covers corporate governance, risk management, and general knowledge issues.

Senior management also have to attend crisis management training, including earthquake preparedness simulations, provided by external consultants specialized in their field.

AWARENESS TRAININGS

WE USE TRAINING TO RAISE EMPLOYEES' AWARENESS OF OUR RISK MANAGEMENT PRINCIPLES.

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Risks & Opportunities

Risk area	Risk definitions*	Methods taken to manage risks	Factors that create opportunities
Employees	<ul style="list-style-type: none"> Find employees with competencies suitable for new business lines and developments Shortening employees' working hours, failing to create suitable work environments Provide employees with safe and secure workplace environments 	<ul style="list-style-type: none"> Conduct employee loyalty surveys, take action based on their results Make use of an effective performance management system Provide workplace that encourages self-development, introduce next-generation leadership practices Provide continuous information flow and support through Migros Career and Migros social media accounts Conduct events that are attended by Migros executives or play active roles in others' career days Effective career management system 	<ul style="list-style-type: none"> Construct roadmaps in line with views that employees express in annual employee loyalty and satisfaction surveys; strengthen employee loyalty by supporting constant development Provide career and personal development training resources through Migros Retail Academy Introduce and adhere to policies and practices that strengthen employees' problem-solving, decision-making, and job-ownership competencies Foster new in-house ideas through the Corporate Entrepreneurship Development Program Provide a fair and transparent environment for employees in which employees make their ideas and projects a reality through the Migros "Good Idea Good Project" platform
Environmental	<ul style="list-style-type: none"> Potential infrastructure risks and production-related supply chain problems associated with climate change Possible changes in supply maps owing to extreme weather events and climate shifts Operational interruptions due to forest fires, floods, and other natural disasters Impact of drought and water shortages on production Epidemics and outbreaks of disease Low-emissions economy 	<ul style="list-style-type: none"> Prioritize combating climate change; take measures to improve productivity and conservation Increase refrigeration, climate-control, and lighting system automation to reduce electricity consumption Install next-generation refrigeration systems to prevent GHG leakages Prioritize operational water efficiency in water-stressed areas Develop procurement resources compatible with changes in supply maps; shift to these when necessary Set up fresh produce warehouses in different localities Ensure that all risks are adequately covered in insurance contracts Develop store hygiene practices to be adhered to when outbreaks of disease occur; provide no-contact service options and increase online commerce capacity; make click & pick-up, no-contact, and similar services more accessible 	<ul style="list-style-type: none"> Measure Migros' carbon footprint and set targets for reducing it Absolute 42% reduction in Scope 1 and Scope 2 carbon emissions by 2030 (base-year: 2020) Identify operations taking place in localities where water resources are threatened and set water-reduction targets for them Reduce sales space m²/daily water consumption by 10% by 2030 (base-year: 2021) Increase use of Migros-patented water-based refrigeration systems that reduce GHG leakages by up to 90%; only install these systems in newly opened stores Combat food waste by reducing food-loss percentages by 50% by 2030 (base-year: 2018) Facilitate access to greater varieties of products through an extensive network of producers and suppliers while also strengthening supply chains Ensure agricultural production continuity by supporting GAP-compatible/organic procurements and regenerative/sustainable farming practices <p>Renewable energy investments</p> <ul style="list-style-type: none"> Installation of a solar panel system at the Adana distribution center has been completed. 90% of the facility's annual energy consumption is now being sourced inhouse. Solar panel systems are currently being installed at the Torbalı and Muğla distribution centers and at MİGET.

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Financial	<p>Funding-cost and associated balance-sheet risks</p> <ul style="list-style-type: none"> Higher costs resulting from economic volatilities Impact of changes in payment terms owing to changes in the regulatory framework on cash flow Potential financial losses arising from market interest rate movements Banking-industry risks impacting company cash flows 	<ul style="list-style-type: none"> Optimize borrowing through effective liquidity management Establish contractual credit limits with banks; constantly monitor these limits and their interest rates Regularly review the company's expense structure, taking into account economic changes; revise budgets annually or every 6 months or 3 months if economic conditions require; develop and implement measures to effectively manage operational expenditures. Conduct exchange rate sensitivity and interest rate analyses to identify and mitigate financial risks Set limits for long or short positions and conduct monthly checks to ensure compliance <p>Strong logistics and supply network, which includes 53 distribution centers nationwide and serves facilities such as fruit and vegetable warehouses and meat processing plants that allows us to operate with multiple distribution centers in all regions, safeguards backup operations, and enables shipments to be made from different distribution centers when necessary.</p>	<ul style="list-style-type: none"> Maintain the net cash position by monitoring cash flow and taking appropriate action to ensure that the company has sufficient cash on hand to meet its obligations Secure cost-effective financing from organizations that support sustainability initiatives that align with the company's sustainability goals Provide additional financial support to suppliers to ensure supply chain sustainability
Operational	<p>Interruption of distribution center operations</p> <ul style="list-style-type: none"> Disruption and interruption of distribution center shipments owing to natural disasters, technical issues, supplier-related issues, food-safety issues, and human factors 	<ul style="list-style-type: none"> Business plans developed for use if regional operations must be relocated Backing up all distribution center procurement services by sourcing the services from different suppliers Using backup systems in distribution centers; maintaining generators on hand to prevent operational disruptions in the event of power outages Taking adequate measures to prevent losses arising from natural disasters; ensuring that potential financial losses are adequately insured 	<ul style="list-style-type: none"> Ability to cope with delays in supply chain processes by having backup stock at all times Ability to achieve better product control and efficiency thanks to bulk of distribution operations being conducted through self-owned distribution centers Ability to include local producers in a national distribution network

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Sectoral	<p>Adapting to changing customer expectations in the increasingly competitive environment of offline and online retailing</p> <ul style="list-style-type: none"> • Emergence of new types of service as new players enter the market • Obligation to satisfy changing consumer expectations 	<ul style="list-style-type: none"> • Closely track and quickly respond to customers' demands, complaints, and suggestions • Closely track changes in consumer preferences through consumer research • Conduct best-price offer campaigns for Migros-quality products • Gain consumer's trust in terms of product quality & safety by regularly auditing and analyzing quality processes • Deliver service in different store formats and with a variety of product offerings (Product/service mix) • Deliver prompt service in all 81 provinces through online sales channels • Provide product and service operations that are able to address different needs • Maintain a product portfolio that responds to the wishes of all socioeconomic groups <p>Widest range of product groups in the industry</p> <ul style="list-style-type: none"> • Range of sustainable/special-attribute M Life private-label organic product offerings • "Tastes of Anatolia" regional specialties and heritage recipes • All red meat products pass through 220 checkpoints at MIGET before going on sale • Provide personalized balanced-nutrition suggestions through WellBeing Journey program 	<ul style="list-style-type: none"> • Facilitate formation of strategic partnerships by creating a single team of Migros specialists and external entrepreneurs through the Migros Up shared innovation platform • Deliver self-service & needs-compatible solutions by using AI-based applications to anticipate customers' questions through the Migros Interaction Platform • Ability to respond within 48 hours to queries received through call centers, social media channels, and mobile apps • Best-quality & best-price guarantee on more than 1,500 Migros "yellow-tag" products • Multifformat management capable of satisfying regional needs, regulatory requirements, and a wide range of store sizes and product offerings • Online channels capable of delivering a wide range of branded and private-label products to an address anywhere in the country • "Only At Migros" range of product offerings resulting from Migros' collaborating with other brands

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Technological	<ul style="list-style-type: none"> • Interruption in the continuity of IT systems used in headquarters, store, and e-commerce operations • Increasingly greater risks and threats posed by technological advances • Existing hardware obsolescence • Disruption of operations due to unexpected issues occurring in applications and systems. • Critical information and personal data security endangerment • Cyber-attacks • Transfer of company-owned intellectual properties • Failure to backup critical personnel, staff shortages 	<ul style="list-style-type: none"> • Management process optimization to ensure security standards • Make company network access policy more stringent • Ringfence harmful system access with network segmentation etc. • Provide training to measure and increase awareness of employees working on information security, privacy, and KVKK issues and keep their knowledge and skills up-to-date • Regular checks and tests for effective monitoring of information security risk assessments and prevention of system security vulnerabilities • Robustify store network data line, payment system, and critical system continuity • Regular monitoring of version and security updates for critical hardware and regular tracking of certificates that provide secure access; lifecycle-based renewal of infrastructure systems • Impact analysis and resource (including external) tracking for all employee positions 	<p>Backup server systems and data in the data recovery center (DRC)</p> <ul style="list-style-type: none"> • Maintain a control system that regularly measures network and system infrastructure capacity • Include and enforce privacy and penalty clauses in all IT service provider contracts • Be audited for compliance with Payment Card Industry Data Security Standard rules; comply with PCI rules in all payment processes and operations • Definition and implementation of Data Loss Prevention (DLP) processes • Possess an R&D center; integrate R&D center knowledge & experience into development of IT systems and practices

Risk area	Risk definitions*	Methods taken to manage risks	Factors that create opportunities
Compliance, Policies & Regulatory Framework	<ul style="list-style-type: none"> • Financial and commercial impact of legal and regulatory framework changes • Prohibition/restriction of specific brand, category, or product sales • Rules governing/restrictions on shelf/aisle arrangements; brands, categories, displays; marketing communications • Rules governing/restrictions on store locations and opening hours • Rules governing/restrictions on new store openings • Sanctions, penalties, company reputation & customer confidence impairment due to Personal Data Protection Act and Protection of Competition Act contraventions 	<ul style="list-style-type: none"> • Closely follow changes in legal and regulatory frameworks and comply with them immediately • As a member of industry umbrella organizations and professional associations, collaborate with and express views to government authorities concerning changes in the legal and regulatory frameworks • Have product-safety, ESG, Personal Data Protection Act, and Protection of Competition Act processes and operations audited for legal and regulatory compliance at regular intervals • Deliver service in different store formats and with a variety of product offerings • Deliver service in all 81 provinces through online sales channels • Regularly audit suppliers during the course of business relationships for compliance with Migros Responsible Supplier Policy and with laws, regulations, and administrative provisions • Ensure validity of all existing TS EN ISO certifications 	<ul style="list-style-type: none"> • As a member of the Consumer Goods Forum, closely follow regulatory changes in the international arena and develop internal processes so as be ready to accommodate them if and when they are introduced in Türkiye • Promote “Migros Approved Supplier” certification as a way for suppliers to demonstrate to others that they comply with Migros’ food-safety and ESG policies • Multifformat management capable of satisfying regional needs, regulatory requirements, and a wide range of store sizes and product offerings • Online channels that are capable of delivering a wide range of branded and private-label products to an address anywhere in the country

* Shows risks whose impact and probability are significant or more than significant.