



MİGROS 2016 ANNUAL REPORT

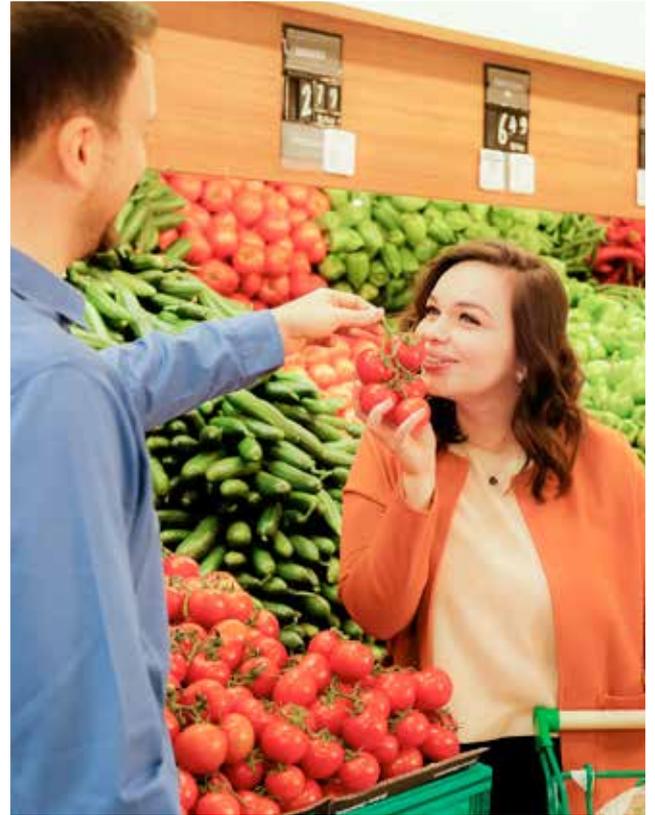
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AS OF 31 DECEMBER 2016, MİGROS'S CORPORATE GOVERNANCE RATING WAS INCREASED TO 9.50. MİGROS CONTINUED TO BE INCLUDED IN THE BORSA İSTANBUL SUSTAINABILITY INDEX IN 2016, THUS BECOMING THE FIRST AND ONLY RETAILER IN TURKEY TO BE INCLUDED IN THAT INDEX FOR THREE YEARS IN A ROW. MİGROS IS ALSO A RECIPIENT OF THE "CDP TURKEY CLIMATE LEADERS" AWARD, WHICH WAS BESTOWED ON IT BY THE CARBON DISCLOSURE PROJECT, THE MOST HIGHLY-RESPECTED INTERNATIONAL INITIATIVE IN GREENHOUSE GAS EMISSIONS REPORTING, BECAUSE OF THE COMPANY'S PLAN AND EFFORTS TO COMBAT CLIMATE CHANGE.



OUR FORMATS

1.527

STORES

39

STORES

73

PROVINCES

5

PROVINCES

2



MiGROS

MiGROS “Will Do You Good”

The leader in the retail sector, Migros offers an enjoyable shopping experience, innovation and quality with stores in 73 of the country’s provinces and across seven geographical regions. With its “Better Future” motto, Migros provides customers with good produce, good meat, and the best quality products at the best available prices with the widest range of varieties, all offered with a smile as part of our cheerful service approach. By taking the standards of the developing retailing sector into account, Migros has adopted continual innovation as a principle. The company provides its customers with a different shopping experience through its practices, which set industry standards.

macro▲center

MACROCENTER “Worth Celebrating”

Macrocenter is a distinguished supermarket chain with its exclusive product portfolio, high standard of customer service and special store design. Macrocenter, that also provides tastes specific to Anatolia along with the most popular food from Europe and the world and caters to its customers’ lifestyles and preferences, works with a passion which surpasses expectations in all of its customer services.

102

STORES

39

STORES

24

PROVINCES

2

COUNTRIES

MIGROS
SANAL MARKET
www.sanalmarket.com.tr

MIGROS VIRTUAL MARKET “Internet, Mobile & Tablet Accessibility”

The Migros Virtual Market, that has been in service since 1997, is Turkey’s largest and most extensive online food shopping site. The Migros Virtual Market provides the opportunity for online shopping in 24 provinces (Adana, Afyon, Ankara, Antalya, Aydın, Balıkesir, Bursa, Denizli, Diyarbakır, Edirne, Eskişehir, Gaziantep, Hatay, İstanbul, İzmir, Kayseri, Kocaeli, Malatya, Mersin, Muğla, Sakarya, Samsun, Tekirdağ and Trabzon). Besides delivering the online (website, smartphone, tablet) orders it receives directly to customers, Migros Virtual Market recognizes that customers have other needs and so has developed a variety of other delivery options such as “Drop Off At Work” for people too busy to go shopping, “Drive By & Collect” in which orders can be picked up from Migros Jet stores located at service stations, and “Click & Pick Up” for people who don’t want to wait in a checkout line. Customers can even have their orders sent to a family member or friend. Migros Virtual Market is also a major player in e-commerce food retailing.

www.sanalmarket.com.tr
www.migroselektronik.com

Ramstore
SUPERMARKET

RAMSTORE “Taking Pleasure from Shopping around the World”

As Turkey’s leading retailer, Migros currently serves customers through Ramstores at 39 locations outside Turkey, including two shopping centers, one in Kazakhstan and one in Macedonia. Ramstore also exports the concept of enjoyable shopping abroad while promoting Turkish products. It plans both to extend its reach in existing markets and to venture into new ones as well.



CORPORATE PROFILE

MİGROS IS THE PIONEER OF ORGANIZED RETAILING IN TURKEY.

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Focusing on customer expectations since the day it was founded, Migros is known for its innovation and progress in retailing.

The pioneer of organized retailing in Turkey, Migros today offers spacious stores in a wide range of formats and locations whose vast selection of cosmetics, stationery, glass and kitchenware, electronic appliances, book, textiles, and other items along with groceries and other necessities give it the ability to satisfy the shopping needs of its customers.

Striving to give customers the benefit of technological developments while confidently continuing to serve them with its trusted human resources, the attention which the Migros gives to information technology and the investments which it undertakes always keep it at the forefront of the retailing sector.

Focusing on customer expectations since the day it was founded, Migros is known for its innovation and progress in retailing.



VISION-MISSION-STRATEGIES-VALUES-PRINCIPLES

MIGROS' MOST FUNDAMENTAL STRATEGY IS TO PROVIDE THE MOST MODERN, A RELIABLE, AN ECONOMICAL, AND A HIGH-QUALITY SERVICE.

5

Vision

To be an organized retailer who remains the closest to customers by serving them in a variety of formats through a strategy of pursuing expansion both in its own and in neighboring national markets and always exceeding customer expectations.

Mission

To play a leading role in improving the quality of life at home and abroad with a business structure that is as innovative and productive as it is customer-focused, trusted, and mindful of people, the community, and the environment; to generate long-term, satisfying returns for its employees, business partners, and shareholders; to maintain its sectoral leadership in growth and operational profitability.

Strategies

Migros defines its strategies in line with its mission and so as to achieve sustainable quality, respect, and sectoral leadership through an approach to customer satisfaction that rises the bar of retailing standards in the countries in which it operates.

Migros' most fundamental strategy is to provide the most modern, a reliable, an economical, and a high-quality service.

Values

Migros' corporate values, which everyone adheres to and which are fashioned through the participation of all employees, are as follows;

- Customer Focus
- Trust
- Sensitivity
- Leadership
- Efficiency
- Innovation

Principles

Believing in the importance of having a strong corporate governance structure, Migros makes corporate governance principles its guide during every stage of every activity. As one outcome of its corporate governance attitudes, the company acts in accordance with its awareness that adherence to the corporate governance principles published by the Capital Markets Board is beneficial not just to Migros itself but to all of its stakeholders and TO the country as a whole. Every year Migros publishes a corporate governance principles compliance report to inform stakeholders about its corporate governance performance. Detailed, up-to-date information about Migros is also published on the company's corporate website.

Migros has adopted all four basic tenets of corporate governance:

- Fairness
- Transparency
- Responsibility
- Accountability.



2016 AT A GLANCE

ONE OF MİGROS'S UNCHANGING PRIORITIES IS TO EXCEED CUSTOMER EXPECTATIONS BY PROVIDING THEM WITH A GENUINELY UNIQUE SHOPPING EXPERIENCE THAT THEY CANNOT GET ANYWHERE ELSE.

6

The importance that Migros gives to freshness was visible once again in 2016 when the company acquired Tazedirekt, an online market that specializes in natural foods.



232

In 2016, Migros exceeded its target by opening 232 new stores.

In 2016 Migros registered a 17.8% rate of year-on growth on a consolidated basis while the company's consolidated turnover reached TL 11,059 million. Last year the company exceeded its target by opening 232 new stores. Migros also continued to fulfill its "contribute to employment" mission by adding 6,300 new jobs that brought its payroll to 23,210 people.

One of Migros's unchanging priorities is to exceed customer expectations by providing them with a genuinely unique shopping experience that they cannot get anywhere else. Striving to give customers the benefits of advances in technology, Migros also continued to focus on the "digital" customer experience, which combines physical retailing with the convenience and speed of today's digital world. By providing customers

9th

In 2016, Migros was chosen as a “Lovemark” for a 9th time in a row in the “Supermarket” category in the survey of “Turkey’s Lovemarks”.



7

with access to goods that may not be physically present where they are, Migros’s “Endless Aisle” shopping kiosks create the experience of shopping in the biggest of the company’s stores.

The importance that Migros gives to freshness was visible once again in 2016 when the company acquired Tazedirekt, an online market that specializes in natural foods. Migros has committed itself not just to maintaining Tazedirekt’s stance as a purveyor of natural and local-sourced foods but also to expanding its operations. Supported by Migros’s operational strengths and by 20 years of experience in e-commerce, Tazedirekt will begin serving customers in 2017 once all of its new infrastructure is in place.

On 4 January 2016 Migros’s publicly-traded shares were included in Borsa İstanbul’s Corporate Governance Index. Taking into account improvements which the company had made during the year, SAHA Ratings, a corporate governance rating agency, increased Migros’s corporate governance rating from 94.55% to 95.01% as of 30 December 2016 and thus made it the first and only retailer in Turkey to be included in the BIST Corporate Governance Index for three years in a row. Migros is also a recipient of the “CDP Turkey Climate Leaders” award, which was bestowed on it by the carbon disclosure project, the most highly-respected international initiative in greenhouse gas emissions reporting, because of the company’s plan and efforts to combat climate change.

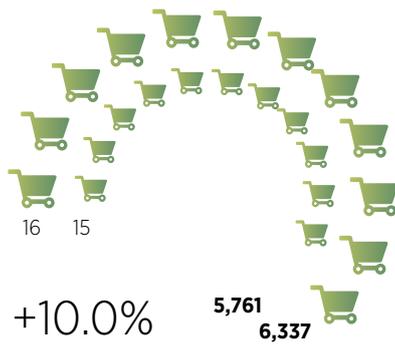
The bridge of trust that Migros built between the Company and its customers is its biggest reward. These successes are endorsed by the awards given to Migros by national and international authorities. Migros received “The Most Admired Company of Retail Sector” for a 13th time in a row in the survey of “Turkey’s most admired companies” again in 2016, was chosen as a “Lovemark” for a 9th time in a row in the “Supermarket” category in the survey of “Turkey’s Lovemarks”. In the “2016 Voice of the Customer in Turkey” survey conducted jointly by KalDer and Ipsos, Migros topped the supermarket league table as the brand with the highest level of customer loyalty.

KEY HIGHLIGHTS

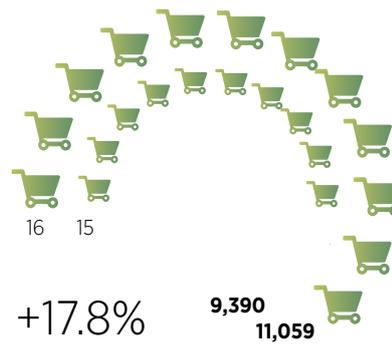
IN 2016, MİGROS REGISTERED CONSOLIDATED SALES GROWTH OF 17.8%. THE COMPANY'S SALES AMOUNTED TO TL 11,059 MILLION IN 2016.

8

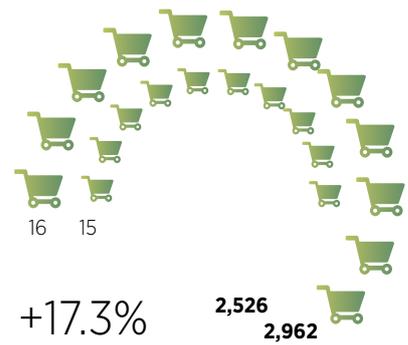
Total Assets (TL million)



Net Sales (TL million)



Gross Profit (TL million)



17.8%

The company's consolidated sales increased by 17.8% in 2016 as compared with 2015 and reached TL 11,059 million.



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Summary Consolidated Balance Sheet

(TL thousand)	2016	2015	Change (%)
Assets			
Current Assets	2,532,025	2,035,523	24.4
Non-Current Assets	3,805,379	3,725,194	2.2
Total Assets	6,337,404	5,760,717	10.0
Liabilities			
Current Liabilities	3,320,760	2,725,671	21.8
Non-current Liabilities	2,775,489	2,519,060	10.2
Non-controlling Interests	820	644	27.3
Attributable to Equity Holders of the Parent	240,335	515,342	-53.4
Total Liabilities and Equity	6,337,404	5,760,717	10.0

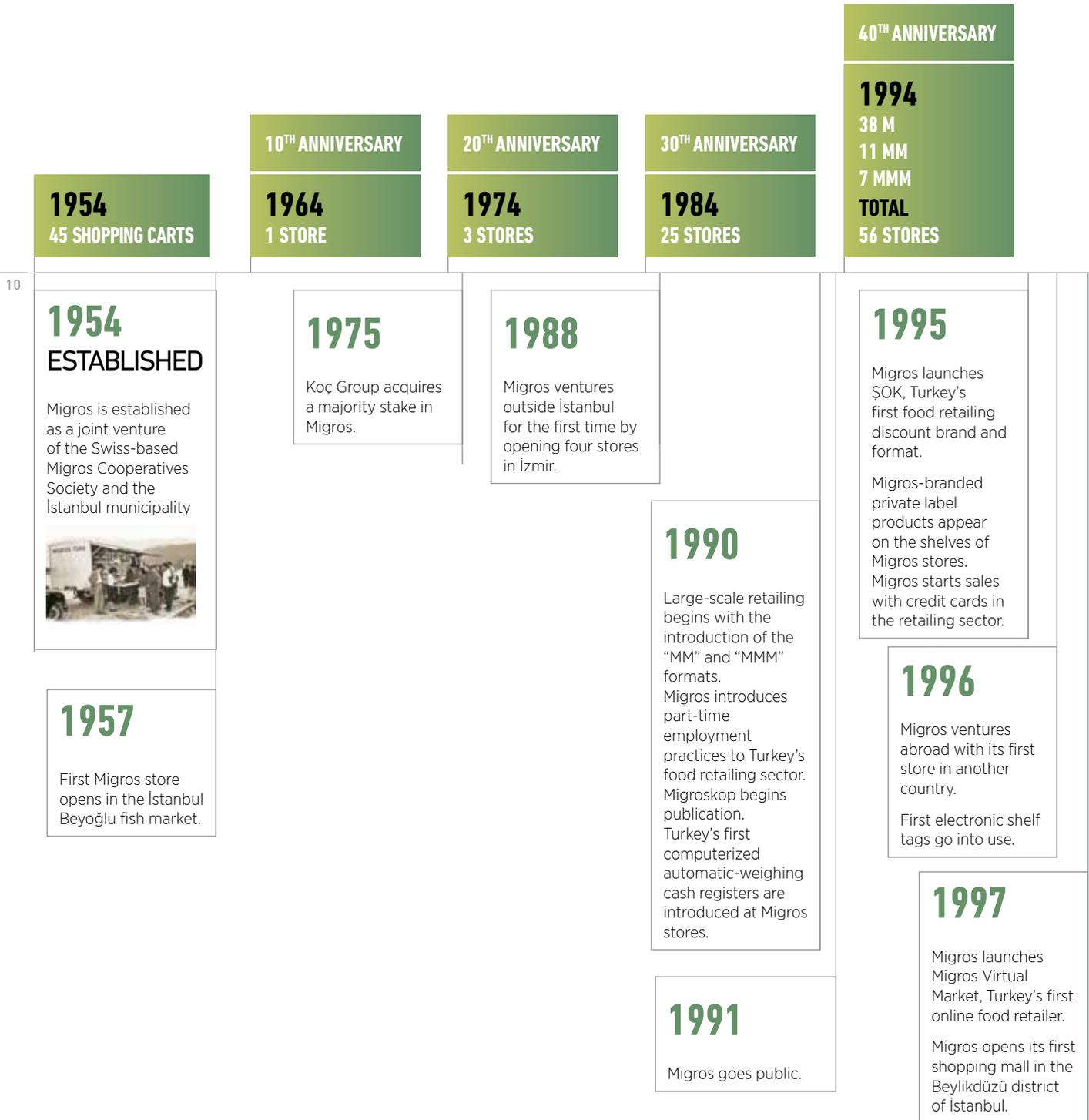
Summary Consolidated Statement of Income

(TL thousand)	2016	2015	Change (%)
Net Sales	11,059,224	9,389,829	17.8
Gross Profit	2,961,542	2,525,649	17.3
Operating Profit	340,155	263,632	29.0
Net Income	-292,918	-370,453	-20.9
EBITDA	686,377	602,136	14.0

14.0%

Consolidated EBITDA was up by 14.0% year-on to TL 686 million.

TIMELINE



50TH ANNIVERSARY

2004
DOMESTIC
 283 ŞOK
 72 M
 72 MM
 33 MMM
 3 5M
INTERNATIONAL
 44 RAMSTORE
TOTAL
 507 STORES

60TH ANNIVERSARY

2014
DOMESTIC
 212 TANSAS
 28 MACROCENTER
 273 MİGROS JET
 319 M
 213 MM
 79 MMM
 24 5M
INTERNATIONAL
 42 RAMSTORE
TOTAL
 1,190 STORES

62ND ANNIVERSARY

2016
DOMESTIC
 39 MACROCENTER
 578 MİGROS JET
 517 M
 290 MM
 104 MMM
 23 5M
 15 WHOLESALE
INTERNATIONAL
 39 RAMSTORE
TOTAL
 1,605 STORES

1998

Migros introduces Migros Club Card, the first loyalty card system in Turkey's food retailing industry.

1999

Migros' first Ramstore is opened, in Kazakhstan.

Turkey's—and Europe's—first self-checkout customer activated terminal goes into service.

2005

Migros acquires Tansaş, a leading regional food retailer in Aegean Turkey.

The Macrocenter format is launched.

Migros opens its first Ramstore in Macedonia.

2007

The “deep-discount” 5M format of hypermarkets is launched.



2009

Following the transfer of the Koç Group's stake in 2008, MH Perakendecilik ve Ticaret A.Ş. becomes Migros' major shareholder.

Migros introduces the first “express checkout lane” to shoppers in Turkey.



2011

The Migros Jet convenience store format is launched.

2014

Migros celebrates its 60th anniversary.

2015

Anadolu Endüstri Holding A.Ş. acquired 40.25% of Migros shares indirectly by purchasing 80.5% of MH Perakendecilik ve T.A.Ş.'s capital in July 2015.

2016

Migros signed a stock purchase agreement to acquire 95.5% of Kipa's shares.



Migros added the Tazedirekt online food shopping brand to its portfolio.

CHAIRMAN'S MESSAGE

AS MIGROS, WE SHALL CONTINUE TO GROW, WE SHALL CONTINUE TO INVEST, WE SHALL CONTINUE TO CREATE JOBS.

12

The new store investments that Migros undertook and its acquisition of a major retailing chain last year like Kipa should be seen as evidence of our confidence in Turkey's potential and future.

value

Our Kipa investment is a strategic move which coincides with Migros's long-term growth plans and which will create value for all of Migros's stakeholders.

Esteemed stakeholders:

Welcome to Migros's annual general meeting for 2016. It gives me both pleasure and delight to be addressing you as chairman of the Migros Board of Directors for the first time this year. On this occasion let me first express my gratitude to you for having attended this meeting.

Economic and sectoral review

Valued Migros shareholders, we have completed yet another year in which geopolitical and economic difficulties were experienced both at home and abroad. Although there appeared to be signs of a recovery in economic growth in EU countries, the repercussions of Britain's decision to leave the European Union continued to create uncertainty throughout the year. Low interest rates continued to prevail in the euro area while in the US, where the economy's vigor began to make itself truly felt on the growth front, the Federal Reserve Bank continued to push up interest rates albeit slowly. Although modest recoveries in oil and commodity prices assisted economic activity and began to have a positive impact on growth figures in some developing countries, oil-importing countries like Turkey once again had to contend with issues such as current account deficits and weak national currencies.

Thanks to the solidarity, sacrifice, and common sense of its people last year, Turkey's democracy successfully passed

the severe test to which it was put. Despite all of the difficulties that were experienced, the country grew on the order of 2.2% in the first nine months of the year. Twelve-month inflation weighed in at 8.53%. Household consumption remained relatively weak however, increasing by a mere 0.2% in the first three quarters in real terms as compared with the previous year. Adverse developments in tourism contributed to weak demand in the food retailing industry, especially during the summer months.

Strategies and operational performance

Honored Migros shareholders, 2016 was a year in which we thought about the direction of Migros's strategies and made a number of important decisions about it. Turkey is growing. Maybe its economic growth isn't as high as it used to be a few years ago but we believe in our country's potential. We want to contribute to economic development by creating more jobs. So as one element of our organic growth strategy, we opened more than 230 new stores in towns around the country. In addition, we also put our signature to a decision to buy Kipa, one of Turkey's most important food retailing chains. A publicly-traded company, Kipa is a strong food retailer with a presence mainly in our country's Aegean region. As a company that for many years was owned by UK-based Tesco, one of the world's biggest retailers, I am certain that Kipa has built up a most valuable store of knowledge and experience,

which we are going to make use of, which we are going to build on, and the best practices of which we are going to blend with Migros's own business processes. As we combine the forces of our two companies, the question of how we can serve our customers better will always be in our minds and we shall strive to do that. In that respect I think that our Kipa investment is an extremely important one and I have complete faith in our ability to restore Kipa to profitability. Finally this important investment is a strategic move which coincides with Migros's long-term growth plans and which will create value for all of Migros's stakeholders. By enabling us to deliver better service and to sell goods at better prices, this move will also create more benefit for our customers as well.

Another decision that Migros made last year was to acquire Tazedirekt, a company that specialized in the online sale of fresh products. We've all seen repeatedly how Migros behaves like a technology company by giving importance to innovation and how it successfully introduces new practices that make its customers' lives more convenient. Migros for example was the first-and is still the only-company in our country's retailing industry to have its own R&D center: that's extremely important evidence of the importance we give to technology and innovation. In that respect then the acquisition of Tazedirekt may seem perhaps like a small addition to Migros's physical assets but as an insightful technology investment it will lead to improvements in our perishables business processes and help us to increase our service quality.

Migros has been actively engaged in e-commerce now for nearly two decades. Migros Virtual Market, our online supermarket, not only contributes to the company's sales and profitability but also helps Migros understand customers' changing expectations of what retailers ought to do.

Looking briefly at Migros's operations in Kazakhstan and Macedonia, we see that as of end-2016 the company had a total of 1,605 stores in both countries.

In 2016 Migros registered about a 17.8% rate of year-on growth on a consolidated basis while the company's consolidated sales topped TL 11 billion. Thanks to offering more competitively-priced products and to steadily increasing service quality driven by improvements in business processes, especially in our domestic operations, customer numbers were up and our domestic sales grew by 19.7% year-on. Our gross profit amounted to TL 2,962 million, a year-on-year increase of 17.3%. Again in our domestic operations, effective cost management helped counter the effects of higher personnel outlays resulting from an increase in the national minimum wage, with the result that our earnings before interest, taxes, depreciation, and amortization (EBITDA) topped TL 686 million and we registered an EBITDA margin of 6.2%. Despite this strong operational profitability however, the company posted a TL 293 million net loss owing largely to non-cash expenses arising from exchange rate losses and to other one-off charges.

The outlook for the future

Honored shareholders, Migros will continue to go on growing in 2017 as well. The acquisition of a 95.5% stake in Kipa effective 1 March 2017 will make a significant contribution to the company's consolidated growth. Our efforts to manage costs effectively will also continue.

The new store investments that Migros undertook and its acquisition of a major retailing chain last year like Kipa should be seen as evidence of our confidence in Turkey's potential and future. However the difficult conditions may be, we shall continue to grow as Migros, we shall continue to invest, we shall continue to create jobs. As a company in Turkey that is a model for others in the areas of sustainability and corporate governance, we shall continue to fulfill our responsibilities towards our community and our society. We shall not waver in our commitment to fair, transparent, responsible, and accountable management. Let me also add here in passing that Migros is a recipient



of the "CDP Turkey Climate Leaders" award, which was bestowed on it by the Carbon Disclosure Project, the most highly-respected international initiative in greenhouse gas emissions reporting, because of the company's plan and efforts to combat climate change.

In closing therefore allow me to say that I sincerely believe that Migros's corporate culture, its flexible approach to management, and its employees' dedicated efforts will continue to ensure this company's success in the years ahead as well.

Very truly yours,

Tuncay Özilhan
Chairman of the Board of Directors

FINANCIAL REVIEW

BESIDES REGISTERING STRONG GROWTH IN ITS SALES IN 2016, MİGROS ALSO CONTINUED TO BE A STRONG GENERATOR OF NEGATIVE WORKING CAPITAL LAST YEAR.

14



target

Migros has set a sales-growth target on the order of 30-35%, a performance that will include the consolidation of Kipa's 10-month results as well.

Migros's consolidated sales increased by 17.8% in 2016 and reached TL 11,059 million. Although growth in the company's domestic (Turkish) operations remained strong during the year, sales in the company's Kazakhstan operations struggled owing both to local currency devaluation and to generally weak demand in the country's economy. Meanwhile the long-term strategies which the company has been adhering to in private-label goods, perishables, and fast-moving consumer goods began to pay off, the company found increasingly more opportunities to offer goods at better prices, the Migros brand image continued to gain strength, and more and more customers were attracted not just by new stores but also into existing ones. As a result of such developments, Migros's domestic sales grew by 19.7% in 2016. The strong sales growth registered in the company's domestic operations is especially pleasing in view of the increasingly stiffer competition in the retail industry. During 2016 Migros opened a total of 232 new stores at home and abroad.

Our consolidated gross profit was up by 17.35% and reached TL 2,962 million while our gross profit margin, which was 26.9% in 2015, was 26.8% last year.

Despite the strong pressure which an increase in the national minimum wage exerted on our operating expenses, we booked an EBITDA profit of TL 686 million

while our company's 6.2% EBITDA margin was within the targeted range of 6.0-6.5%. EBITDA before rent costs was 14.5% higher in 2016 than it was the year before while the EBITDA before rent costs margin, which was 11.5% in 2015, was 11.2% in 2016.

Besides registering strong growth in its sales in 2016, Migros also continued to be a strong generator of negative working capital last year. However despite the successful results achieved on the operational side, Migros had to book a financing-cost charge owing both to interest outlays and because of its EUR-denominated debt, which suffered from the erosion in the value of the Turkish lira against other currencies. The upshot is that Migros posted a net consolidated loss of TL 293 million in 2016. As of 31 December 2016, Migros's total equity amounted to TL 241 million.

The company achieved the store-opening, sales-growth, and EBITDA-margin targets which it had set for the year. As of 1 March 2017, Migros took control of 95.50% of the shares in Tesco Kipa Kitle Pazarlama Ticaret Lojistik ve Gıda Sanayi AŞ (Kipa), a leading retail chain with 168 stores and 320 thousand m² of net sales space in Turkey. In 2017 Migros plans to open between 120 and 150 new stores. The company has also set a sales-growth target on the order of 30-35%, a performance that will include the consolidation of Kipa's 10-month results as well.



LIQUIDITY RATIOS	31 December 2016	31 December 2015
Current Ratio	0.76	0.75

FINANCIAL STRUCTURE RATIOS	31 December 2016	31 December 2015
Financial Leverage (Total Liabilities/Total Equity)	0.96	0.91
Total Liabilities/Total Equity	25.28	10.16
Financial Liabilities/Total Assets	0.47	0.45
Net Cash Position (TL thousand)	-1,822,244	-1,760,471

PROFITABILITY RATIOS (%)	1 January - 31 December 2016	1 January - 31 December 2015
Gross Profit Margin	26.8	26.9
Operating Profit Margin	3.1	2.8
EBITDA Margin	6.2	6.4
EBITDAR Margin	11.2	11.5
Net Profit Margin	-2.6	-3.9

SHARE PERFORMANCE RATIOS	December 2016	December 2015
Market Capitalization (TL thousand)	3,129,767	3,106,624
Share Price (TL)	17.58	17.45
Earnings per Share (TL 0.01)	-1,65	-2,08



6.20%

Thanks to effective cost management, the EBITDA margin was on the order of 6.0-6.5%, as targeted by the company.





**BECAUSE
WE STAND
FULLY BY OUR
CUSTOMERS
WHENEVER THEY
NEED US.**

Stores designed to meet customers' expectations and an ability to shape stores according to customers' wishes strengthen Migros's penetration and reach.

MIGROS OPERATIONS IN 2016

BESIDES ADDING NEW STORES TO THE PORTFOLIO, WORK ALSO CONTINUED LAST YEAR ON MAKING RENOVATIONS IN EXISTING ONES.

18



Migros' portfolio reached a total of 1,605 stores.

INVESTMENTS

The Company serves its customers in seven different formats: Migros, Macrocenter, Ramstore, 5M, Virtual Market, and Wholesale.

Besides adding new stores to the portfolio, work also continued last year on making renovations in existing ones. During 2016 a total of 232 new stores were opened. Of this number, 231 were in Turkey and consisted of 97 in the Migros (58 M, 33 MM, 6 MMM), 127 in the Migros Jet, 3 in the Macrocenter, and 2 in the Wholesale formats while in the company's international operations, one new Ramstore was opened in Macedonia.

As of end-2016, Migros was active in 73 of Turkey's 81 provinces and all seven of the country's geographical regions and continued to conduct its international operations in Macedonia and Kazakhstan. As of year-end 2016, the Company's portfolio held a total of 1,605 stores consisting of 517 M, 290 MM, 104 MMM, 578 Migros Jet, 23 5M, 15 Wholesale and 39 Macrocenter stores in Turkey and 39 Ramstores (19 in Kazakhstan and 20 in Macedonia) abroad.

As of year-end 2016, the Company manages three shopping centers in Turkey and another two (one each in Kazakhstan and Macedonia) abroad. The Company's combined (domestic and international) net sales space reached 1,078,761 m², which corresponds to a year-on rise of 6.2%.

The Ramstore brand, which is managed through the Company's subsidiaries in Kazakhstan and Macedonia, continues to expand profitably abroad.

IN LINE WITH ITS LONG-TERM GROWTH STRATEGIES, MİGROS PURCHASED 95.50% OF KİPA SHARES.



Acquisition of Tesco Kipa

In line with Migros's long-term growth strategies, on 10 June 2016 the company entered into an agreement with Tesco Overseas Investments Limited ("Seller") to purchase shares representing approximately 95.50% of the capital of Tesco Kipa Kitle Pazarlama Ticaret Lojistik ve Gıda Sanayi A.Ş. ("Kipa") that belonged to the Seller.

As required by law, on 21 June 2016 the Turkish Competition Authority was petitioned to grant its approval of the sale. That approval was given on 9 February 2017.

Thereupon after the terms of the share-purchase agreement had been duly fulfilled, action was taken as required and ownership of the shares was transferred on 1 March 2017.

At the conclusion of this transfer of ownership and effective the share-transfer date, the sum of TL 199 million was paid to the Seller, this being the value of the 95.50% stake less the financial obligations and other adjustments shown in Kipa's most recent balance sheet as negotiated by the parties. The par value of each share is calculated as TL 0.15638.

Migros has petitioned the Capital Markets Board to be exempted from the requirements of article 18.1.a of Share



Purchase Communiqué II-26.1 with respect to its obligation to buy out Kipa's minority shareholders, an issue that is mandated by capital market laws and regulations pertaining to the transfer of majority shareholding interests. The outcome of this application is pending as of this writing.

A prominent retailing chain whose operations are mainly in Turkey's Aegean region, Kipa has 168 stores that serve customers with 320 thousand m² of net sales space. The company's portfolio also contains 37 real estate properties with a total of 303 thousand m² of leasable space. This property portfolio includes shopping malls which are leased to third parties.

The acquisition of this stake in Kipa is consistent with Migros's long-term growth strategies. Effective the share-transfer date, Kipa's financial results will be consolidated with Migros's own. As two publicly-traded companies, Kipa and Migros will be in a position to combine

168

A prominent retailing chain whose operations are mainly in Turkey's Aegean region, Kipa has 168 stores that serve customers with 320 thousand m² of net sales space.

their knowledge and experience with the retailing industry's best merchandising practices, to add value to their business processes, and to serve their customers better as a result of this acquisition. The plan is to improve cost-control management through the synergies which the acquisition will create by combining the operational flexibility arising from Kipa's substantial real estate property portfolio and Migros's local operational expertise. As specified in the Migros Board of Directors resolution approving the acquisition, the transfer was financed within the company's existing credit limits.

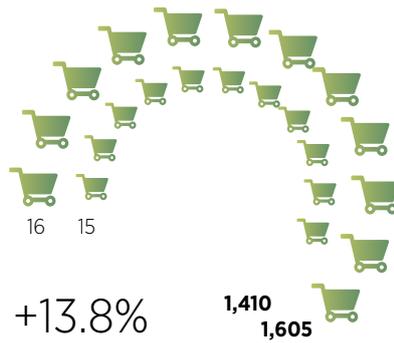
MİGROS OPERATIONS IN 2016

AT YEAR-END 2016, THE TOTAL NUMBER OF MİGROS STORES REACHED 1,605 WITH 1,566 STORES IN TURKEY AND 39 STORES ABROAD.

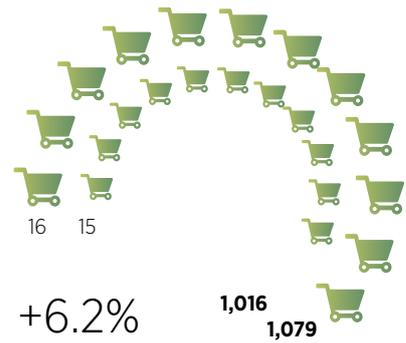
19.7%

While consolidated sales grew by 17.8%, the growth in domestic sales was 19.7%

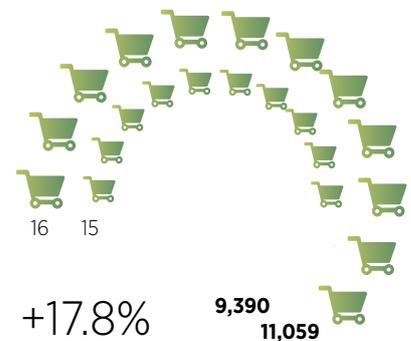
Total Number of Stores (unit)



Total Net Sales Area (thousand m²)



Total Net Sales (TL million)



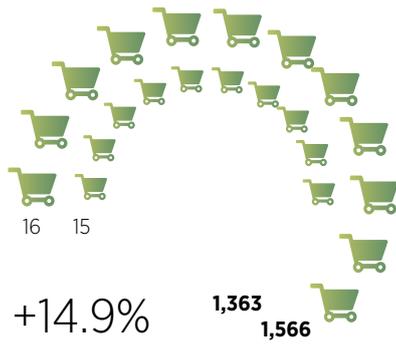
73

As of year-end 2016 Migros operates in 73 of the country's provinces.

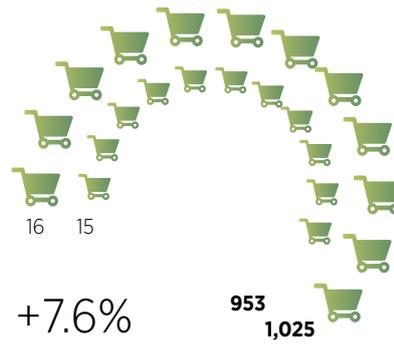
39

Abroad, Migros provides services with 39 stores in total (19 stores in Kazakhstan and 20 stores in Macedonia).

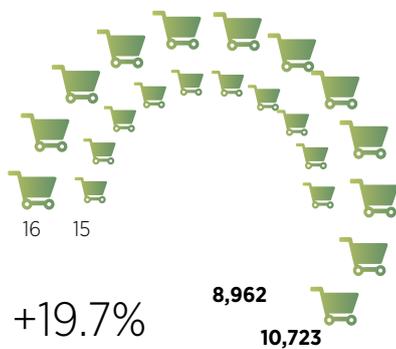
Number of Stores of Domestic Operations (unit)



Net Sales Area of Domestic Stores (thousand m²)



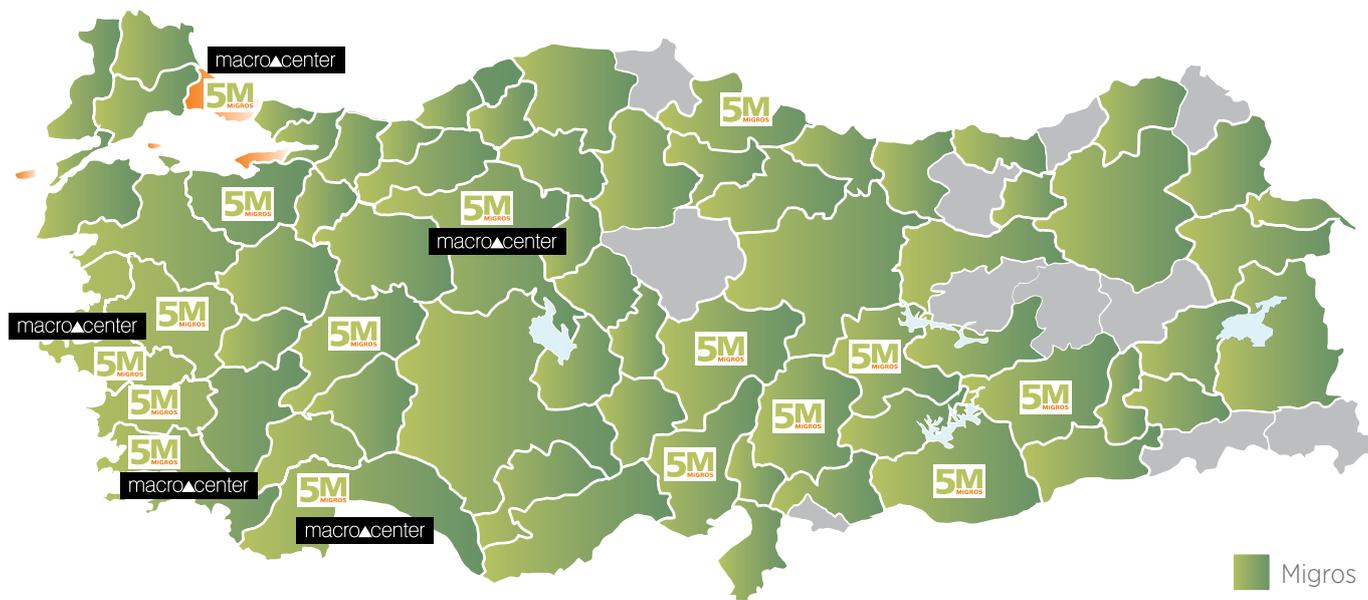
Domestic Sales (TL million)



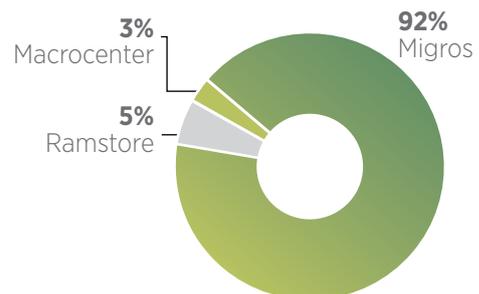
MIGROS OPERATIONS IN 2016

MIGROS CONTINUES ITS GROWTH WITH NEW STORE OPENINGS.

22

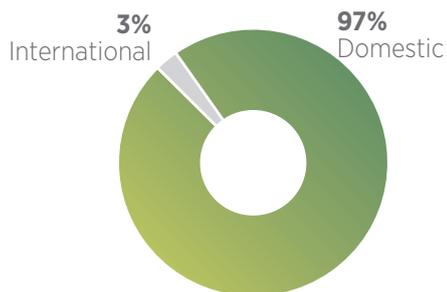


Breakdown of Net Sales Area by Brands (%)

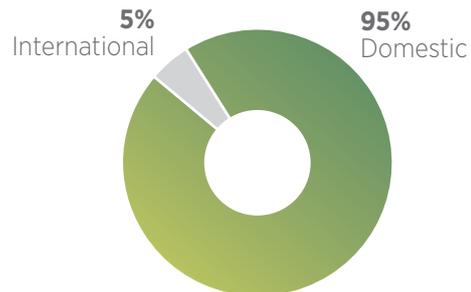




Breakdown of Sales (%)



Breakdown of Net Sales Area by Store Formats (%)



MİGROS OPERATIONS IN 2016

KAZAKHSTAN AND MACEDONIA OFFER PROSPECTIVE GROWTH POTENTIAL FOR ORGANIZED RETAILERS.

24

336

Migros's international subsidiaries in Kazakhstan and Macedonia booked combined sales worth TL 336 million in 2016.



INTERNATIONAL SUBSIDIARIES

Migros continued its operations in Kazakhstan and Macedonia in 2016

Helped by Kazakhstan's economic growth and by a restoration of stability in the country's finances owing to higher oil prices, the company performed better in 2016 than it did in 2015 however customer demand in the food retailing industry remained relatively weak.

The Macedonian economy remained moderately on course in 2016.

Ramstore Kazakhstan closed eight sales outlets located in Almaty, Uralsk, Karaganda, Chimkent, and Aktau as part of its operational efficiency program in 2016 while continuing to serve customers with 19 stores and 34,716 m² of sales space in four cities.

Ramstore Macedonia opened a new store in Skopje and increased its total number of its stores to 20 and total sales area to 19,094 m².

International subsidiaries, operating through a total of 39 stores, were active on a total 53,810 m² sales area at the end of 2016.

Migros's international subsidiaries in Kazakhstan and Macedonia booked combined sales worth TL 336 million in 2016, a figure which corresponds to about 3% of Migros's consolidated sales. The company's international subsidiaries' combined EBITDA profit and margin amounted TL 11.4 million and 3.4% respectively last year.

Kazakhstan and Macedonia offer prospective growth potential for organized retailers.

IN CONJUNCTION WITH THE 62ND ANNIVERSARY OF MIGROS'S FOUNDING, THE COMPANY CONDUCTED A "MIGROS CONTRIBUTES TO YOUR FAMILY'S BUDGET" CAMPAIGN.

best

Migros seeks to provide the best service by selling top-quality products at the best prices.



PRODUCT MANAGEMENT

Migros offers customers a rich portfolio of insightfully-selected and competitively-priced goods that will appeal to them. In order to exceed customers' expectations, the company distinguishes itself from its rivals in the retailing industry through effective marketing strategies that include themed campaigns.

In conjunction with the 62nd anniversary of Migros's founding, the company conducted a "Migros Contributes To Your Family's Budget" campaign in which it offered customers price discounts on products in specific categories.

Themed catalogues, weekend discounts, and "Seeing Is Believing" campaigns continued to be carried out throughout the year. Seasonal campaigns such as "Ramadan" and "Back-To-School" were also conducted. In keeping with long-standing Migros traditions, discounts were

offered to mark special days like Mother's Day, Women's Day, Children's Day, and World Animal Day while special catalogs such as "Mother & Baby" also continued to be published. Special-occasion product bundles such as "Ramadan", "New Year's", and "Spring Cleaning" provided customers with a diversified range of attractive and practical options. Migros has also begun to offer customers a variety of advantageous products and services capable of contributing to family budgets such as discounted movie tickets and carboy bottled-water sales.

The company focused on price-competitiveness by giving careful attention to effective stock management both before and after promotional campaigns while seeking to provide the best service by selling top-quality products at the best prices.

Migros continued to broaden the range of goods made available to customers

MIGROS OPERATIONS IN 2016



26



Migros continued to broaden the range of goods made available to customers while also providing local producers and suppliers with opportunities to develop their delivery channels.

while also providing local producers and suppliers with opportunities to develop their delivery channels. Migros likewise continues to increase its import operations in order to address consumers' price, quality, and variety priorities and to expand a portfolio of organic, gluten-free, and diabetic products that support healthier living.

The "Good Chicken" program that resulted from the company's working together with suppliers and government agencies in the wake of its "Good Farming" and "Good Meat" programs has been expanded to include all of the company's chicken suppliers. Intensive use was made of visual media in support of the various campaigns that were conducted during the year to draw customers' attention to and boost their awareness of chicken products bearing the "Good Chicken" logo.

Because freshly-baked bread is something that nearly all shoppers buy every day, Migros installs bakery sections in M-format stores where possible so that freshly-made baked goods can be produced on the premises and supplied directly to consumers. The scope of services provided by these sections was expanded and the concept continued to be extended to other locations.

A project was completed to centrally control the shelf management system of the Macrocenter product portfolio.

As newly mandated by law, the company has begun providing customers with information about the cost prices of fruits and vegetables along with their sales prices.

The range of Migros's prepackaged red meat products was increased last year.

Stock, variety, and space efficiencies were achieved by means of non-food product group simplification and through more effective shelf and space management systems. At midyear the company introduced a new promotional format in which designated seasonal and specifically-themed non-food products are put on sale at attractive prices.

Product availability was enhanced by increasing the frequency of suppliers' shipments of perishables. This has made it possible to provide customers with fresher products.

"Memobil" a mobile platform supporting Migros-supplier collaboration which was launched at the third Migros Business Partners Summit that was held last year, was designed to improve the results of business dealings by making it easier and faster to keep track of them. The great majority of suppliers were quick to begin making use of this new platform. Operational efficiencies were achieved through the improvements that continued to be made in the reporting and support capabilities of the company's B2B screens (recently renamed "MECOM") in line with suppliers expectations.

AS OF END-2016, MIGROS WAS SERVING CUSTOMERS WITH MORE THAN 1,500 PRIVATE-LABEL PRODUCTS.



PRIVATE LABELS

The Company offers three different product groups under its “Only At Migros” program: fresh produce, private-label products, and branded products that are sold only by Migros.

Fresh Produce: Strong logistical network support gives Migros a tremendous competitive advantage in ensuring the quality and freshness of its fresh produce. All of the company’s meat is sourced from its own meat processing facility. For red meat, Migros obtains live animals only from producers whose operations it inspects itself, processes the meat itself, and has it freshly delivered to all of its stores on a daily basis. Ready-to-eat and composite products, which are marketed under Migros’ own “Expert Butcher” label, are prepared and packaged without manual intervention. The company’s commitment to good agricultural practices (GAP) in fresh fruits and vegetables further strengthens the confidence that customers have in the Migros brand. Under the “From Field To Shelf Project”, all produce is harvested, shipped to stores, and placed on shelves within thirty hours in average.

Private-Label Products: As of end-2016, Migros was serving customers with more than 1,500 private-label products. Migros-branded products consist of basic necessities that possess the superior quality standards that are expected of Migros while being more economical than comparable products currently available on the market.

“M Life” is the brand of products that support healthy life style and offer products in different sub-categories such as organic, low calorie, diabetic. In 2014, M Life Organic nuts and dried fruits received the “2014 Best New Product” award in the “Healthy Snacks” category in a survey of 13,000 Turkish consumers conducted by BrandSpark. Additionally, there are private-label products such as Viva, Body Pure, Home Basix, Touch Me in non-food product categories such as paper, home textile, glassware, small household appliances, and heaters.

“Anadolu Specialties”, a project that was inaugurated in 2014 as a result of surveys conducted in every region of Turkey in order to identify local specialties and crops, had been expanded to include 45 products and 90 stores as of end-2016. These are products which are distinguished by their local and/or cultural connotations, are produced by means of traditional methods, and are typically associated with a backstory. The goal of

this project, which is the outcome of a long-running and comprehensive survey, is to ensure that Turkey’s culinary heritage is preserved and passed on to future generations.

In line with private-label products strategy, prices of private-label products were kept down while studies to raise their quality further continued throughout the year.

As in the past years, the revenue growth of private-label products was higher than that of the company in 2016.

Branded products that are sold only by Migros: More than a thousand SKUs which are not to be found anywhere except at Migros consist of well-known and much sought-after regional specialties, products with proven success outside Turkey but which have not yet entered the country, and new-concept products with which Turkish consumers are not yet very familiar. The company diversifies itself by offering a wide variety to their customers through these products.

Within the scope of sustainability studies, new products were added to the range of branded products that support a healthy diet and lifestyle, and the number of products whose packaging includes the 7 key nutrition items were increased.





BECAUSE WE SUPPORT FAMILIES' BUDGETS WITH OUR “GOOD FOR YOU” CAMPAIGNS.

In 2015 Migros continued to invest in its private-label products because of the ability that such products give the company to be price-competitive and to offer customers the market's best-priced goods in the basic household necessities category.

MİGROS OPERATIONS IN 2016

WITH 9.2 MILLION ACTIVE USERS IN 2016, MONEY CLUB CONTINUES TO BE TURKEY'S BIGGEST LOYALTY PROGRAM.

30



Migros's mobile app was downloaded 1.9 million times in 2016.

MONEY CLUB AND CRM

With 9.2 million active users in 2016, Money Club continues to be Turkey's biggest loyalty program.

Money Club has always been the retailing industry's leader in customer communication by virtue of its unique and outstanding features and programs. Under the "Meant For Me" campaign that was conducted last year, 600 thousand Migros customers took advantage of 3.2 million discount offers that were made to them based on their existing shopping habits. These personalized offers are made by taking into account the types

of products that customers buy the most often, the average total value of their shopping basket, the frequency of their store visits, and their spending potential.

Migros's mobile app was downloaded 1.9 million times in 2016. Besides making it easier for customers to receive "Meant For Me" offers, this app also allows them to conveniently keep track of all of their Money Club Card-related purchases and earned points. Thanks to a newly-added feature, customers can now use the app to conveniently keep track of the Money Club points they earn on purchases of other brands also participating in the Money Club program.

The originator of campaigns never before seen in the Turkish retailing industry, Money Club celebrated Migros's 62nd anniversary by giving every customer extra points equal to 25% of their purchases in their favorite product category. Under this campaign, a customer who made a purchase of more than TL 25.00 earned extra Money Club points corresponding to 25% of the value of the favorite-category products in their shopping basket.

Under the strategic business partnership with Petrol Ofisi (PO), Money Club members earn loyalty points on purchases that they make at PO stations using their Money Club cards. These points can be used to pay for purchases both of fuel and of goods from stations' convenience



first

In November 2016 Migros authored yet another first with the launching of its “Good For You Ambassadors” platform.

31

stores. By joining forces with PO, Migros creates added value for customers in two of their most important retail-purchasing experiences: food and fuel.

Within the scope of the HOPİ program, that is one of Turkey’s most extensive mobile networks, Money Club gained a foothold in this mobile network by carrying out campaigns for customers who use mobile phones.

2016 was another year in which the company achieved highly effective results in the CRM campaigns that it conducts in collaboration with suppliers who, because they are the ones who best know their own customers and understand their needs, are also able to send them the most appropriate offers at the most appropriate time through the Money Club system. The number of these campaigns conducted last year was 20% higher than in 2015.

As was done 2014 and in 2015, in a poll of consumers conducted by MediaCat in 2016, a corporate- and customer-research and communication agency, Money Club Card was the first loyalty card to be concurrently cited in all samples of all age groups in the “Best-known loyalty card in any sector”, “Most-recommended loyalty card in its own sector”, and “If you had to pick just one program, which would it be in any sector?” categories.

MİGROS BRAND COMMUNICATION

Besides making effective use of TV, newspaper, radio, and outdoor media, Migros also distinguished itself in retail-industry brand communication by virtue of its presence on digital platforms and the deployment of its own digital channels.

Launched in 2012 in recognition of the fact that video-based communication was an up-and-coming trend of the future, Migros TV hosts some 7 thousand video files whose subjects range from cooking demonstrations to beauty care and from parenting tips to do-it-yourself ideas. During 2016 Migros TV racked up an average of 3.5 million views a month. Its live webcasts of “Nilgün Belgün ile 4 Köşe”, the first project of its kind in the world’s retailing industry, offer an array of food, personal care, makeup tips, and chat corner content that can be accessed from Migros TV’s own home page as well as from its YouTube and Facebook accounts. The ten episodes of “Nilgün Belgün ile 4 Köşe” that were broadcast in 2016 included guest appearances by experts in their respective fields and by celebrities who are especially popular among women.

In keeping with its strategy of focusing on communication effectiveness, Migros also recognizes the importance of social media as a communication channel. The company manages five Facebook and four Twitter

accounts as well as one Instagram account. With a total of 1.6 million followers, these nine accounts disseminate messages dealing with many different subjects every day. In addition to these day-to-day messages, Migros’s social media projects are also known for the impact they have. The “virtual table” resulting from images uploaded by customers to the company’s Instagram account during Migros’s “Ramadan Feast” project last year for example was the longest ever achieved in Turkey on Instagram.

In November 2016 Migros authored yet another first with the launching of its “Good For You Ambassadors” platform. Intended especially for women, this online communication platform located at iyigelecekceleri.migros.com.tr invites users to become members by signing in with their Money Club card numbers. Members can share their ideas with one another under forum headings which they create while also earning “Magic Points” by fulfilling individualized targets. These points can be used in exchange for gifts selected from a catalogue and can also be converted into Money Club points that can be used to shop at Migros. As of 31 December 2016, the platform had achieved its membership target of 10 thousand users. Migros regards its “Good For You Ambassadors” platform as a strong and effective communication channel that it plans to use in order to interact with customers on a regular basis in the years ahead.

MİGROS OPERATIONS IN 2016

IN 2016 MİGROS VIRTUAL MARKET ACHIEVED A 47% RATE OF YEAR-ON GROWTH WHILE INCREASING THE NUMBER OF THE HOUSEHOLDS IT SERVES BY 36.8%.

32



fresh

In 2016 Migros Virtual Market focused on projects aimed at supplying customers with the highest possible quality in the perishables group.

MİGROS E-COMMERCE
www.sanalmarket.com.tr

In service in Turkey since 1997 and accessible to customers over the internet, by telephone, and through smartphone and tablet mobile apps, Migros Virtual Market continued to diversify and grow rapidly in 2016. Last year Migros Virtual Market achieved a 47% rate of year-on growth while increasing the number of the households it serves by 36.8%. Migros Virtual Market vans traveled more than 8 million kilometers in 2016 as they made their deliveries in 24 of Turkey's provinces. Paralleling global trends in e-commerce, this level of penetration is also enabling the introduction of a variety of supplier-chain processes.

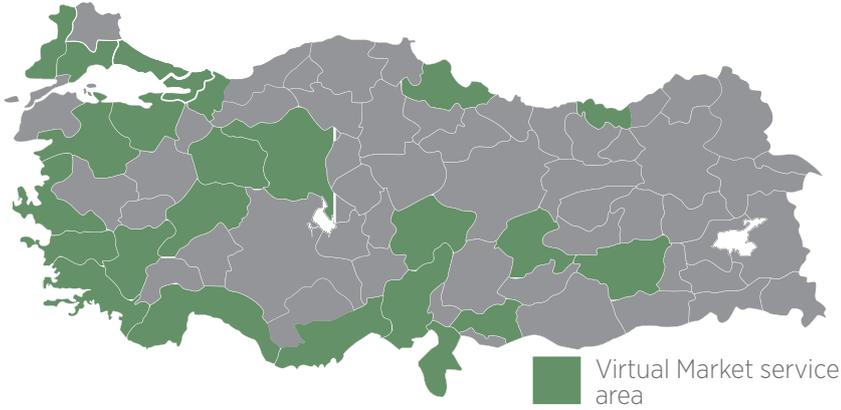
The number of registered Migros Virtual Market users reached more than 1.4 million in 2016 with people in the 25-34 age group making up the biggest contingent of them. These are followed in turn by users in the 35-44 and the 18-24 age groups.

Migros Virtual Market: Delivering the freshness that customers demand

In 2016 Migros Virtual Market focused on projects aimed at supplying customers with the highest possible quality in the perishables group. To this end, Migros Virtual Market personnel were given training on a variety of issues ranging from fruits & vegetables to packaging methods.

Migros Virtual Market also focused on the sale of organic fruits and vegetables in line with customers' wishes. Carefully selected fresh fruits and vegetables delivered in transparent packaging are evidence of the confidence that Migros Virtual Market has in the quality of its products.

Meats prepared to customer order by expert butchers are carefully delivered to them in compliance with the strictest food safety standards.



Projects such as these help enhance customers' perception of Migros Virtual Market as a source of freshness.

Migros's "Mobile Market" app, the first of its kind in Turkey, was used to place 47% of all online orders in 2016. Customers can use this app to create orders for the products they want just by reading the barcodes on the packaging with their phones.

During 2016 Migros continued to conduct customer-personalized campaigns through both "Recommend & Win" (a customer-referral program introduced to expand Migros's customer base) and customer segmentation.

Working together with suppliers and other business partners, campaigns such as the sending of free samples were conducted in order to encourage

Links to Migros Virtual Market were also installed in suppliers' digital ads and on their websites.

Migros Elektronik, a virtual store that specializes in the online sale of all of the electronics, computers, home appliances, and white goods offered for sale at Migros stores, continued to serve and make sales to customers calling at www.migroselektronik.com during 2016.

Migros Virtual Market conducts Turkey's biggest online-order & home-delivery kurban (sacrificial animal) programs during the run-up to the Feast of Sacrifice every year. Animals procured from breeders all over Turkey and carefully inspected and selected by Migros veterinarians are ritually slaughtered before being butchered and delivered to customers in packaged form.



Adresinize Geisin



Mağazadan Teslim



İşinize Gelsin



Geçerken Al

MİGROS OPERATIONS IN 2016



34



The “MacroPhone” telephone order line, whose steadily-expanding service and distribution network now includes Ankara, İzmir, Muğla, and Antalya as well as İstanbul.

Your Pocket”, “Migros At Your Door”, Migros Virtual Market continued to serve customers not only under harsh winter conditions but also in summer by making deliveries to them in resort areas and marinas in line with their instructions.

Migros Virtual Market has also developed a variety of other delivery options such as “Drop Off At Work” for people too busy to go shopping, “Drive By & Collect” in which orders can be picked up from Migros Jet stores located at service stations, and “Click & Pick Up” for people who don’t want to wait in a checkout line. Customers can even have their orders sent to a family member or friend.

In five of its operational localities Migros Virtual Market has also introduced night deliveries in which goods are delivered to customers’ homes between the hours of 10:00 pm and midnight.

In 2016 Migros’s MacroCenter format continued to attract online customers in İstanbul with its superior service standards and products through its “MacroOnline” service at online. macrocenter.com.tr. The MacroCenter format is also accessible via the “MacroPhone” telephone order line, whose steadily-expanding service and distribution network now includes Ankara, İzmir, Muğla, and Antalya as well as İstanbul.

The number of electric vehicles whose use Migros introduced to improve its energy efficiency was increased to 17 in 2016. It is calculated that this prevented the emission of as much CO₂ as is consumed by 300 trees in one year. Eleven e-bikes are also being used by stores located on housing estates and in seasonally-open stores.

Tazedirekt, an online market that specializes in natural foods which was founded in 2014 but which suspended service for operational reasons in February 2016, was acquired by Migros and incorporated into its e-commerce operations in November last year. Under its new ownership, Tazedirekt will pick up from where it left off and further strengthen the strong bonds that it had previously established with consumers.

In the short period of just fifteen months, Tazedirekt built up an outstanding reputation because of its “best of everything” approach and commitment to natural and locally-sourced foods. In order to ensure that it can continue to do so and without any changes in its DNA, Migros plans to let Tazedirekt carry out its operations as a separately-managed e-commerce website.

BECAUSE IT REGARDS CUSTOMER FEEDBACK AS HIGHLY VALUABLE INPUT WHEN SHAPING COMPANY STRATEGIES, FAST AND EFFECTIVE COMMUNICATION IS AN IMPORTANT GOAL FOR MİGROS AT ALL TIMES.

35



CUSTOMER SERVICE LINE 444 10 44

Because it regards customer feedback as highly valuable input when shaping company strategies, fast and effective communication is an important goal for Migros at all times. During 2016, the Migros Call Center communicated directly with 890 thousand customers.

Feedback concerning Migros, Macrocenter and Migros Virtual Market products and services that is submitted by anyone dialing 444 10 44 from anywhere in Turkey is responded to by call center units located in İstanbul and Samsun. Incoming calls are categorized according to topic, examined, listed in accordance with priority and responded to within 48 hours at the latest.

Migros operations have been awarded TSE ISO 10002 Customer Satisfaction Management System certification. Results of all communications received and responded to through all communication channels, are evaluated with the aim of continuous improvement. Periodical reports whose findings are based on detailed examinations of feedback are treated as input for improvements which will contribute to the company's growth and development and which are seen as guideposts pointing to opportunities for making corrective changes. Regarding customers' opinions as a focal point of attention at all times, the Migros Call Center constantly strives to enhance its service approach of being "close to the customer".

890K

During 2016, the Migros Call Center communicated directly with 890 thousand customers.







BECAUSE WE WANT TO EXCEED EXPECTATIONS BY CREATING UNIQUE SHOPPING EXPERIENCES.

Migros offers customers a rich portfolio of insightfully-selected and competitively-priced products that will both appeal to them and satisfy their expectations. Migros distinguishes itself from its rivals in the sector through effective marketing strategies that include thematic campaigns.

MİGROS OPERATIONS IN 2016

MİGROS PROVIDES ITS CUSTOMERS WITH SERVICE THAT IS ALWAYS STATE-OF-THE-ART, TRUSTWORTHY, ECONOMICAL, AND SUPERIOR IN QUALITY.

38

5

Migros was the first food retailer in Turkey to be awarded five quality management system certifications by the Turkish Standards Institution.



QUALITY MANAGEMENT

In order to ensure its sustainable quality and sectoral leadership in line with its strategies and mission, Migros provides its customers with service that is always state-of-the-art, trustworthy, economical, and superior in quality. For this reason Migros was the first food retailer in Turkey to be awarded five quality management system

certifications by the Turkish Standards Institution:

TS EN 9001 Quality

- TS EN ISO 22000 Food Safety
- TS ISO 10002 Customer Satisfaction
- OHSAS 18001 Occupational Health and Safety
- TS EN ISO 14001:2004 Environmental



trust

Migros provides its customers with service that is always state-of-the-art, trustworthy, economical, and superior in quality.

Concurrent with its other sustainability-related activities, in 2016 Migros added environmental issues to its quality management system and was awarded TS EN ISO 14001 Environmental Management System certification last year. Migros also had its corporate greenhouse gas emissions verified by TÜV Nord Germany in accordance with the ISO 14064-3 Greenhouse Gases Emissions & Verification standard, thus becoming the first retailer in Turkey to be so accredited.

Last year Migros had the scope of its Bursa and İzmir produce warehouses' existing Organic Food Handling certifications expanded and had its Mersin warehouse certified as well. Having held good agricultural practices (GAP) group certification continuously since 2009, Migros successfully had its accreditation renewed once again in 2016.

ENSURING PRODUCT QUALITY

Guided by global standards in terms of product safety, Migros aims at providing its customers with healthy products in healthy conditions to perpetuate its customers' unconditional safety. In line with this goal, products are meticulously checked at all phases from their purchase until the point they reach the consumer.

Supplier Audits

Attaching great importance to supplier selection, Migros follows suppliers' practices, assisting and providing guidance to suppliers with the aim of increasing their performance. A supplier's operations are checked in accordance with a specially-prepared Migros Inspection Protocol. This protocol covers all the requirements of five separate quality management system standards: ISO 9001 (Quality Management System), ISO 22000 (Food Safety Management System), ISO 14001 (Environmental Management System), OHSAS 18001 (Occupational Health & Safety Management System), and the SA 8000 Social Responsibility Standard.

In addition, before a food supplier begins working with Migros for the first time, their production facilities are inspected in accordance with the Migros Inspection Protocol and they must receive a satisfactory score. During 2016, 119 prospective suppliers were inspected in this way and the company decided to work with 58 of them.

A total of 1,234 inspections were conducted among Migros's food and non-food suppliers during 2016.

MİGROS OPERATIONS IN 2016



40



More than 1.8 million items were subjected to quality control inspections by quality specialists during 2016.

New Product Quality Checks

All new products that are planned to be put onto market were checked for compliance with the relevant laws and regulations by the Quality Department and only approved products were put onto the market. During 2015, a total of 10,232 new products were included in the system after being checked.

During 2016, 2,456 food and 7,328 non-food items went on sale after passing the new product control system.

Product Analyses

Verification analyses were conducted in the private laboratories of specialized accredited independent external bodies to monitor and verify whether all food and non-food products sold in Migros complied with the Turkish Food Code and relevant legislation. A total of 25,394 quality parameters of 5,798 food products and 3,022 quality parameters of 569 non-food products were subjected to verification analyses in relation to product safety during 2016. The product analyses ensured that with the improvements made the products offered to customers were legally compliant, safe and healthy as well as value added, as backed by scientific data was created by continually improving the products of producing companies.

Private-Label Product Development Processes

The production facilities of all firms that supply Migros with its private-label products were inspected. Private-label products are analyzed periodically both by independent accredited firms and by quality control laboratories located in the company's own distribution centers.

Distribution Center Quality Processes

There are quality control laboratories located in all of Migros's distribution centers. These laboratories are responsible for checking all products sent by suppliers (including produce warehouses and meat distribution centers) before the goods are accepted. Migros's cold-chain processes, which are of critical importance in ensuring the safety of some food groups, begin at the time goods are accepted and continue without interruption until the moment they reach the consumer.

More than 1.8 million items were subjected to quality control inspections by quality specialists during 2016.



A total of 264 verification audits were carried out by quality specialists in the distribution centers, the fruit and vegetable warehouses and wholesale warehouses to check the quality and food safety management systems' processes.

At distribution centers, transport vehicles are periodically checked for compliance with nine different parameters in order to ensure cold-chain continuity.

Effective Reporting with Uninformed Mobile Store Audits

Migros controls the processes from five quality management system certificates that it possesses in its stores by its own quality team and accredited independent external body through uninformed audits.

Various system, process, and section-based inspections are carried out in this way.

During 2016 a total of 2,550 unannounced inspections were performed. In 2015 the inspection results reporting system was made more effective by moving it onto a mobile-access platform. This system continued to be used last year to report results to store managers and to

ensure that appropriate action is taken. For the conduct of these inspections, an independent laboratory performed more than 22 thousand hygiene analyses of the cleanliness of store personnel, equipment surfaces, and service water.

Taking customer expectation and satisfaction issues into account, in 2016 Migros stores' prepared-appetizers and fresh-fish sections joined the fresh meat, charcuterie, and baked goods sections as areas of Migros stores that are inspected by store quality specialists in order to ensure compliance with food freshness and safety criteria. A total of 2,832 such inspections were conducted last year.

In 2016, quality and food safety audits of the Virtual Market's operational processes continued to be carried out. The findings of a total of 200 similar unannounced inspections conducted last year were analyzed, compiled, and used as input for initiating corrective/preventive measures.

During 2016, new stores and seasonally-open stores were inspected to determine the suitability and adequacy of their infrastructure and equipment.

2,550

During 2016 a total of 2,550 unannounced inspections were performed.

The numbers and kinds of store inspections that were carried out in 2016 are as follows:

- By store quality teams: 1,156 inspections
- By independent accredited firms: 1,394 inspections
- Of perishables sections: 2,832 sections in 1,455 stores
- Of Migros Virtual Market: 200 inspections
- Of new and seasonally-open stores' infrastructure and equipment suitability and adequacy: 366 inspections

MIGROS OPERATIONS IN 2016

IN 2016 MIGROS WAS AWARDED TS EN ISO 14001 ENVIRONMENTAL MANAGEMENT SYSTEM CERTIFICATION, THEREBY INCREASING THE NUMBER OF ITS QUALITY MANAGEMENT SYSTEM CERTIFICATIONS TO FIVE.

42



62,800

A total of 62,800 hours of quality management system training was provided last year.

QUALITY MANAGEMENT SYSTEMS

Besides carrying out the monitoring and measurement activities needed to ensure the continuity of the company's existing integrated quality management system certifications, documentation work related to ISO 14001 Environmental Management System certification such as writing up procedures, carrying out risk analyses at all stores, and developing emergency action plans was also completed in 2016.

Quality Training

Within the scope of Integrated Management Systems (ISO 9001 - ISO 14001 - OHSAS 18001), 5 classroom based training programs in 5 different regions (Istanbul, Ankara, Adana, Antalya and Izmir), each of a 3 day duration, were carried out together with the TSI and 151 personnel received a total of 3,624 hours of Internal Auditor education.

Information about the training which Migros blue- and white-collar personnel must receive on matters related to the company's five quality management systems was included in the curriculum of Akademig, the company's corporate development platform. A total of 62,800 hours of such training was provided last year.

452 different training programs were organized for 6,764 personnel in the distribution centers and fruit and vegetable regional warehouses to develop Quality Management Systems practices and to inform new recruits about the subject.

During 2016, Migros quality specialists provided classroom training dealing with quality management system implementation issues in stores to a total of 1,313 people consisting of store training consultants, Migros Virtual Market employees, and service-section employees.



1,313

During 2016, Migros quality specialists provided classroom training dealing with quality management system implementation issues in stores to a total of 1,313 people.



Internal Auditing of Quality Management Systems

Integrated quality management system internal audits were conducted by 351 internal auditors at 1,303 stores, 11 distribution centers, 5 fresh produce regional warehouses, and 36 headquarters and branch units.

TSE Auditing of Quality Management Systems

Turkish Standards Institution QMS audits of the company were carried out in different provinces at Migros stores, distribution centers, the MİGET red meat plant, and branch and headquarters units. As a result of these audits, TSE decided to renew the company's TS ISO 10002 Customer Satisfaction Management System certification and to extend its TS EN ISO

22000 Food Safety Management System, TS EN ISO 9001 Quality Management System, and TS 18001 Occupational Health and Safety Management System certifications

In 2016 Migros was awarded TS EN ISO 14001 Environmental Management System certification, thereby increasing the number of its quality management system certifications to five.

MİGROS OPERATIONS IN 2016

AS OF END OF 2016, PRODUCTS WERE BEING SUPPLIED FROM 1,053 PRODUCERS WHO HELD 270 GPA CERTIFICATES RELATED TO 121 KINDS OF PRODUCTS PRODUCED IN ACCORDANCE WITH GPA PROCEDURES AND PRINCIPLES.

44

67

Six of Migros' suppliers and 67 of their producers were awarded GAP certification in 2016.



GOOD AGRICULTURAL PRACTICES

Good Agricultural Practices: Crop Production

Migros continued the success of previous years by being awarded the Good Agricultural Practices (GPA) Group Certificate for a 4th time for 12 different kinds of fruit and vegetable products, after having undergone production and operational area audits carried out by

a control certification body authorized by the Ministry of Food, Agriculture and Livestock.

As of end of 2016, products were being supplied from 1,053 producers who held 270 GPA certificates related to 121 kinds of products produced in accordance with GPA procedures and principles.

In 2016 Migros continued to assist its suppliers and their producers in efforts to bring themselves into compliance with

270

As of end-2016, the number of produce items that complied with GAP principles and procedures had reached 121 while the number of the company's GAP certificates increased to 270.

the GAP system. Six of the company's suppliers and 67 of their producers were awarded GAP certification last year.

As of end-2016, the number of produce items that complied with GAP principles and procedures had reached 121. During the preceding twelve months, the number of the company's GAP certificates increased from 245 to 270 while the number of producers from which GAP-certified produce was procured increased from 882 to 1,071.

Good Agricultural Practices: Poultry Farming

The traceability and sustainability of animal-based products have become issues of considerable concern from the standpoint of food safety all over the world. The justified concerns of consumers on this matter have had an impact on animal husbandry in recent years and introduced the concept of good husbandry practices (GHP) to the world's agenda.



Having analyzed the effects that concerns about the traceability and sustainability of animal-based foods and their safety are having on conscientious consumers' choices, Migros launched its Good Husbandry Practices Project in 2013. The number of poultry farmers and poultry meat processors qualifying for GAP certification has been increasing steadily in the years since then. In 2016, nine

suppliers served Migros with goods whose production complied with GAP principles and procedures. GAP certification was also awarded to two firms supplying the company with eggs.

MİGROS OPERATIONS IN 2016

FOREMOST AMONG THE ISSUES TO WHICH ATTENTION WAS GIVEN AT MİGROS' DISTRIBUTION CENTERS IN 2016 WERE THOSE OF SERVICE QUALITY AND EFFICIENCY.

46



In order to better manage and optimize stores' stock levels, the practice of shipping some product groups on an item-count (rather than whole-lot) basis was extended. This system allows stores to place orders for the exact number of products they want, the effect of which is to reduce unproductive inventory costs.

An automated order picking and distribution system became operational at the İstanbul Gebze Distribution Center in 2016. By bringing stock items to pickers rather than requiring pickers to retrieve the items themselves, this system improves labor efficiency, eliminates picking errors, and significantly reduces the distances that have to be traveled and the loads that have to be moved inside the warehouse. The system's sorter automatically unpacks goods kept in cartons and when the system is running at full speed up to 1.6 million items can be handled in a single day. Thanks to the system's shuttling capabilities, high-density storage of up to 17,500 cases and 3,000 items can be achieved. Thirty-eight robots guided by beams of light assist in the picking of goods without users having to know anything about product or store order details.



DISTRIBUTION CENTER & LOGISTICS MANAGEMENT

Foremost among the issues to which attention was given at Migros' distribution centers in 2016 were those of service quality and efficiency. When the effects of a last-quarter rise in fuel prices are factored out, expenses appear to be lower than was the case in 2015.

As of end-2016, the number of distribution centers (including those handling fresh produce and meat) was 21. Preliminaries for the opening of the İstanbul Esenyurt Distribution Center were begun in December and the center became operational in January 2017.

An automated order picking and distribution system became operational at the İstanbul Gebze Distribution Center in 2016.

21

As of end-2016, the number of distribution centers (including those handling fresh produce and meat) was 21.

Both the sorting and the shuttling sections of this system have been integrated into the distribution center's 660 meter-long conveyor line, which has been in use since 2014 and whose carrying capacity is 1,600 pallets an hour.

In order to design the infrastructure for this system, which incorporates elements of intelligent warehousing, an inventory of the company's products was carried out in which lasers were used to measure the lengths, widths, and heights of more than 10,000 individual and boxed items.

Effective use of technology makes it possible to keep track of vehicles' locations and onboard temperatures while goods are in transit. Such information is fully integrated into Migros' stock-management systems. Using a mapping app on a tablet computer, a store's managers can see exactly where a vehicle on its way to deliver goods to them is located and they can also estimate its arrival time. This allows for better workforce deployment and stock planning at the store. The vehicle tracking systems of 700 vehicles were replaced in order to improve their telemetry capabilities.



During 2016, the warehouse management system that Migros developed in-house was enhanced with the addition of new modules for the automated picking and distribution systems. The Agile Project Management Methodology that has been in use since 2014 made it possible to make these changes operational very quickly and very efficiently.

The project that was initiated to make shipments at night between stores' opening and closing hours has been extended and nearly 220 stores are currently taking part in it. Besides shortening the time between order-placement and delivery, this procedure

improves shipping efficiency and allows incoming goods to be handled at stores before the doors are opened to customers.

Measurements of the carbon footprints of the company's distribution centers and vehicles that were made as part of Migros's sustainability efforts revealed that there was a net year-on decline in their overall carbon emissions. The company intends to further reduce these emissions on a units-carried basis by means of route optimization and additional improvements in its distribution network.

MİGROS OPERATIONS IN 2016

IMPROVEMENTS IN THE EXISTING SYSTEM ALLOW INFORMATION ABOUT PRODUCTS' COST PRICES, ORIGINS, AND PRODUCERS TO BE SHOWN ON SHELF LABELS.

48



INFORMATION TECHNOLOGIES

Smart badges, Meats section performance system: IT improvements have made it possible to quantify meat service sections' performance and to head off opportunities for pilferage.

Electronic labels: In this new system, product prices and contents will be displayed digitally on shelves. Another of the goals of this R&D project is to prevent problems arising from unlabeled, mislabeled, and mispriced goods.

Express Office (Jet Office): This is a project to improve stores' back-office and checkout processes. It involves the simplification of cash-register closure and accounting procedures and their integration into the central accounting system.

Central Wholesale Market Registration System Mandatory Compliance Project: Improvements in the existing system allow information about products' cost prices, origins, and producers to be shown on shelf labels.



MIGROS HUMAN RESOURCES' OBJECTIVE IS TO HAVE HUMAN RESOURCES WHO WILL SUPPORT THE COMPANY'S EFFORTS TO BOLSTER ITS LEADING POSITION IN ITS INDUSTRY BY BEING KNOWLEDGEABLE, CUSTOMER- AND PROCESS-FOCUSED, RESOURCEFUL, AND DYNAMIC.

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HUMAN RESOURCES & TRAINING

Migros Human Resources' objective is to have human resources who will support the Company's efforts to bolster its leading position in its industry by being knowledgeable, customer- and process-focused, resourceful, and dynamic. In line with this approach, the Company's human resources policy is rooted in the philosophy of "Creating employees who will create competitive advantages".

At end-2016, the Migros family consisted of 23,210 people of whom 21,871 were employed in Turkey and 1,339 abroad.

The candidate pool was expanded during 2016 through the effective application system management and 304,000 candidate applications were received. An average of 127 candidates in the candidate pool were assessed each working day and 6,300 new positions were created during the year. The internal application system was applied for a number of open positions during 2016, with 235 positions filled from internal resources. In 2016, 40% of the candidates employed for administrative departments were women.

In 2016, within the scope of the recruitment and training program organized together with İŞ-KUR, Migros enabled those who want to work in the retail sector to build a career by providing them with workplace training through the workplace training program.

Migros is a young and energetic family, 78% of whose employees are from generation Y (born between 1980 and 2000), with its staff having an average age of 31. Its white collar employees have an average seniority of more than 9.9 years.

The "A Good Job Will Do You Good" employer brand campaign that was initiated in 2014 in order to further strengthen both Migros's image as a preferred employer and Migros employees' company loyalty continued last year through a variety of projects. The Migros Career Facebook page, the first of its kind in the Turkish food retailing industry, had nearly 80,000 followers as of end-2016. Migros's LinkedIn page has also been in active use since 2015.

23,210

At end-2016, the Migros family consisted of 23,210 people of whom 21,871 were employed in Turkey and 1,339 abroad.

MIGROS OPERATIONS IN 2016

TO SUPPORT THE COMPANY'S SUSTAINABLE-GROWTH POLICY AND ORGANIZATIONAL-DEVELOPMENT NEEDS, THERE EXIST SPECIAL-ASSIGNMENT PROGRAMS.



50

Migros continued to manage its career planning and promotion processes by means of its Store Career Paths Program. This program, which allows employees in all stores and departments to manage their own career systematically, fairly, and objectively, is the recipient of a "Most Successful Human Resource Practices" award. Some 98% of Migros's store management personnel are recruited from the company's own human resources. Paralleling the rapid growth in the number of Migros stores, nearly 4,500 managers and employees are now covered by the Store Career Paths Program's appointment/promotion processes.

To support the company's sustainable-growth policy and organizational-development needs, there exist special-assignment programs under which Migros employees are allowed to tailor their duties according to their own preferences and thereby acquire a range of experiences and develop themselves in line with the company's requirements.

The Migros Development Center continued to provide store managers with guidance in their personal/professional development and career planning last year. During 2016, 120 store managers and assistant store managers took part in the Migros Development Center's

programs. After undergoing the center's multi-observation and multi-assessment process, these personnel received detailed feedback and reports about their career progression.

Various departmental and organizational modifications were made in 2016 in line with the company's growing organizational structure and changes in job descriptions.

Specifically designed to be fair, consistent, and transparent, Migros' human resources evaluation systems make use of the most advanced technology and the most effective methods.

The objectives of the Migros Performance Management System are to:

- Make certain that the Company's strategies and goals are disseminated among and shared by employees
- Manage and evaluate employees' performance fairly, transparently, and objectively within the framework of communally-recognized Migros principles
- Provide guidance for career development and backup, total compensation package, and personal development policies that are based on actual data

- Identify and motivate employees whose performance contributes to the achievement of company goals and retain the best-quality people
- Recognize and reward, in a timely fashion, employees who perform as good as or better than what is expected of them.

In the conduct of administrative unit and store white collar personnel performance management processes, more than 6,000 evaluations are made every year.

Another and more comprehensive performance evaluation is embodied in the Store Personnel Performance Management process that is conducted at six-month intervals. Under this program, close to 15,700 store personnel on average are evaluated twice a year by service quality and job performance managers, who rate employees on the basis of eight basic competencies identified as being essential in the retailing industry and who also quantify their professional skills. The results of these performance evaluations play a determinative role in employees' career and progression plans.



64%

In 2016, the Migros Employee Loyalty Survey revealed that the loyalty ratio increased by 4 points and reached 64%.

51

A 360° Competency Assessment System is used at Migros in order to determine the competency strengths and weaknesses of headquarters unit and store management personnel so that effective development plans may be formulated for them.

More than 3,250 Employee Competency Assessment reviews and more than 1,350 Employee Potential Assessment reviews were carried out last year.

In 2016 a separate 360° Competency Assessment System was also set up for the company's international subsidiaries. This system is now being used in the company's operations in Macedonia and Kazakhstan.

The objectivity of the administrative unit personnel performance evaluation process was further strengthened last year by the inclusion of an independent consultancy's proven competency tools. More than 780 employees who underwent this process received personalized reports of the competencies that were compatible with their specific personality traits.

At the Strategic Planning Meeting that was held in 2016, the company's Skill Matrix, Potentials & Stars, Critical Positions, and Backup Plans were reviewed.

Besides increasing the objectivity of evaluation systems consideration was also given to changes in work schedules to make them more productive, effective, and responsive to needs. Rhythm, Migros's workforce management system, is currently being deployed in the company's checkout counters and store management units to increase both customer satisfaction and work schedule transparency, fairness, and flexibility.

RhythmHR, a system that increases workplace transparency by allowing employees' workplace arrival and departure times and attendance to be easily displayed and checked, was up and running in all of the company's stores in 2016. Migros engages in an ongoing effort to make effective use of technology in order to maintain consistently high levels of customer and employee satisfaction at all times.

HR Mobile, a system that was created to support HR activities, to give employees convenient access to HR functions, and to increase HR productivity, was made accessible to administrative unit personnel in 2016. HR Mobile is an app that allows employees to use their smartphones to check their HR details whenever they wish and to submit requests and approvals. HR Mobile will be made accessible to all Migros employees during 2017.

A "Working Life Assessment Survey" is conducted every year by an independent research company in order to measure and further improve the levels of Migros employees' job satisfaction and company loyalty. The goal of this survey is to determine and prioritize issues that are in need of improvement.

Migros Hotline, whose aims are to increase employee satisfaction and to resolve personnel-related problems in the quickest way possible, responded to and dealt with more than 23,000 calls (an average of 1,917 calls a month) during 2016.

The Migros Reward System serves employees by recognizing and rewarding performance in seven main categories referred to as the "Migros Reward Tree". Under the Migros Reward System, employees are rewarded for demonstrating superior performance, for coming up with innovative practices that improve teamwork, for thinking up creative ideas, for contributing to the Company's growth strategy by suggesting locations for new stores, and for having a hand in Migros' success in the course of many years.

MİGROS OPERATIONS IN 2016



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Migros Retailing Academy (MRA) seeks to develop human resources in line with the Company's corporate priorities and with individual and sectoral needs.

Recognizing and rewarding long-term successful service and company loyalty is an essential element of Migros's corporate culture. "Years at Migros" is a program that rewards employees for their loyalty and contributions to the company's performance.

Other efforts that have been initiated to strengthen communication, cooperation, and solidarity among employees and to encourage them to make sports and to gain healthy life habits also continue without letup. In 2016, the eighth in the series of Migros Sports Festivals was held in which employees from all over Turkey take part. During the course of the festival's events, 281 employees competed with one another in football, basketball, volleyball, tennis, table tennis, and chess. Awards and recognitions were handed out to successful contestants.

Migros Retailing Academy (MRA), a program that is conducted in order to contribute towards employees' development and to raise qualified labor force, seeks to develop human resources in line with the Company's corporate priorities and with individual and sectoral needs so as to achieve the Company's strategic objectives. MRA is structured so as to create an environment which makes

continuous development an component of Migros' corporate culture and which gives employees a say in their own career development processes starting from their very first day at the Company by providing them with a choice of models, methods, and means that will be the most effective in planning their own career paths.

MRA consists of six divisions:

- Vocational High School of Merchandising
- Store Management Faculty
- Fresh Foods Faculty
- Administrative Units Faculty
- Leadership Faculty
- Complementary Programs

MRA's curriculum consists of 264 classroom courses, 350 e-learning programs, 600 training videos, and a recommended-reading list of 247 magazine articles and 246 books. "Virtual classroom" methods allow instructors and trainees to interact without having to be physically present in the same space. An in-house mentoring system provides developmental support at the individual level by creating opportunities to exchange knowledge and experience that goes beyond formal training.

8th

In 2016, the eighth in the series of Migros Sports Festivals was held.



19 days

Migros employees were provided with an average of 19 days of training in 2016.

In 2016, a dramatized training that consists of 4 stages collectively entitled a “Sustainability Marathon” was provided to spread the concept of sustainability among all Migros employees.

Migros employees were provided with an average of 19 days of training in 2016.

Developed in collaboration with Anadolu University, the Migros Retailing Program gives highschool graduates a chance to earn a university-equivalent degree in just two and a half years and thus overcome their lack of academic credentials. Another program conducted in collaboration with Georgia State University gives store managers a chance to learn about new trends and developments in retailing that are taking place around the world and also to visit some of the world’s biggest retailers in the United States. A pre-MBA program developed jointly with Koç University gives Migros managers a chance to expand their management vision and skills. The Koç University Migros Retailing Forum, another collaboration with that institution, organizes retailing conferences which are attended by leading Turkish and international academicians and professionals and which serve as platforms for the exchange of knowledge and experience.

To meet the need for qualified employees in the sector, the partnerships that the Company entered into with Ege University and Karadeniz Technical University and Anadolu University also continued in 2016.

In 2016, a dramatized training that consists of 4 stages collectively entitled a “Sustainability Marathon” was provided to spread the concept of sustainability among all Migros employees. The training informs employees of sustainability and enables them to be informed of Migros’s approach and projects regarding this issue. Migros employees can access training at any time and from any location from the www.akademig.com website, which is Migros’ e-learning platform.

Migros employees may follow current affairs regarding sustainability from the sustainability page that has been added to Migros’s Corporate Communication magazine Turuncu (Orange).

The Migros Retailing Academy was admitted to the “Training Top 125” list published by Training Magazine, a publication read by training and development professionals whose awards recognize the world’s most successful learning and development programs. The American Society for Training (ASTD), a non-profit association for workplace learning and performance professionals, bestowed its “Award For Excellence” on the Anadolu University-Migros Associate/Undergraduate Degree in Retailing Program. CorpU, a training and development organization that runs one of the most prestigious award programs in the field of corporate learning, bestowed its “Excellence & Creativity Award in Learning” in the “Collaboration” category on the Anadolu University-Migros Associate/Undergraduate Degree in Retailing Program.

The Migros Retail Academy crowned its success by winning 11 awards in competitions in which corporate academies and the training departments from companies all around the world have been finalists in the last few years.

“Migros Social”, a corporate social learning and communication platform which allows personnel to share their own knowledge and experience and which functions in both the web and mobile environments, was completely overhauled and made accessible to all Migros employees in 2016.

MIGROS OPERATIONS IN 2016

MIGROS BELIEVES THAT THE PRESENT AND FUTURE SUSTAINABILITY OF THE WORKPLACE ENVIRONMENT IS DEPENDENT ON ITS BEING HEALTHY AND SAFE.

54



Migros provides OHS training to its employees before they start work and then periodically thereafter.

HEALTH & SAFETY

Migros believes that the present and future sustainability of the workplace environment is dependent on its being healthy and safe.

In line with this belief, the company engages in an ongoing effort to promote a safety culture shared by both employees and customers alike and to contribute towards making safe behavior a habit throughout society. It was to this end that in 2013 the company set up an Occupational Health & Safety Committee whose membership consists of top-level managers and which reports directly to the Chief Executive Officer.

As the most senior management unit responsible for occupational health & safety (OHS) issues throughout Migros, this committee directed the taking of corrective measures based on risk-assessment reports and engaged in an ongoing effort to make improvements during 2016. Risk assessments were carried out at stores, headquarters and branch units, distribution centers, fresh-produce warehouses, and the MİGET meat-processing plant. A complete battery of risk assessments is always conducted whenever a new workplace is to be opened.

During 2016, 47 workplace safety specialists, 46 workplace physicians, and 2 other health personnel who were

employed by duly licensed firms provided a total of 37,499 hours of occupational health & safety (OHS) services at low-risk stores with fifty or more employees and headquarters and branch units as well as at high-risk distribution centers, fresh-produce warehouses, and the MİGET meat-processing plant.

OHS Committee Meetings were held regularly in all units for which OHS services were provided.

Migros provides OHS training to its employees before they start work and then periodically thereafter. On the job training and periodical OHS training are provided face to face in classroom for new recruits where OHS services are provided. Employee training is also supported by distance learning in all locations. A total of 39,013 hours of face to face on-the-job training was provided to employees by occupational safety specialists and workplace doctors. In addition, "OHS foundation" "Emergency Cases" trainings were provided to more than 12,150 employees through distance learning. First-aid training for 771 employees at the company's headquarters and branch units, distribution centers, fresh-produce warehouses, and MİGET meat-processing plant was completed last year. Training on hygiene-related issues was also given to about 11 thousand headquarters and branch unit, distribution center, fresh-produce warehouse, and MİGET meat-processing plant employees.

53%

In 2016 accident-related workday loss was reduced by 53%.



55

In 2016 all company-owned equipment used by employees in the performance of their jobs at headquarters and branch units, distribution centers, fresh-produce warehouses, and the MİGET meat-processing plant was checked at regular intervals by authorized agencies to ensure compliance with OHS regulations. General polyclinic services were provided by workplace physicians to employees 6,912 times. These physicians also give employees health checkups both before they are hired and at regular intervals thereafter. Employees were provided with firefighting, search & rescue, earthquake response, and evacuation training by fire department officers, specialized firms, and workplace safety specialists as called for in the company's Emergency Action Plan.

Independent OHS consultants accompanied by company OHS managers visited stores, distribution centers, fresh-produce warehouses, and the MİGET meat-processing plant. During these visits, workplace OHS processes and practices were inspected and corrective/preventive measures were taken when necessary. A total of 373 scheduled OHS visits were conducted during 2016.

The number of workdays lost due to work-related accidents decreased by 53% in 2016.

By focusing OHS management on employee training, employee briefings, onsite observations, and improvements

in workplace equipment and physical conditions, the seriousness of work-related accidents was reduced and there was also a significant reduction in accident-related workday loss.

Owing to the vastness of Migros's operational footprint, the company has had a customized OHS management system developed to allow it to centrally keep track of and systematically report on all OHS-related processes and practices. This system's functions consist of:

- Recording and reviewing work-related accidents and near-accidents and compiling work-related accident statistics;
- Ensuring that employees are given health checkups both when they are initially hired and thereafter at regular intervals;
- Conducting and tracking employees' training activities;
- Following up risk assessments;
- Requesting and following up corrective/preventive measures;
- Formulating and managing emergency action plans; scheduling and conducting safety drills;
- Keeping track of equipment records and periodic equipment inspections; drawing up and retaining inspection reports;
- Ensuring that annual employee, work, training, and evaluation plans are clearly expressed and that the records of OHS committee meetings are kept.

OHS procedures, instructions, forms, work packages and work permit forms were revised and integrated into the Quality Management Systems documentation structure. Steps were taken to ensure that OHS documentation was created in all units.

Believing that such certification adds value to the overall conduct of OHS activities, enhances OHS participation and motivation, and leads both to beneficial improvements in the OHS system and to its systematization, Migros sought and was awarded TS OHSAS 18001 Occupational Health and Safety Management System certification. In 2016 the company successfully passed a review and audit of this certification that was conducted by twenty-one TSE examiners at Migros's headquarters, stores, and distribution centers.

As a board member of the Consumer Goods Forum (CGF), Migros is a participant of the Employee Health and Welfare Working Group, which steers the global sector with the best practices. CGF members are committed to implement employee health and welfare programs.

The program includes healthy practices with regard to providing employee welfare, activity and feeding programs, encouraging employees to take conscious choices and become more physically active, supporting general physical and mental health





BECAUSE WE CARE ABOUT OUR FUTURE.

As summed up in its “Migros Will Do You Good” motto, Migros seeks to improve the health and wellness of employees and customers wherever it does business.

Sustainability Report 2016

Who are we?

- 1.605 stores operating in 3 countries
- 23.210 employees
- 31 age average
- 78% Y generation ratio
- 40% women employment ratio
- We reach 17 million households
- 95.01% Our Corporate Governance Rating Score
- We are Turkish Food Retailers Association & Consumer Goods Forum Board Member
- 13 consecutive years Turkey's Most Admired Retail Company
- 9 consecutive years Turkey's Lovemark in Supermarket

Our Certificate of Quality

Our Certificates

- 5 Quality Management System Certificates
 - ISO 9001 Quality Management System
 - ISO 14001 Environmental Management System
 - OHSAS 18001 Occupational Health and Safety Management System
 - ISO 22000 Food Safety Management System
 - ISO 10002 Customer Satisfaction Management System

Quality Audits

- 80% of the suppliers constituting 79,5% of our total turnover were audited 1.234 times
- 2.550 audits to our stores
- 1.815.626 products are controlled according to quality standards in distribution centers

Customer Satisfaction Practices

- Within 48 hours incoming calls are responded
- With 890.000 customers, we communicated directly

Our Support to Good Living

- 972 'Good Living' products 180 of which our private label products
- 45 Anatolian Tastes Products - centurias old recipes with traditional methods and local seeds
- 448.864 tons of fruits and vegetables with Good Agricultural Practices (GAP) are produced
- MİGET Largest meat processing plant in Turkey
- From 1.126 henhouses we supplied chicken in accordance with GAP criteria
- Migros Sports Fest 1000 employees from all over Turkey came together and played sports
- We reached 60.000 families with Good Living Programme by telling out the importance of healthy nutrition and physical activity

Our Environmental Footprint

Carbon

- A- score Climate Leaders through our reporting for CDP/Carbon Disclosure Project
- 472.113 ton CO₂e Our carbon footprint in 2015 confirmed by TÜV-NORD Germany. The first accredited certificate at the retail sector in Turkey
- Target: 10% Up to 2020, reducing the daily carbon emissions per sales area compared to 2015

Water

- 691.799 m³ water consumption
- Target: 4% Up to 2020, reducing the annual water consumption per employee compared to 2016

Our Eco-friendly Implementations

Energy Saving Practices

- 5,9% daily energy consumption per sales area decreased compared to 2013
- Savings as much as nearly 103.000 houses' monthly electric consumption

Recycling Practices

- 4.772 tons of organic waste are used to produce biogas/compost
- For 11 million hours, enough energy is produced to run a 100-watt light bulb
- 45,3 tons of food are donated to HAYTAP to feed strayed animals

- 12.038 tons of non-hazardous waste was recovered (wood, paper, metal, plastic, glass)
- We prevented 70.608 trees to be cut down
- Savings as much as nearly 16.250 families' annual electric consumption

Preventing Deforestation

- To date 540.650 trees are planted
- 1.100 tons of recycled paper are used for all our leaflets, preventing 18.700 trees to be cut down

"Good Job Good Future" for Our Employees

- 95% the ratio of our employees who got personal/career development trainings
- 19 days trainings per employee
- 12.401 employees took OHS trainings

- 98% of our management team is from Company's own human resources
- 53% decrease in number of lost days caused by work accidents



MIGROS AND SUSTAINABILITY

MIGROS REGARDS THE CONCEPT OF SUSTAINABILITY AS A GUIDE THAT ENCOMPASSES ALL OF ITS ACTIVITIES.



Migros Ticaret AŞ is the only food retailer in Turkey whose efforts on behalf of sustainability have entitled its publicly-traded stock to be included in Borsa İstanbul's "BIST Sustainability Index" for the last three years in a row.

With roots that reach back 62 years, Migros is Turkey's trailblazing retailer. Those roots give the company a responsibility in which it regards the concept of sustainability as a guide that encompasses all of its activities. Informing its operations with an awareness of its responsibilities towards people, the environment, and future generations and marshaling both its corporate resources and the voluntary efforts of its employees, Migros undertakes many different projects in many different areas in which it perceives there to be social benefit. Guided by the company's Sustainability Committee, Migros's sustainability approach is to consider the environmental, social, and economic dimensions of all company decisions and actions in terms of their national and international ramifications.

Migros Ticaret AŞ is the only food retailer in Turkey whose efforts on behalf of sustainability have entitled its publicly-traded stock to be included in Borsa

İstanbul's "BIST Sustainability Index" for the last three years in a row. In order to qualify for inclusion in this index, companies are rated on such criteria as the priority they give to issues like global warming, biodiversity, efficient use of natural resources, water resource depletion, occupational health and safety, employment, supply chain, corporate governance, and health and wellness as well as their commitment to the principle of transparency.

Migros is a member of the Consumer Goods Forum (CGF), a global retail-industry network of some of the world's leading retailers, manufacturers, service providers, and other stakeholders and it also holds a seat on that organization's board of directors. As the only Turkish company to attend the Sustainable Retail Summit that CGF conducted in Paris in 2016, Migros's chief human resources officer took part in a panel discussion and talked about the company's human resources practices.

MİGROS AND SUSTAINABILITY



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Migros seeks to maintain a secure and eco-friendly operational structure in all aspects of its value-creation chain from initial procurements to after-sales services.

Governance

The Migros Board of Directors is responsible for identifying the company's strategic approaches to such sustainability-related issues as climate change, environment, biodiversity, human rights, occupational health and safety, corporate governance and business ethics, responsible business practices, and social wellbeing. Migros's general manager, who is the company's chief executive officer, is responsible for implementing the strategies set out by the board and he fulfills this responsibility by working through the company's senior management team. Senior managers in turn set sustainability targets which they assign to the members of their respective teams. The Migros Sustainability Committee was set up to facilitate this process. This committee is headed by the Assistant General Manager for Human Resources & Industrial Relations and its membership consists of managers representing all of the company's primary functions.

The following committees have also been set up within the Migros Board of Directors:

- Audit Committee
- Corporate Governance Committee
- Risk Detection Committee

Through internal reviews that it conducts regularly throughout the year, the Migros Internal Control Department investigates operations and transactions and formulates recommendations concerning measures that need to be taken to deal with any irregularities that might in future arise. The Internal Control Department reports directly to the General Manager.

Relations with stakeholders

Migros seeks to maintain a secure and eco-friendly operational structure in all aspects of its value-creation chain from initial procurements to after-sales services. To accomplish this, the company develops environmental management systems, gives importance to biodiversity, and endeavors to combat climate change. Migros likewise manages a procurement base consisting of sustainability-focused suppliers, to which end the company also engages collaboratively with various stakeholder groups. Suppliers, contractors, and all other business partners are required to adhere to the Migros Code of Ethics as well as to comply with laws and regulations.

Migros's Corporate Research Unit conducts a wide range of surveys etc that interact with more than 30,000 customers a year.



Relations with employees

Sustainability is a fundamental responsibility of all Migros employees. This is both a “top-down” and a “bottom-up” responsibility by design. Migros is uncompromisingly opposed to any form of discrimination based on ethnicity, race, or gender. The Migros Code of Ethics is a set of rules that specify what constitutes an ethical approach when dealing with issues that come up in the conduct of business and work at Migros. The Migros Ethics Committee is responsible for considering corruption and bribery-related findings turned up in the course of internal reviews as well as ethics-related issues. This committee regularly convenes four times a year in meetings that are attended by senior company executives. In both the 2014 and 2015 rounds of the series of ETİKA Turkey Ethics Awards conducted by the Center for Ethical Values (EDMER), Migros was cited and awarded as one of “Turkey’s Most Ethical Companies”.

Social impact

Migros's Corporate Research Unit conducts a wide range of surveys etc that interact with more than 30,000 customers a year. The findings of these surveys are used as input in the development of the company's social responsibility projects. Migros has identified the following as its high-priority social-impact issues: public health & hygiene, eco-awareness, supporting community development, and enriching cultural life. Having identified areas in which there is a social need, the company then develops projects to address those needs and it works together with employees and customers as well as with foundations, associations, and other non-governmental organizations in the conduct of those projects. The multiplier effect of this approach helps expand the projects' impact.

During 2016 Migros donated a total of TL 537,416.40 to various charitable foundations and associations.

Memberships

Owing to its position as one of Turkey's biggest retailers, Migros is a member of the Food Retailers Association and of the international Consumer Goods Forum and holds seats on both organizations' boards of directors. The company is also a member of the International Investors Association (YASED), the Environmental Protection and Packaging Waste Recovery and Recycling Trust (ÇEVKO), the Turkish Food Safety Association (TFSA), the Union of Chambers & Commodity Exchanges of Turkey (TOBB), the People Management Association of Turkey (PERYÖN), the Association of Corporate Communicators (KİD), the Association of Turkish Milk, Meat, Food Industrialists and Manufacturers (SETBİR), the Turkish Federation of Shopping Centers And Retailers (TAMPF), the Turkish Marine Environment Protection Association (TURMEPA), the International Chamber of Commerce (ICC), the Turkish Industrialists' and Businessmen's Association (TUSİAD), the Foodservice Suppliers Association (ETÜDER), the Turkish Investor Relations Association (TÜYİD), the Corporate Governance Association of Turkey (TKYD), Gartner Nederland BV, the Learning and Development Platform Association of Turkey (TEGEP), the European Association of Communication Directors (EACD), the Turkish Veterinary Medical Society, and the Turkish Quality Association (KalDer).

MIGROS AND SUSTAINABILITY

MIGROS IS A FAIR AND EQUAL-OPPORTUNITY EMPLOYER.

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"Good Job Good Future" for Our Employees



95% the ratio of our employees who got personal/career development trainings



19 days trainings per employee



12.401 employees took OHS trainings

98% of our management team is from Company's own human resources



53% decrease in number of lost days caused by work accidents



A GOOD JOB DOES EMPLOYEES GOOD

Migros is a fair and equal-opportunity employer. Having committed itself to providing on-the-job/workplace learning and lifetime-learning opportunities to all of its employees, Migros offers its personnel an unrivaled range of training and development options that will support their professional advancement and career progression. It is a basic principle throughout the company to maintain labor peace, to comply with laws and regulations, and to be mindful of and to fulfill all of their rights to which they are entitled both contractually and by law.

The most important strategic objective of the Migros Human Resources Department is to manage the company's human resources so as to ensure that employees are knowledgeable, customer- and process-focused, dynamic, and supportive of Migros's efforts to maintain its leading position as a retailer. A key tenet of the Migros brand is "A good job does you good."

In the conduct of its operations both in Turkey and abroad, Migros employs a workforce that is hugely diverse in terms of language, religious conviction, and ethnic background. Migros's human resources processes and operations are carried out in accordance with the human rights embodied in United Nations Guiding Principles on Business and Human Rights and in ILO Declaration on Fundamental Principles and Rights at Work. All decisions impacting on human resources from recruitment and hiring to compensation and progression are implemented in accordance with detailedly spelled-out job descriptions. The Migros HR Evaluation System is grounded in the principle of equal opportunity for all and it is designed so as to measure and track employees' competencies, capabilities, and performance according to uniform and objective criteria. Migros provides its employees with equal training, promotion, career progression, and compensation opportunities based on the results of their individual performance evaluations. Every Migros employee is provided with a copy of Turuncu Kitap, a handbook that sets out in a completely transparent and detailed manner the company's Human Resources Policy and its Human Rights & Equality of Opportunity Policy. One of the duties of the Migros Internal Control Department is to regularly review and assess implementation of and compliance with these policies.

Hiring performance

Migros received 304 thousand job applications during 2016. From the company's overall pool of applicants, 6,300 people were hired last year. On average this corresponds to the company's evaluation of 127 job applications during each workday and the addition of six new people to the Migros family during each working hour. Vacancies are also filled through the

company's internal transfer/promotion system: 235 positions were filled in this way in 2016.

Under the company's "Recommend A Friend" project, 154 people were recruited by Migros based on an existing employee's recommendation while 119 Migros employees who took part in the project and whose friends were hired were rewarded.

It was thanks to such proactive recruitment and employment practices that Migros was the recipient of the İzmir Employment Agency's "Workplace With The Most Female Employees", "Workplace Creating The Most Jobs", and "Workplace With The Most Physically Handicapped Employees" awards in 2014 and of the Social Security Corporation's "Employer Providing The Most Jobs To The Physically Handicapped", "Employer Providing The Most Jobs", and "Employer Providing The Most Jobs To Women" awards in 2015.

Talent management

An average of 6 thousand performance evaluations are carried out every year at Migros by its administrative units and under its Store White Collar Performance Management System. Under the company's Store Personnel Performance Management System, nearly 15,700 store employees are evaluated twice a year by their supervisors.

Headquarters administrative personnel and store managers likewise undergo "360° Competency & Potential Evaluations" in which their strengths and potential weaknesses are identified so that development plans may be formulated accordingly. Such evaluations were carried out for more than 3,250 Migros employees in 2016. The Ramstore personnel in Macedonia and Kazakhstan operations was also included in the system in 2016.

The Migros Reward System is used in order to recognize and reward employees for their superior performance in the areas of creativity, added-value generation, and teamwork. More than 3,300 Migros employees were the recipients of such awards in 2016.

Career guidance

Migros employees begin receiving career guidance, mentoring, and professional & personal development support from the moment that they are hired by the company.

Management-related career planning and promotion processes are conducted in accordance with the Migros Career Paths Program, which allows employees in all stores and departments to manage their own careers systematically, fairly, and objectively. 98% of Migros's store management personnel were recruited from the company's own human resources through this program in 2016.

Contributing to employee progression

Set up to make the concept of "continuous development" a core element of Migros's corporate culture, the Migros Retail Academy contributes to employees' professional and personnel development through a mix of university program, classroom training, and e-learning options. During 2016, Migros employees received an average of 19 days of professional and personal development training.

MİGROS AND SUSTAINABILITY

IN KEEPING WITH ITS “A GOOD JOB DOES YOU GOOD” APPROACH, MİGROS CONDUCTS MANY PROJECTS WHOSE AIMS ARE TO INCREASE EMPLOYEE LOYALTY AND TO ENHANCE INTERNAL AND EXTERNAL CUSTOMER SATISFACTION.

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Over the last few years, Migros Retail Academy's entries have also won eleven awards in competitions in which other institutional academies and company training units from all over the world took part.

Migros Retail Academy works with universities in the following ways:

- In collaboration with Anadolu University, the Migros Retailing Program gives highschool graduates a chance to earn a university-equivalent degree in just two and a half years.
- In collaboration with Georgia State University, store managers are given a chance to learn about new trends and developments in retailing that are taking place around the world and also to visit some of the world's biggest retailers in the United States.
- Under an MBA program developed jointly with Koç University, Migros managers are provided with a chance to expand their management vision and skills while the Koç University & Migros Retail Training Center (KÜMPREM) regularly organizes retailing conferences which are attended by leading Turkish and international academicians and professionals.
- The “Retailing School” project that was launched in 2013 in collaboration with Ege University with the aim of training people with the qualifications that the retailing industry requires was expanded so as to include Karadeniz Technical University and Anadolu University as well. In 2015, the “Migros Charcuterie Personnel Training Program” and the “Migros Fruits & Vegetables Personnel Training Program” were inaugurated as part of the Migros Retail Academy Fresh Foods Faculty to train people for jobs in stores' perishable foods sections.
- Under the Retail Management Certificate Program conducted at Boğaziçi University, store managers are equipped with both academic and theoretical knowledge.
- Since 2010, Uludağ University lecturers have been conducting classes for store managers and produce-section employees on perishable food issues and technologies.

Over the last few years, Migros Retail Academy's entries have also won eleven awards in competitions in which other institutional academies and company training units from all over the world took part.

Ensuring employee satisfaction

In keeping with its “A good job does you good” approach, Migros conducts many projects whose aims are to increase employee loyalty and to enhance internal and external customer satisfaction. All new employees joining the Migros Family are asked to fill out a “Recruitment Evaluation Questionnaire” in order to learn about their experience with the recruitment process and to measure the quality and effectiveness of the information given to them when they were hired.

A “Working Life Assessment Survey” is conducted every year by an independent research company in order to measure and further improve the level of Migros employees’ job satisfaction. According to the findings of the 2016 survey, Migros’s score was above the retail industry norm. The results of all of these surveys and polls are used as input in the conduct of other activities aimed at improving the company’s HR processes and at increasing employee satisfaction.

The Migros Hotline, whose aims are to increase employee satisfaction, to resolve problems, and to address possible code of ethics violations in the quickest way possible, responded to and dealt with more than 23,000 calls in 2016.

The Migros Career Facebook page, the first of its kind in Turkey’s food retailing industry, was the recipient of the “Outstanding Achievement” award in the “Human Resources” category at the international web design and innovation competition held in New York by the Interactive Media Council.

Workplace safety and security

Migros has committed itself to providing its employees with a safe and secure working environment. Because the locations of the company’s operations are widely dispersed, Migros has developed and implements an online system that allows all occupational health and safety (OHS) processes and activities to be systematically and centrally monitored and reported.

Workplace OHS committees, which include an occupational safety specialist and physician, meet regularly at stores, distribution centers, and perishables warehouses. There is also a Headquarters OHS Committee that is responsible for overseeing OHS processes at all Migros workplaces.

Migros employees are provided with OHS-related training. Newly-hired personnel at headquarters, branch, and regional units are provided with OHS training by their workplace safety specialist and physician. Migros employees are also provided with access to online OHS training throughout the year.

During 2016, workplace physicians performed a total of 6,912 health checkups on Migros employees during the hiring process or in the conduct of periodic examinations

Disaster & Emergency Management Agency personnel and local fire department officers provide Migros store, distribution center, and perishables warehouse employees with Emergency Action Plan training and they also put them through EMP drills. There were 528 work-related accidents reported during 2016, a performance that resulted in an accident frequency rate of 8.13 while total lost time due to accidents last year amounted 1,498 workdays. This last figure is 53% lower than what it was the year before.

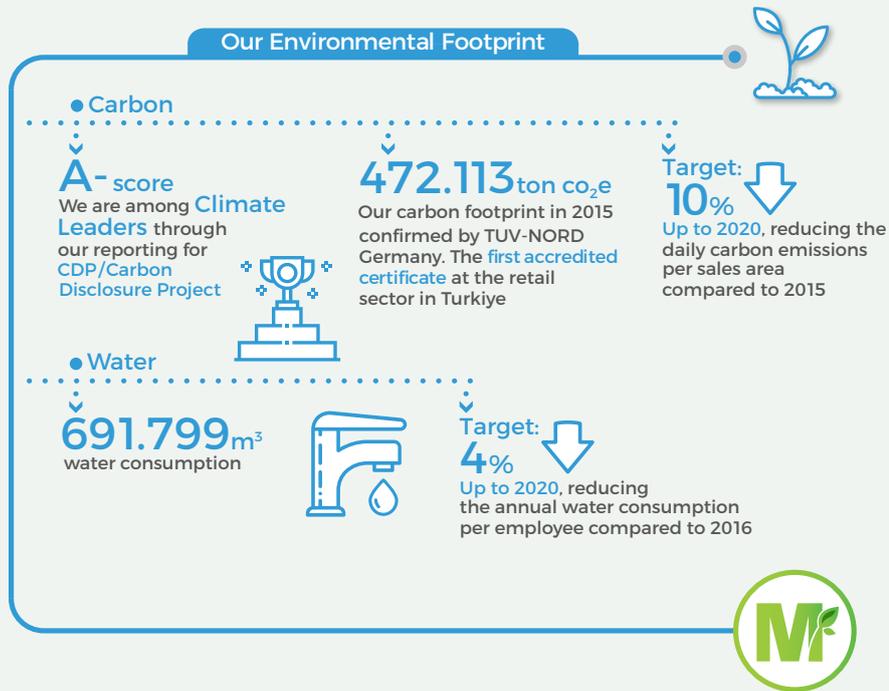


The Migros Career Facebook page, the first of its kind in Turkey’s food retailing industry, was the recipient of the “Outstanding Achievement” award in the “Human Resources” category by the Interactive Media Council.

MİGROS AND SUSTAINABILITY

MİGROS HAS FORMULATED A MİGROS ENVIRONMENT POLICY WHOSE AIM IS TO MINIMIZE THE ENVIRONMENTAL IMPACT THAT MIGHT OCCUR AS A RESULT OF THE COMPANY’S OPERATIONS.

66



ENVIRONMENTAL FOOTPRINT

Migros has formulated a Migros Environment Policy whose aim is to minimize the environmental impact that might occur as a result of the company's operations. Migros's Environmental Management Vision calls for the conduct of a variety of projects whose aims are to continuously manage the company's environmental impact, to protect biodiversity, to strengthen the value-creation chain through closer relationships with suppliers, and to increase awareness of such issues among the public at large.

To this end, Migros:

- Constantly monitors and controls the environmental impact of its operations while seeking to reduce them;
- Has its carbon footprint measured every year and makes an effort to reduce it;
- Complies with environmental laws and regulations and has environmental impact studies performed before undertaking new operations;
- Develops and carries out projects aimed at making more efficient use of resources such as water and energy.



award

Migros saw its CDP reporting score shoot up from “D” to “A-”, a success that made it the recipient of a “CDP Turkey Climate Leaders” award.



In keeping with its goal of reducing waste to zero, Migros explores and implements methods (such as converting it into energy) in which to recover and/or recycle all waste arising from all operations.

As a result of these and similar efforts, Migros qualified for TS EN ISO 14001 Environmental Management System certification in 2016.

A four-stage gamified training program called “**Sustainability Marathon**” has been introduced to teach sustainability concepts to all Migros personnel. Because it is designed as a competitive game, employees are entertained while also learning about sustainability. A total of 7,354 Migros employees have taken part in this training and those who successfully complete all four of its stages receive points that they can exchange for prizes from the Migros gift catalogue. A “Sustainability” page that was added to Turuncu, Migros’s corporate communication magazine, keeps the company’s employees up to date on sustainability-related activities and issues.

Carbon footprint

Although greenhouse gas emissions reporting is not currently mandated in the Turkish retailing industry, Migros has nevertheless voluntarily inventoried the sources of such emissions generated at all of its stores, distribution centers, fresh produce warehouses, and regional units as well as at its MİGET Integrated Meat Processing Plant. In 2016 the company

calculated its “Corporate Greenhouse Gas Emissions” (the total of all such emissions generated by all company operations) taking 2015-reported data into account.

The corporate greenhouse gas emissions resulting from Migros’s 2015 operations amounted to 472,113.05 metric tons of carbon dioxide equivalents. Migros’s “Scope 1” (Direct GHG) and “Scope 2” (Electricity indirect GHG emissions) were verified by TUV-NORD Germany based on the checks which it performed in accordance with the ISO 14064-3 Greenhouse Gases standard and GHG protocol. As a result, Migros has become the first retailer in Turkey to be awarded GHG accreditation by DakkS, the national accreditation body for the Federal Republic of Germany.

Migros has committed itself to reducing the average daily carbon emissions/m² sales space performance by at least 10% of its 2015 value between now and 2020.

In order to achieve that target, Migros drew up a plan to combat climate change and for the last two years has been reporting its progress under the plan to the Carbon Disclosure Project (CDP), the most highly-respected international initiative in greenhouse gas emissions reporting. Having had its carbon emissions verified and accredited in 2015, last year Migros saw its CDP reporting score shoot up from “D” to “A-”, a success that made it the recipient of a “CDP Turkey Climate Leaders” award.

Water management

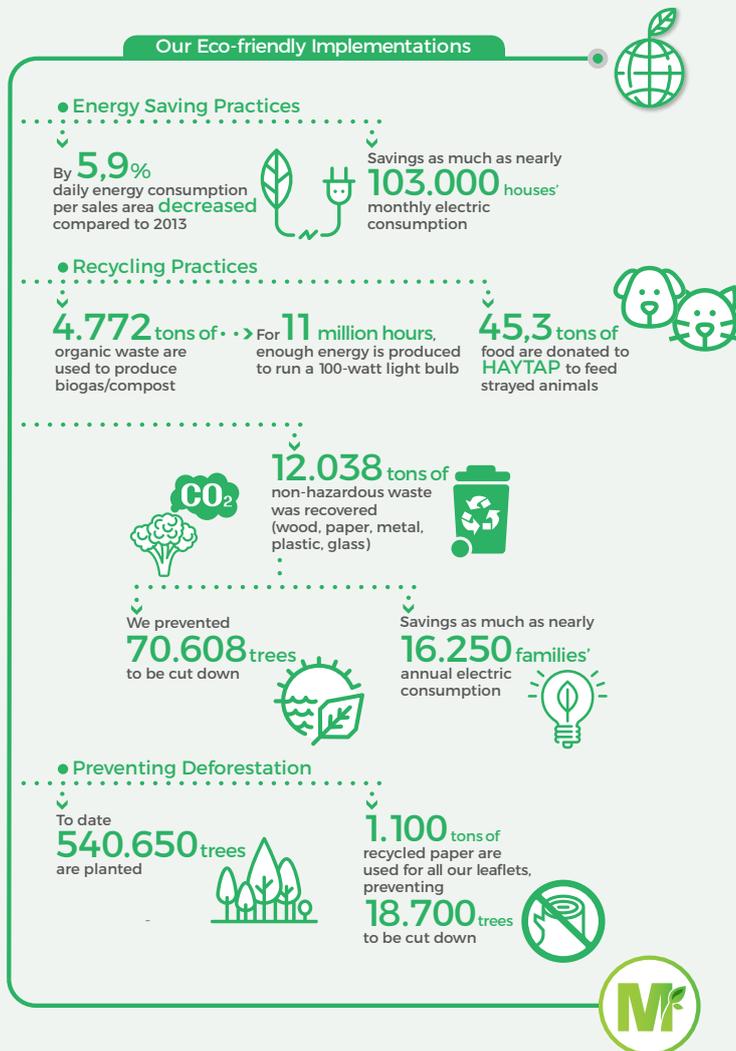
Efforts are made to improve water efficiency and to comply with the requirements of laws and regulations to prevent the environmental impact of waste water resulting from company operations. To this end, the amounts of water used in stores, service areas, and production facilities are monitored and reported on a monthly basis. Water consumption is reduced through the use of more efficient machinery and equipment.

A total of 691,799 m³ of water was consumed in the conduct of the company’s operations in 2016. Last year the company began monitoring and reporting its water use on an average per-capita basis and it aims to reduce this figure by at least 4% between now and 2020.

Migros takes precautions to ensure that its operations do not have a significant impact on water resource biodiversity. In the great majority of cases water is obtained from locally-supplied (municipal) water mains and the waste water from store operations is discharged directly into the local sewer system. In the case of the company’s Gebze and Kemalpaşa distribution centers, which have treatment plants of their own, waste water is discharged into the local sewer system after having been treated so that its contaminants are well below mandatory levels.

MIGROS AND SUSTAINABILITY

MIGROS ABIDES BY PRINCIPLES AND STANDARDS THAT FAR EXCEED REGULATORY REQUIREMENTS INSOFAR AS NATURE-FRIENDLY PRACTICES ARE CONCERNED.



NATURE-FRIENDLY PRACTICES

Migros abides by principles and standards that far exceed regulatory requirements insofar as nature-friendly practices are concerned. The company conforms to best practices and it undertakes model projects in order to address such environmental issues as climate change mitigation, responsible procurement, and waste recycling and it takes part in socially-proactive initiatives by encouraging its own customers, employees, and other stakeholders to join in such efforts themselves.

Energy conservation

The most direct impact which retailing has on climate change stems from its use of energy. Greenhouse gas emissions are generated by the illumination, air-conditioning, and refrigeration systems of the company's stores and distribution centers. The company also has an indirect impact on climate change owing to the logistical services associated with its merchandise.

Migros employs energy-monitoring systems that record and report the amounts of energy consumed on a daily, weekly, and monthly basis. This information is used as input for measures to reduce energy consumption and consequently the greenhouse gas emissions associated with it. In 2009 the company began automating stores' refrigeration and then their air-conditioning and lighting systems in order to centrally monitor and manage their energy consumption. As of end-2016, the refrigeration systems of 1,317 stores, the air-conditioning systems of 937 stores, and the lighting systems of 706 stores had been so automated. Another way that Migros reduces energy consumption and associated emissions is to

energy

Migros employs energy-monitoring systems that record and report the amounts of energy consumed on a daily, weekly, and monthly basis.

favor air-conditioning and industrial refrigeration systems equipped with variable-current and high-efficiency automatic control features when building new or renovating existing stores. Eco-friendly refrigerants are also used. Efforts are made to maximize the use of daylight for internal illumination wherever store design constraints allow and solar heat reflective paint is used on stores' roofs so as not to contribute to the formation of urban heat islands. Motion-sensitive light fixtures are used to illuminate the interiors of storage areas.

A project to install doors on refrigerated cabinets in all stores was completed in 2016. This has reduced average electricity consumption in stores by 6%. Migros has also begun replacing conventional lamps with new-generation ones and this has achieved an average 8% reduction in stores' electricity use.

Improvements in refrigeration systems

The refrigeration systems widely used by retailers are big contributors to greenhouse gas emissions all over the world. Because of this, Migros avoids using man-made refrigerants in refrigeration systems and it also focuses on using new-generation systems that are more efficient.

At its MĪGET meat-processing plant for example, Migros uses ammonia rather than HFC as a refrigerant. The company's use of this naturally-occurring gas prevents the release of close to 288 tons of harmful greenhouse gas emissions a year.

In 2015 a pilot project was carried out at the Taşdelen Migros M store in which glycol rather than HFC-R404a was used as a refrigerant in the store's refrigerated cabinets. In this system, glycol is used to chill individual cabinets. This results in much safer and more efficient cooling as compared with HFC-R404a-refrigerated cabinets because it reduces the amount of gas that needs to be circulated through all of a store's cabinets (and the associated risks of leaks) by about 90%. In 2016 this system was taken a step forward with the introduction of a system in which water that is chilled using propylene glycol, a food-safe antifreeze, is circulated through the refrigerated cabinets. This system, to which Migros holds a patent, makes use of 100% natural refrigerants and also minimizes harmful emissions that might otherwise be caused by refrigerant leaks. By using 100% natural materials like water and propane, the risks of several dozen tons of CO₂ emissions/store on average have been reduced to nearly zero. The company plans to introduce this system throughout the Migros chain.

Sustainable distribution systems

Another major contributor to the retailing industry's energy consumption and greenhouse gas emissions is its logistical operations. In order to minimize the environmental impact of such operations, Migros develops and carries out projects which, by improving distribution and energy efficiency, reduce GHG emissions. The distances traveled each year by delivery vehicles moving between distribution centers and stores are measured. This information is analyzed and used both to optimize vehicles' routes and to identify places where new distribution centers need to be opened. In keeping with Migros's centralized logistics strategy, some 80% of the goods shipped to stores are carried on board fully-loaded vehicles. Up to a thirty-fold reduction in delivery vehicle traffic is achieved by dispatching merchandise directly to a store's own distribution center. The company has begun employing electric vehicles both in its distribution operations and to make deliveries from its online store. The fleet of Migros Virtual Market electric vans has reached 17 in number.

MİGROS AND SUSTAINABILITY



The Maya Migros store located in Bodrum, the first supermarket in Turkey to be awarded LEED Gold certification, is another example of Migros’s efforts to lead the way in environmentally-aware eco-friendly practices.

Green IT

Under its Green IT Policy, Migros contributes to both efficiency and sustainability by replacing energy-hungry, old-fashioned desktop computers and displays with new-generation equipment. As of end-2016, 95% of old-fashioned desktop computers had been replaced with low-energy thin clients while all of the company’s cathode-ray displays have now been replaced with flat screens. All disused equipment is sent for proper disposal/recycling. Besides saving up to 80% in energy costs a year, this changeover also resulted in 40 tons of electronic waste being recycled. Other aspects of Migros’s Green IT policy and practices include replacing centralized servers with new-generation hyper-integrated servers, server virtualization, and cloud technology deployment. As a result of these changes, energy savings of 75% have been achieved.

GHG emissions mitigation is also an issue that Migros takes into account in the conduct of job interviews related to its operations in Turkey. By using video conferencing wherever feasible, Human Resources can interview job applicants without the need for any physical travel aboard a vehicle. This reduces the company’s carbon emissions associated with vehicular transport to a

significant degree. More than 2,000 job interviews were teleconferenced during 2016. In addition, more than 50% of the company’s intercity business meetings were teleconferenced last year, thereby substantially reducing the need for business travel. Through such methods, Migros not only saves time but also reduces its environmental impact by cutting back its travel-related carbon emissions.

Turkey’s first LEED-certified store

The Maya Migros store located in Bodrum, the first supermarket in Turkey to be awarded LEED Gold certification, is another example of Migros’s efforts to lead the way in environmentally-aware eco-friendly practices. More than 20% of the inputs used in the building’s construction consisted of recycled materials while more than 50% of the project’s construction waste was similarly repurposed through recycling. Photovoltaic panels installed on the building ensure that part of its energy needs are supplied from a renewable source. A hybrid solar lighting system reduces the need for electrical-powered interior illumination in service areas by 90%. The energy systems installed at this store make it such a highly energy-efficient building that it exceeds American Society of Heating, Refrigerating, and

In 2016 the scope of the “Restore Us To Life” project was expanded to include Migros’s regional divisions as well.



Air-Conditioning Engineers standards by 30%. The use of eco-friendly refrigerants in the store’s refrigeration systems contributes towards the reduction of environmentally harmful emissions. Water-efficiency systems that allow rainwater to be collected ensure that water is used 45% more efficiently than is required by US Environmental Protection Agency standards. Bodrum Migros Maya received the 2013 Soysal Retail Sun Award in the “Environment & Sustainability” category. More recently, Migros’s Alaçatı Macrocenter store in İzmir qualified for LEED GOLD certification in the “Operations & Maintenance” category.

In support of recycling

Effective waste management is one of the most important ways in which to prevent both natural resource depletion and the harmful impact of waste on human beings and wildlife. In 2011 Migros joined forces with Boğaziçi University to create an integrated waste management system whose ultimate aim is to reduce waste to zero. Under this system, the company seeks to make the waste that is generated by its operations economically useful. The company also strives to involve its employees, customers, suppliers, and other stakeholders in environmental-awareness efforts in order to ensure the sustainability of its value-creation chain.

Under the “Restore Us To Life” project that was initiated at the company’s headquarters in 2015, discarded packaging, paper, and glass as well as organic waste are sorted/segregated at source for recycling. In 2016 the scope of this project was expanded to include Migros’s regional divisions as well. Non-hazardous waste consisting of metal, wood, paper, plastic, and glass that is generated by the company’s operations is likewise collected, segregated, and sorted at source and then sent to licensed firms for disposal or reuse as may be appropriate. In collaboration with the Environmental Protection and Packaging Waste Recovery and Recycling Trust (ÇEVKO) the packaging materials used for Migros’s private-label products are also collected and recycled.

As a result of all of these efforts on Migros’s part, 12,038 tons of waste wood, paper, metal, plastic, and glass were recovered and recycled in 2016. It is calculated that this corresponds to saving 70,608 trees from being harvested or to having conserved the electricity that would be used by 16,250 families in one year.

Preventing waste and combating deforestation

In order to prevent the generation of secondary (non-consumer) packaging materials, Migros began using reusable folding plastic crates to transport fresh fruits and vegetables in 2013. This practice was expanded to include red meats in 2014. These reusable crates help reduce the CO₂ emissions generated in the course of transport and production processes.

Printed advertising and marketing materials have been resized and redesigned in order to make them less resource-intensive. Since April 2015, all brochures made for Migros have been printed on recycled paper. It is calculated that the 1,100 tons of recycled paper used in this way in 2016 prevented the harvesting of 18,700 trees.

In another effort to further reduce the environmental impact of its operations, Migros has begun encouraging its customers to use a “mobile” Money Club Card rather than the traditional plastic one. Mobile Money Club cards were used in some 41% of purchases paid for with credit cards in 2016.

In order to reduce paper consumption in Migros store operations, the company has begun to use a tablet-based app called “MiO”. This app makes it possible

MİGROS AND SUSTAINABILITY

24 ton

In 2016 a total of 24 tons of used cooking oil was collected and turned over to licensed firms.



72

for store managers to access a variety of information and analyses and to display day-to-day routine reports digitally rather than having to print it out. Use of these tablets was expanded to include store employees as well in 2016. Besides improving work processes, it is calculated that this practice saves 42.5 tons of paper a year.

In addition to the other projects that it undertakes to combat deforestation in general, Migros also works with the Aegean Forest Foundation in various ways. For example over the last nine years the company has had 544,650 saplings planted in order to replace thousands of trees that were destroyed by fire in Dikili, Torbalı, Şirince, Çeşme, Seferihisar and Urla. Migros customers who purchase designated merchandise earn points which they can donate to the foundation to support the planting of trees in Migros Customer Forests. Migros also supports the Aegean Forest Foundation by allowing foundation-branded products to be sold in its stores, the proceeds from which help the foundation to finance the creation of new forested areas.

Environmental Kiosks and waste collection campaigns encourage recycling

Through the Environmental Kiosks that are installed at stores, Migros encourages its customers to bring in and sort their

glass, metal, and paper waste so that it can be recycled. Waste such as batteries, electronic equipment, and used cooking oil whose environmental impact is especially serious is also collected at Migros stores and picked up by licensed firms for recycling/disposal.

Since 2010, the year in which Migros originally launched its Environmental Kiosk program, 8.4 million pieces of packaging waste have been collected. In return for the waste that they put in the kiosks' bins, customers can make a donation to the World Wildlife Fund or contribute to the Aegean Forest Foundation's tree-planting efforts.

Carelessly-discarded waste cooking oil can cause irreparable damage to water resources by polluting them. To prevent this, Migros conducts a program in which the waste oil that customers bring in is sent to licensed firms. This oil, which is collected in bins that are installed in Migros stores, is then turned over to firms that are authorized to accept it by the Ministry of Environment and Urbanization and then used to make biodiesel fuel. The number of Migros stores in which oil-collection bins are installed increased from 300 in 2015 to 805 in 2016. Last year a total of 24 tons of used cooking oil was collected and turned over to licensed firms. The proceeds from the collection and recycling of waste oil are donated to

the Clean Sea Association in support of its activities.

Because of their potential environmental impact, preventing hazardous waste like batteries and electronic equipment from being casually thrown away in the trash is another important aspect of waste management. Special battery-collection bins have been installed in all stores. The discarded batteries that accumulate in these bins are sent to TAP, the Portable Battery Manufacturers and Importers Association, which is licensed by the Ministry of Environment and Urbanization to accept and dispose of them. During 2016, a total of 2 tons of discarded batteries were collected and disposed of in this way.

Migros also demonstrates its leading position in the retailing industry through the program that it conducts to collect electrical and electronic waste. Under this program, the names and locations of the Macrocenter and Migros stores which accept electrical and electronic waste are published on the company's corporate website. The electrical and electronic waste that customers bring to these stores is turned over to the recycling centers of ministry-licensed organizations. During 2016, a total of 100 tons of electrical and electronic waste was collected and recycled in this way.



1.77

In 2015 the average number of plastic shopping bags used by customers was 1.79; this figure was 1.77 in 2016.

Contributing to efforts to promote waste sorting and recycling habits among schoolchildren, Migros donated a waste-collection stand to the Kadıköy Primary School in Adana's Yüreğir township.

Solutions that encourage customers to be eco-minded

Migros contributes to efforts to reduce greenhouse gas emissions by encouraging its customers to replace their incandescent lightbulbs with LED lamps. Customers taking part in this program in 2016 replaced 380,000 conventional bulbs with LED devices, thereby conserving 2.28 million watts of electrical energy.

Another way that Migros promotes eco-awareness is through the sale of reusable shopping bags. As the first retailer in Turkey to introduce eco-friendly carrier-bag practices, Migros has had considerable success in reducing the use of plastic shopping bags. In 2015 the average number of plastic shopping bags used by customers was 1.79; this figure was 1.77 in 2016. Migros has committed itself to reducing the average use per customer to 1.75 by 2020.

Seeking to promote eco-awareness among all of its stakeholders, Migros has included ISO 14001 Environmental

Management System criteria in the quality-audit specifications that it requires its suppliers to comply with. The company's suppliers are asked to report the environmental impact of their own operations and those who do not satisfy the company's expectations are asked to improve their performance.

Migros employees contribute to environmental wellbeing

In both 2014 and 2015 Migros staged "It's Our Environment/It's Our Shore" events in which volunteering Migros employees picked up trash along the waterfront in Caddebostan on the Asian side of Istanbul and in Bakırköy on the European side while also interacting with the public and promoting eco-awareness. In 2016 this volunteer program was taken south to Turkey's Aegean region where Migros employees picked up trash from beaches in Yeni Foça, Edremit-Altınoluk, Fethiye-Çalış, and Bodrum-Turgutreis. Graduates from the Stage Design Department of the Dokuz Eylül University Faculty of Fine Arts joined in the effort to promote environmental awareness by fashioning sculptures of starfish and sea turtles from the litter that was collected. These sculptures were subsequently displayed at Migros stores in the same localities.



Fethiye store



Edremit store

MİGROS AND SUSTAINABILITY



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45.3 tons of food gathered from 338 Migros stores located in 40 of the country's provinces were provided to HAYTAP.

Preventing food loss and waste

Food products which have passed their sell-by date and which cannot be returned to the manufacturer are sources of organic waste, which it is the company's policy to reduce or prevent. Having initiated a program in 2015 to bring itself into compliance with the Food Loss & Waste (FLW) standard published by the Consumer Goods Forum (CGF), Migros has begun to categorize FLW as specified by that standard, to calculate the amounts of waste, and to analyze the results so as to achieve a better management performance. Migros continued to work on this project in 2016. The company has committed itself to reducing FLW by at least 50% by 2025. In line with this, Migros is also working on associated projects under the individual headings of "Supply chain", "Point-of-sale", and "Customer information". Particular attention is being given to interacting with supply-chain actors in the donation of overstocked foods and foods which cannot be sold owing to labeling issues but whose consumption is still safe.

The organic waste that accumulates in stores is used to generate energy or make compost or is otherwise sent to the local municipality for disposal. During 2016, Migros had 4,772 tons of organic waste that was generated by 191 stores and its Bursa produce warehouse separated at source and then sent for conversion into biogas. That was enough waste to generate 477,200 m³ of biogas or to make 2,776 tons of compost and the resulting energy would likewise have been enough to keep a single 100-watt bulb burning for 11 million hours.

Since 2014, Migros has been working with the Animal Rights Federation (HAYTAP) in the conduct of a project whose aim is to use food products which have approached their sell-by date but which are still edible in order to feed wildlife, stray animals, and animals kept in shelters. Such foods are turned over to HAYTAP in support of the organization's efforts. Under this project, 45.3 tons of food gathered from 338 Migros stores located in 40 of the country's provinces were provided to HAYTAP.

MIGROS FOCUSES ALSO AND ESPECIALLY ON THE MATTERS OF PUBLIC HEALTH AND WELLNESS THROUGH ITS “GOOD LIFE” APPROACH.

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PRODUCTS AND PROJECTS THAT SUPPORT GOOD LIVING

In keeping with its multidimensional approach to sustainability, Migros focuses not just on such issues as preventing climate change, protecting biodiversity and productivity, and using natural resources efficiently but also and especially on the matters of public health and wellness through its “Good Life” approach.

Having inaugurated a new era in Turkey’s fruit and vegetable cultivation with the introduction of good agricultural practices (GAP) and extended it with the addition of its “Good Chicken” and “Good Meat” labels, Migros has now expanded its scope into the domain of non-food products with its “Good Life” standards.

Products that support the “Good Life” lifestyle

Giving great importance to making sure that every product it offers a customer complies with high quality standards, Migros performs an extensive battery of inspections and checks so that every product is made and supplied to customers in ways that are fully compatible with human health. For example, heeding the wishes of customers who want products that are fresh and products with less sugar, salt, fat, and/or cholesterol in them, Migros makes news



Our Support to Good Living

972

‘Good Living’ products
180 of which
our private label
label products



45

Anatolian Tastes
Products - centuries
old recipes with
traditional methods
and local seeds



448.864 tons of
fruits and vegetables with
Good Agricultural
Practices (GAP)
are produced



MIGET
Largest meat
processing plant
in Turkiye



From
1.126 henhouses
we supplied chicken
in accordance
with GAP criteria



Migros
Sports Fest
1000 employees
from all over Turkey
came together and
played sports



We reached
60.000 families
with Good Living
Programme by
telling out the importance
of healthy nutrition and
physical activity



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Migros private-label products contain details about seven different nutrients.

additions to its lineup of such products every year. Having introduced 793 new products that support healthy living and good lifestyles among its customers in 2015, in 2016 Migros added another 972 to its portfolio. Of these products, 180 sport one of Migros's own private labels.

Products with the "M Life" label are organic products intended for customers who are mindful of their wellbeing as well as of low-calorie and diabetic products for people with health issues.

The "Anadolu Lezzetleri" label is the hallmark of a line of products which are distinguished by their local and/or cultural connotations, are produced by means of traditional methods, and typically are associated with a backstory. Originally initiated as a result of surveys conducted in every region of Turkey in order to identify local specialties and crops, the goal of the Anadolu Lezzetleri project is to ensure that Turkey's culinary heritage is preserved and passed on to future generations. The number of products sporting the "Anadolu Lezzetleri" label reached 45 in 2016.

Acknowledging its responsibility to inform customers about the nutritional values of the food they eat, the labels of Migros private-label products contain details about seven different nutrients. This information was provided on all 164 of the private-label products that Migros supplied to its customers in 2016.

Good agricultural practices

In order to preserve the sustainability of the world's agricultural production, a variety of production models are being developed and new systems are being put into practice. It was with this in mind that in 2010 Migros became the first retailer in Turkey to introduce a Good Agricultural Practices (GAP) control system that specified 224 criteria for its fruit and vegetable procurements. This system, whose GAP procedures and principles comply with those approved by the Food, Agriculture and Livestock Ministry, spells out health & safety standards (including the performance of water and soil analyses) which govern the production of the fruits and vegetables that Migros offers to its customers. GAP differs from traditional or conventional farming in that written records are kept of food-related information thereby ensuring food traceability; food-related processes are subject to the oversight of authorized agencies and organizations; food-related analyses are performed by accredited laboratories; compliance with GAP principles and practices is checked by means of certification procedures carried out at officially-designated checkpoints. As of end-2016, Migros had supplied 448,864 thousand tons of GAP-compliant fruits and vegetables to its customers. In the course of the six years since the system's introduction, Migros has also helped 6,291 of Turkey's farmers to bring themselves into compliance with internationally-accepted food-production standards.



As of end-2016, Migros had supplied 448,864 thousand tons of GAP-compliant fruits and vegetables to its customers.

77

Another issue which is of importance to food safety and security is the traceability and sustainability of animal-based products. Responding to the justified concerns of consumers on this matter, in 2013 Migros launched its Good Husbandry Practices Project, in which it committed itself to the Ministry of Food, Agriculture and Livestock's GAP standards in poultry farming. Under this project, Migros's poultry meat and egg procurements were brought into compliance with 317 GAP criteria, thus making the company the first retailer entitled to put on its shelves designated "Good Chicken" bearing the "Good Farming" sticker as evidence that the products satisfied specifications pertaining to environmental, human health, and animal welfare issues. During 2016, Migros procured its poultry-meat products from 1,126 coops belonging to 9 suppliers whose production conformed to GAP principles and procedures.

Under the "Biological Control in Grapefruit Cultivation Project" that Migros launched in 2016 in partnership with Turkey's biggest citrus fruits producer, the Food, Agriculture and Livestock Ministry's General Directorate of Agricultural Research and Policy, and the Biological Control Research Institute, the company has begun to promote citrus farmers' knowledgeable and responsible use of pesticides and herbicides that do not harm the environment or beneficial organisms. The goal of this project, a pilot study for

which is now in progress in the Adana region, is to find mutually acceptable and sustainable ways to farm citrus fruit while also protecting the beneficial wildlife and other organisms that live in citrus orchards.

Turkey's biggest meat-processing plant: MİGET

Besides owning and operating the biggest meat-processing plant supplying Turkey's food-retailing industry, Migros is also the only brand in Turkey that singlehandedly oversees all aspects of the red-meat value-creation chain from farm to table. All of the production stages through which meat produced and processed by MİGET pass are also subject to Turkish Standards Institution (TSE) certification. MİGET-branded meats and meat products must successfully make it through 220 checkpoints, which include laboratory analyses and veterinary inspections in MİGET's own facilities, before they are allowed to appear on shelves. Produced under hygienic conditions and catering to the needs and appealing to the tastes of Turkish consumers, Migros markets its ready-to-cook meats and meat products under the "Expert Butcher" label. In a competition conducted by the International Taste & Quality Institute, two of Migros's "Expert Butcher" products were the recipients of a "Superior Taste Award" given by a jury of Michelin-star chefs.



MİGROS AND SUSTAINABILITY



Perishables: Our greatest expertise

Migros’s logistical strengths give it a huge advantage by ensuring the freshness and quality of the perishable foods and food products that it sells. Under the company’s “From Field To Shelf” project, all perishables are sent to Migros stores immediately after being harvested and the great majority of them appear on the shelf in less than 30 hours.

Migros provides its employees with training to enhance their awareness and expertise on issues that impact on food freshness. The Migros Retail Academy’s Fresh Foods Faculty conducts two separate programs, one to train the company’s charcuterie personnel and the other to train its fresh produce personnel.

During 2016, fifty-six training programs and distant trainings covering GAP principles and procedures were conducted for 118 Migros store personnel employed in all of the company’s branch units.



“Good Life”: A project for Migros employees and the community

Besides striving to supply its customers only with the best, the freshest, and the highest-quality products, Migros also engages in a variety of activities under its “Good Life” program as an extension of this approach in which it emphasizes the importance of balanced nutrition and physical exercise in human health and wellness. What is unusual about this program is that Migros seeks to work through its own employees in order to have a greater impact on society at large. Having initiated the “Good Life” movement among its personnel, Migros expands its scope to society through them.

Under this project, Migros provides its employees with training, wellness seminars, and physical checkups to help them live better lives of their own. Migros for example provides its personnel with health insurance and with convenient and appropriate access to nutritionists while the calorie counts of all the meals provided in company-owned cafeterias are announced every day and cafeterias also provide food for people with special dietary needs. Recognizing that physical and mental health are linked to each other, Migros sets up hobby-related clubs for its employees and it provides them with opportunities to socialize and

pursue their hobbies in the workplace environment. Annually-conducted Migros Sports Festivals provide opportunities for Migros employees from all over Turkey to get together, socialize, and compete against one another in table tennis, chess, basketball, volleyball, football, and many other matches. The eighth Migros Sports Festival, which was held in 2016, was attended by 281 Migros employees from different parts of the country.

Their awareness and appreciation of healthful living and its importance thus enhanced, Migros employees themselves become Good Life ambassadors who assume a responsibility for promoting the movement outside the company.

- **“Get Moving:** Under the “Get Moving” project that was inaugurated in 2013, customers who downloaded a Migros app that keeps track of how far they’ve walked in their selected city earned points. In the second stage of this project that was initiated in 2016, customers’ Get Moving points were included in Migros’s Money Club loyalty program, meaning that the farther they walked, the more Money points they earned. It is calculated that all the Migros customers who have taken part in this project so far have walked enough to circle the globe 118 times.



60K

During 2016 alone, Migros reached some 60 thousand families with its Migros Good Life activities.

79

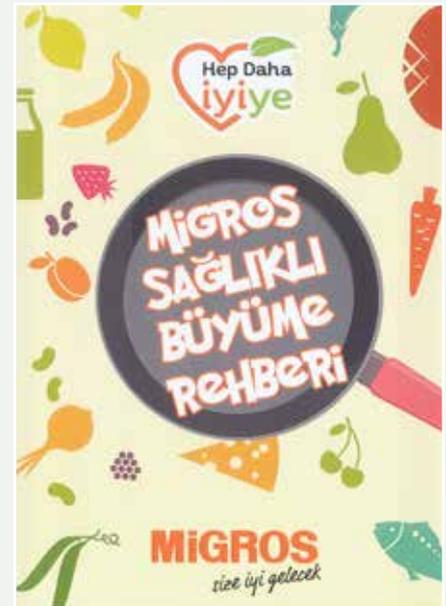
- **Migros Children's Theater:** Over the last 22 years Migros has given nearly a million children a chance to enjoy theatrical performances at no charge. Recognizing the Migros Children's Theater as a good way to reach families as well as the kids themselves, the subjects and themes of the performances focus on the importance of good nutrition and physical activity. During the 2016 shows, which took place as part of April 23rd Children's Day celebrations, Migros employees provided audiences with Good Life tips along with copies of Growing Up Healthy, a Migros-funded guidebook put together by the Food Safety Association.
- **Good Life Store Tours:** As a result of the success of its Good Life program, it was decided to let stores play a more active role in the project as well. Ninety-nine Migros store managers who volunteered to take part in this part of the program were given training on how best to explain Migros Good Life to children after which the kids living in their store's locality were invited to come to the store and take part in tours during which they were provided with information about such things as the importance of fresh foods, of balancing the food one eats with proper exercise, and of healthy and smart shopping techniques.

During 2016 alone, Migros reached some 60 thousand families with its Migros Good Life activities. The importance of the Migros Good Life model has begun to attract attention not just in Turkey but elsewhere as well. Invited to make a presentation about the project at the Consumer Goods Forum's Sustainable Retail Summit, a gathering which took place in Paris in August 2016 and at which best practices in such areas were highlighted, Migros was the only company from Turkey or from any other emerging market that was asked to send a representative to the forum.

Other social responsibility projects and activities

By identifying areas in which there is a social need and by undertaking projects to address them, Migros further strengthens the impact of its social responsibility efforts. Along with its Good Life project, Migros engages with its stakeholders in a variety of projects in the areas of education, sport, and health.

"Special Support For Athletes With Special Needs", the longest-running social responsibility project that Migros undertakes in the area of sports, has been continuing since 2004. Last year the campaign was retooled as a project for children with special needs in the 2-7 age group. In its new form, the campaign focuses on increasing their coordination skills and on helping them to socialize by spending quality time



Migros employees provided audiences with Good Life tips along with copies of Growing Up Healthy, a Migros-funded guidebook put together by the Food Safety Association.

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with other kids their own age. Under this project, a portion of the proceeds from the sale of Proctor & Gamble products at Migros stores is donated to the Turkish Committee of the International Special Olympics. The eight million Migros customers who have taken part in the Special Support For Athletes With Special Needs project have made it possible for 5,500 youngsters with special needs to take part in sports.

In 2016 Migros launched a new project in collaboration with the Breast Health Society (Memeder) to draw attention to the importance of early detection in breast cancer. Under this project, a portion of the proceeds from the sale of pink-ribbon-ticketed Pantene products and special pink Pantene packages sold in Migros stores is donated to Memeder.

During the week around National Sovereignty & Children's Day (April 23rd) every year, customers are encouraged to purchase toys, books, and stationery from Migros stores for donation to the Educational Volunteers Foundation of Turkey, which hands the items out as gifts to underprivileged kids all over Turkey.

Through its customers, Migros supports the efforts of the Books For Everybody Foundation to encourage reading habits in children. "Books For Everybody Foundation" bins are set up in Migros

stores in which customers can put books that they buy at a discount from Migros as well as used books which they bring from home. To date, 48,194 books have been donated in this way and sent to schools all over Turkey.

School-stationery sets donated by Migros to the "They're All Our Kids" Association for the Support of Education & Instruction were distributed among needy children to support their education.

Under the "Clothes Donation Campaign" that Migros has traditionally been conducting jointly with Ariel (a P&G detergents manufacturer), the company has supported the donation of more than half a million garments to 220 thousand children. Under this project, a complete set of brand-new holiday clothes is donated to a needy child for every Ariel-branded item that is sold at a Migros store during the campaign period.

Migros customers who do their shopping at the Migros Virtual Market have the option of making a charitable donation of products which they can have sent to the Foundation for Children in Need of Protection, to TEGEV, and to the Foundation for the Training and Protection of Mentally Handicapped Children (ZİÇEV).

During the run-up to the Feast of Sacrifice each year, Migros and Migros Virtual Market customers are also given a chance to make donations to ZİÇEV.

In 2016 work was begun on the pilot stage of a "Handicapped-Friendly Store" project at 25 of the company's stores. Among the features that are to be provided at such stores, managers and customer representatives are being trained in sign language to help hearing-impaired customers; for the benefit of customers who are confined to wheelchairs, at least one checkout aisle will be at least 90 cms wide and there will be wheelchair access ramps at store entrances. All the checkout aisles at Migros Jet stores are already wide enough to allow a wheelchair to pass through and the same is true of the express checkouts in all Migros stores. One of the design constraints of all new Migros stores is that at least one checkout aisle must be at least this wide. So far, 389 shopping carts specially designed for handicapped customers have also been made available in Migros stores.

IN ORDER TO MAINTAIN ITS POSITION AS A RETAIL INDUSTRY LEADER IN THE PROVISION OF SUSTAINABLE QUALITY, MIGROS SEEKS TO PROVIDE ITS CUSTOMERS WITH MODERN, RELIABLE, ECONOMICAL, AND HIGH-QUALITY SERVICE AT ALL TIMES.

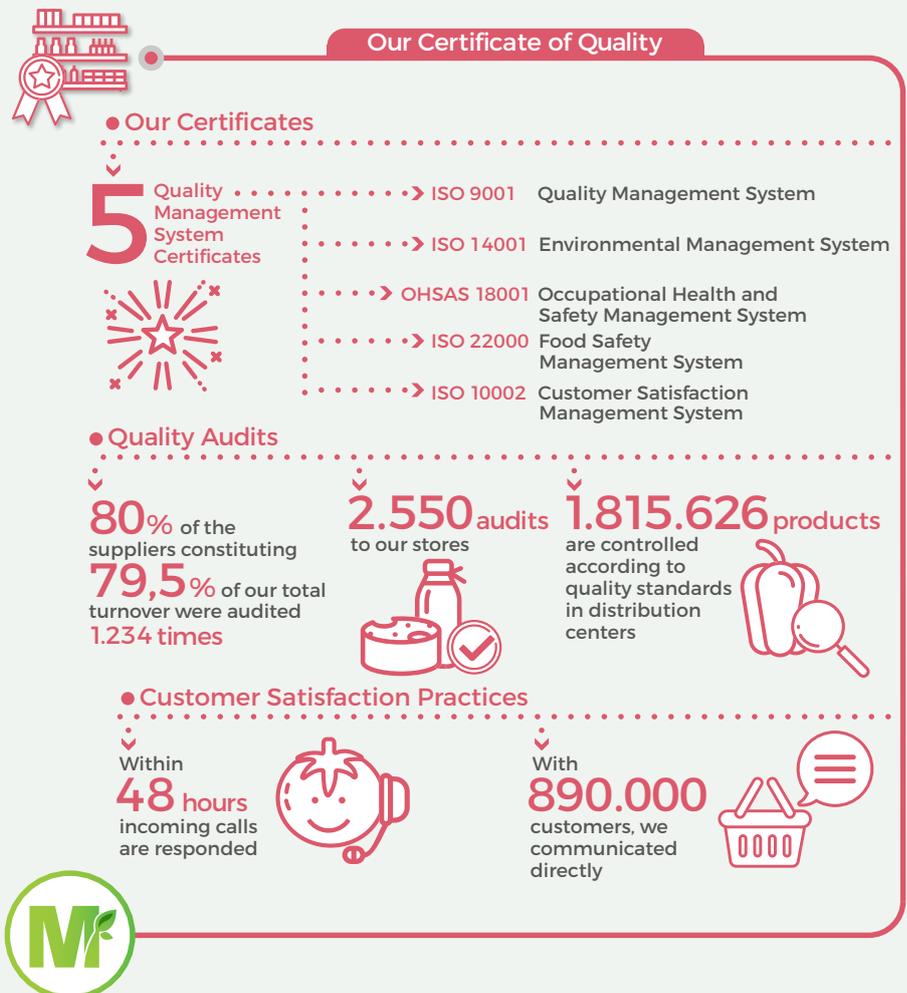
QUALITY CERTIFICATIONS

In order to maintain its position as a retail industry leader in the provision of sustainable quality, Migros seeks to provide its customers with modern, reliable, economical, and high-quality service at all times. In line with this goal, Migros became the first retailer in Turkey to receive all five of the quality management system certifications that are awarded by the Turkish Standards Institution. Migros holds TSE quality certificates on its:

- TS EN ISO 9001:2008 Quality Management System
- TS EN ISO 14001:2004 Environmental Management System
- OHSAS 18001 Occupational Health and Safety Management System
- TSE EN ISO 22000 Food Safety Management System
- TSE ISO 10002 Customer Satisfaction Management System.

Auditing suppliers' quality

As a responsible retailer, Migros believes that safe and high-quality products can only be produced in workplaces in which employees feel safe and happy. Giving great importance to supplier selection for this reason, the company monitors its suppliers' practices and it provides them with guidance on ways to improve



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their performance. Migros has clearly spelled out its approach with respect to these issues in a “Responsible Supplier Policy” which it has publicly disclosed by publishing it on its corporate website. This policy has also been incorporated into “MECOM”, a B2B application which was created to let Migros suppliers keep track of their own business processes. Also integrated into MECOM is an e-learning module that was designed to help suppliers align themselves with the Migros Responsible Supplier Policy more readily.

Migros performs quality controls at stores, warehouses, and distribution centers in order to be sure that the products which are offered to customers conform to Migros quality standards. Suppliers with which the company works are also regularly subjected to quality management system (QMS) audits.

During 2016, 1,234 QMS audits were performed on Migros’s behalf by an accredited independent auditing firm. These audits covered the operations of 79.5% of the company’s main suppliers who accounted for 80% of its turnover. The great majority of the remaining suppliers are importers, whose goods are checked for compliance with mandatory laws and regulations before they are put on sale.

In the Migros Supplier Audit Program cycle, a supplier is checked for compliance with the ISO 9001 (Quality) and the ISO 22000 (Food Safety) management system standards on the first day and with the ISO 14001 (Environmental), OHSAS 18001 (Occupational Health & Safety), and SA 8000 (Social Accountability) management system standards on the second day. The first time suppliers do not receive a passing score in the conduct of these audits they are given a warning. If they subsequently fail to pass a follow-up audit, Migros ceases to do business with them. When selecting suppliers, the company bases its decisions on the results of the same battery of audits.

Supplier management system audits and results in 2016:

- In the conduct of the 717 ISO 9001 and ISO 2200 management system audits that were performed on Migros suppliers, the overall pass rate was 78%; of the 140 firms for which a follow-up audit was required, 78% of them showed successful improvement in the second round.
- In the conduct of the 517 ISO 14001 management system audits that were performed on Migros suppliers, the overall pass rate was 75%; of the 121 firms for which a follow-up audit was required, 74% of them showed successful improvement in the second round.

- In the conduct of the 517 OHSAS 18001 management system audits that were performed on Migros suppliers, the overall pass rate was 77%; of the 104 firms for which a follow-up audit was required, 71% of them showed successful improvement in the second round.
- In the conduct of the 517 SA 8000 management system audits that were performed on Migros suppliers, the overall pass rate was 84%; of the 51 firms for which a follow-up audit was required, 78% of them showed successful improvement in the second round.

Because Migros is also an agricultural produce retailer, the company gives particular importance to auditing both the originators and the purveyors of produce for QMS compliance. Unlike the other supplier audits described above, the originators and purveyors of the company’s agricultural produce are subject to an on-location auditing process involving four separate checklists that cover a variety of production, storage, and packaging issues depending on how the produce is raised and moved around. Among the 96 firms that were audited under this process in 2016, the average pass rate was 80%.



In line with its customer-focused approach, Migros strives to deliver service that exceeds its customers' expectations.

Product quality audits

In the case of food product safety/quality, Migros complies with the highest internationally recognized standards and it strives to make sure that all such products are stored and offered for sale under the most hygienic of conditions in order to be worthy of its customers' unconditional trust. An Integrated Quality Management System ensures that Migros-sold products are subject to complete quality control at every stage from their initial procurement to the moment they reach the customer.

Every new product that is to be sold in a Migros store is checked to be certain first that it is compatible with the requirements of laws and regulations and second that it fulfills those requirements. The Migros Quality Department performed such checks on 9,784 new products during 2016. To be sure that the food and non-food items sold on store shelves comply with the Turkish Food Codex as well as with applicable laws and regulations, the company has verification analyses performed on them by an accredited independent laboratory that specializes in such issues. During 2016, product safety verification analyses were performed on 5,798 food items and on 569 non-food items in order to determine their compliance with 25,394 and 3,022 quality parameters respectively.

During 2016, a total of 2,550 unannounced verification inspections were performed at Migros stores, 1,156 of them by the company's quality specialists and 1,394 of them by external organizations. During the conduct of these inspections, an independent laboratory conducted more than 22 thousand hygiene analyses to determine the cleanliness of store personnel, equipment surfaces, and service water. Under a separate program whose aim is to ensure food safety and quality in the sections of stores that sell perishables, a total of 2,832 inspections were also performed in stores' charcuterie, fresh produce, and baked goods sections.

There are quality control laboratories located in all of Migros's distribution centers. These laboratories are responsible for checking all perishable products (both fresh produce and fresh meat) arriving at warehouses etc before the goods are accepted. During 2016, quality checks were performed on a total of 1,815,626 products: 183,766 of them by quality control specialists and 1,631,860 of them by receiving dock specialists.

Migros delivery vehicles are also regularly inspected to determine that they are compatible with food safety. The effectiveness of the company's cold chain management is verified through the use of smart-label time & temperature indicators installed on delivery vehicles. Temperature checks were performed on 259 vehicles

transporting perishables during 2016.

The operational processes of Migros Virtual Market, a delivery channel whose rapid growth and development is being driven by rising customer expectations, were subjected to 200 unannounced inspections last year to determine their compliance with quality and food safety criteria.

Customer satisfaction

In line with its customer-focused approach, Migros strives to deliver service that exceeds its customers' expectations. The company sees customer feedback as a valuable input to be used when determining company strategies and, for that reason, it regards quick and effective communication with customers as one of its priorities. For example the company interacted directly with 890,000 customers through the Migros Call Center during 2016.

Migros has been awarded TSE ISO 10002 Customer Satisfaction Management System certification. It endeavors to resolve issues raised during calls received by the center within 48 hours at the latest. All communication with customers is rated on the basis of the criteria of customer satisfaction, resolution effectiveness, timeliness of response, service quality, and accessibility. This information is compiled and reported at regular intervals.

CORPORATE GOVERNANCE

2016 ORDINARY GENERAL ASSEMBLY MEETING AGENDA

MİGROS TİCARET A.Ş.

Date: 11 April 2017
Hour: 14:00
Venue: Atatürk Mahallesi
 Turgut Özal Bulvarı No: 7
 34758 Ataşehir - İstanbul

1. Opening the meeting and electing the presiding committee; authorizing the presiding committee to sign the minutes of the annual general assembly meeting,
2. Reading the summary of the independent auditor's report submitted by the independent auditors PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., concerning the Company's 2016 activities and accounts,
3. Reading, deliberating, and voting on the financial statements for 2016,
4. Reading and deliberating the annual report concerning the Company's 2016 activities and accounts,
5. Approving the appointments of new Board members to the Board of Directors in accordance with Article 363 of the Turkish Commercial Code,
6. Individually acquitting each of the members of the Company's board of directors of their fiduciary responsibilities for the Company's activities in 2016,
7. Discussing, approving, amending and approving, or rejecting the Board of Directors' proposal regarding the offsetting of balance sheet items "Accumulated losses" with "Share premium" and "Restricted reserves" in the audited and consolidated financial statements dated 31.12.2016,
8. Discussing, approving, amending and approving, or rejecting the Board of Directors' proposal concerning dividend distribution,
9. Election and replacement of the independent Board members and other members of the Board of Directors nominated by the Corporate Governance Committee, and determination of their terms of office,
10. Determining the gross monthly fees and any kind of financial benefits including bonus, premium, attendance fee, etc. to be paid to the Board members,
11. Providing information about the socially beneficial donations and assistance granted by the Company to foundations and associations in 2016; determining an upper limit on donations and assistance to be granted in 2017 as required by Capital Markets Board regulations and the Company's Articles of Association,
12. Voting on the Board of Directors' selection, upon the recommendation of the Audit Committee, of the Company's independent auditors as required by Communiqué on capital market independent auditing standards published by the Capital Markets Board and by the Turkish Commercial Code,
13. As required by Capital Markets Board regulations, providing information about collateral, pledges, and mortgages granted by the Company in favor of third parties in 2016,
14. Authorizing any shareholders who may be in control of the Company's management, Board of directors and senior managers – as well as their spouses and their relatives, whether by blood or marriage unto the third degree – to engage in business and transactions subject to the provisions of articles 395 and 396 of the Turkish Commercial Code and of Capital Markets Board regulations; providing shareholders information about such transactions made by these aforementioned persons and related parties in 2016,
15. Closing remarks.

BOARD OF DIRECTORS REPORT

Board of Directors

Tuncay Özilhan	Chairman
Nikolaos Stathopoulos	Vice-Chairman
Mehmet Hurşit Zorlu	Member
Salih Metin Ecevit	Member
Can Çaka	Member
Stefano Ferraresi	Member
Salim Abdullah Khalfan Al Ma'mari	Member
86 Ömer Özgür Tort	Member and General Manager
Jacob Cornelio Adriano de Jonge	Independent Member
Tayfun Bayazıt	Independent Member
Hakkı Hasan Yılmaz	Independent Member
İzzet Karaca	Independent Member

Audit Committee

İzzet Karaca	Committee Chairman	Non-executive
Jacob Cornelio Adriano de Jonge	Committee Member	Non-executive

Corporate Governance Committee

Jacob Cornelio Adriano de Jonge	Committee Chairman	Non-executive
Nikolaos Stathopoulos	Committee Member	Non-executive
Mehmet Hurşit Zorlu	Committee Member	Non-executive
Can Çaka	Committee Member	Non-executive
Affan Nomak	Committee Member	Investor Relations Group Manager

Early Detection of Risk Committee

Tayfun Bayazıt	Committee Chairman	Non-executive
Jacob Cornelio Adriano de Jonge	Committee Member	Non-executive
Hakkı Hasan Yılmaz	Committee Member	Non-executive
İzzet Karaca	Committee Member	Non-executive
Mehmet Hurşit Zorlu	Committee Member	Non-executive
Erkin Yılmaz	Committee Member	Assistant General Manager (Finance)

Senior Management

Ömer Özgür Tort	General Manager	
Ahmet Fuat Yanar	Assistant General Manager	Retail Operations
Erkin Yılmaz	Assistant General Manager	Finance
Demir Aytaç	Assistant General Manager	Human Resources and Industrial Relations
Cem Lütfi Rodoslu	Assistant General Manager	Marketing
Hakan Şevki Tuncer	Assistant General Manager	Investment Development
Tarık Karlıdağ	Assistant General Manager	Construction
Mustafa Murat Bartın	Assistant General Manager	International Operations, Online and Wholesales

Board of Directors

The Migros Board of Directors consisted of twelve members in 2016: Tuncay Özilhan (Chairman), Nikolaos Stathopoulos (Vice-Chairman), Mehmet Hurşit Zorlu, Salih Metin Ecevit, Can Çaka, Stefano Ferraresi, Salim Abdullah Khalfan Al Ma'mari and Ömer Özgür Tort (members), Jacob Cornelio Adriano de Jonge, Tayfun Bayazıt, Hakkı Hasan Yılmaz and İzzet Karaca (independent members).

At the Company's annual general assembly meeting on 23 March 2016, Tuncay Özilhan, Nikolaos Stathopoulos, Mehmet Hurşit Zorlu, Salih Metin Ecevit, Can Çaka, Stefano Ferraresi, Khalid Hilal Hamood Al Yahmadi, Ömer Özgür Tort, were elected to seats on the Board of Directors as board members while Hakkı Hasan Yılmaz, Tayfun Beyazıt, Jacob Cornelio Adriano de Jonge, İzzet Karaca were elected to serve as independent board members for 1 (one) year.

According to the Board of Directors decision passed on 28 March 2016, Tuncay Özilhan was elected as the Chairman of the Board and Nikolaos Stathopoulos as the Vice-Chairman.

At a general assembly meeting held on 23 March 2016, shareholders voted to pay independent board members a monthly salary of TL 10,000 (gross), to pay independent board members residing abroad an additional attendance fee of TL 12,000 (gross) for each board meeting they attend, and not to pay any monthly salary or attendance fees to other board members.

As stated in our Company's material event disclosure of 28 July 2016, Salim Abdullah Khalfan Al Ma'mari has been appointed to fill the member seat on the Board of Directors, which was vacated upon resignation of board member Khalid Hilal Hamood Al Yahmadi, based on the Board of Directors decision adopted on 28 July 2016. Pursuant to Article 363 of the Turkish Commercial Code, Mr. Al Ma'mari will serve until the next general assembly meeting to be held, where his appointment will be laid down for the approval of the general assembly of shareholders.

The Board of Directors is authorized to take decisions about all matters except those which are reserved to the general assembly under the Turkish Commercial Code or by the Company's articles of association.

Under article 17 of the articles of association, board members serve for three-year terms unless a shorter term of office is specified at the general assembly meeting at which they are elected. A board member whose term of office expires may be reelected. Shareholders assembled in a general assembly meeting may, for just cause and at any time that they deem such action to be necessary, dismiss any board member whether or not such an item is on the meeting agenda.

In compliance with CMB regulations and the provisions of the Turkish Commercial Code, an audit committee, a corporate governance committee, and an early detection of risk committee have been set up at the Company. The duties of a nominating committee and of a

remuneration committee are performed by the Migros Corporate Governance Committee.

In our Company's Board of Directors meeting dated 28 April 2016, it was decided that

- The Audit Committee will consist of two independent directors. İzzet Karaca and Jacob Cornelio Adriano de Jonge were elected to fill these seats, with Hakkı Hasan Yılmaz being chosen to serve as the committee chairman.
- Jacob Cornelio Adriano de Jonge, Nikolaos Stathopoulos, Mehmet Hurşit Zorlu, Can Çaka and Affan Nomak were elected to seats on the Corporate Governance Committee, with Jacob Cornelio Adriano de Jonge being chosen to serve as the committee chairman.
- Tayfun Bayazıt, Jacob Cornelio Adriano de Jonge, Hakkı Hasan Yılmaz, İzzet Karaca, Mehmet Hurşit Zorlu and Erkin Yılmaz were elected to seats on the Early Detection of Risk Committee, with Tayfun Bayazıt being chosen to serve as the committee chairman.

Senior Management

Migros Senior Management consists of Ömer Özgür Tort (General Manager) and of Ahmet Fuat Yanar, Erkin Yılmaz, Demir Aytaç, Cem Lütü Rodoslu, Hakan Şevki Tuncer, Tarık Karlıdağ, and Mustafa Murat Bartın (Assistant General Managers).

Under Migros' articles of association, senior executives are chosen and appointed by the Board of Directors.

BOARD OF DIRECTORS REPORT

Independent Auditing

At a meeting of the Board of Directors on 26 February 2016, the board, acting upon the recommendation of the Audit Committee and in compliance with the requirements of CMB Communiqué on capital market independent auditing standards (Serial: X, No: 22 and of the Turkish Commercial Code, decided to select PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. to be the Company's independent auditor for 2016 fiscal year subject to the provisions of capital market laws and regulations and of the Turkish Commercial Code. This decision was approved at the general assembly of shareholders on 23 March 2016.

Audit Committee

İzzet Karaca and Jacob Cornelio Adriano de Jonge were elected members of the Audit Committee as statutorily mandated by Capital Markets Board Communiqué X:22 and by the CMB's communiqué on the establishment and implementation of corporate governance principles.

Having completed its auditing work and its study of the independent auditors' report as of 31 December 2016, the Audit Committee informed the Board of Directors of its opinion that the consolidated financial statements prepared in accordance with the CMB-published accounting principles pursuant to the provisions of the CMB Communiqué no. II-14.1 on Principles of Financial Reporting in the Capital Market presented a true and fair view of the financial position of the Company as of 31 December 2016 and of its operating results on the date.

The Audit Committee convenes four times a year and submits written reports of its activities directly to the Board of Directors.

Changes in the Articles of Association

No changes occurred in the Articles of Association during the reporting period.

Changes in Paid-in Capital during the Reporting Period

No changes occurred in the paid-in capital during the reporting period.

As stated in our material event disclosure dated 27 January 2016, Moonlight Capital S.A. ("Moonlight"), one of the shareholders in our Company, notified to our Company that it has transferred the shares it holds in our Company with a total nominal value of TL 26,937,336, including all the rights, obligations and encumbrances thereto, to Kenan Investments S.A., which owns all of the shares in Moonlight, within the frame of intragroup share transfer for a price of TL 26.00 per share. With this transaction, the shareholding interest of Moonlight in the capital of our Company became 15.37% as at the date of the share transfer, and the shareholding interest of Kenan Investments S.A. in the capital of our Company exceeded the 15% limit and became 15.13% as at the date of the share transfer.

Migros' Position in the Sector and Investments in 2016

Migros Ticaret A.Ş. operates in the foods and consumer products sector. The Company is both a retailer that sells such products directly to consumers and a wholesaler that sells them to other retailers. The Company also operates

Shareholder structure

Shareholder	Share (%)	Share Amount (TL)
MH Perakendecilik ve Ticaret A.Ş.	50.00	89,015,000
Moonlight Capital S.A.	15.37	27,371,000
Kenan Investments S.A.	15.13	26,937,336
Others	19.49	34,706,664
Total	100.00	178,030,000

shopping malls in Turkey and in other countries through its foreign subsidiaries.

As of end-2016, the Company had 1,605 stores consisting of 517 M, 290 MM, 104 MMM, 578 Migros Jet, 23 5M,, 39 Macrocenter, and 15 Migros Wholesale stores located in all seven of Turkey's geographical regions and, through its international subsidiaries, 18 Ramstores and 1 Macrocenter in Kazakhstan and 20 Ramstores in Macedonia.

In 2016, new openings consisted of 97 Migros (58 M, 33 MM, and 6 MMM), 129 Migros Jet, 2 Migros Wholesale, and 3 Macrocenter stores in Turkey; in its international operations, 1 Ramstore opened. Thus a total of 232 new store investments went into service last year.

Financial Standing, Dividend Distribution Proposal, Conclusion

Financial Standing

Migros' operational results are compiled in accordance with CMB Financial Reporting Standards, which are themselves based on TMS/TFRS.

In 2016, consolidated sales of Migros went up by 17.8% to TL 11,059 million. Overseas sales registered in Kazakhstan and Macedonia where the company operates through its subsidiaries accounted for 3% of Migros' consolidated sales. During the reporting period, domestic sales remained strong on the back of the high sales performance of the Company's new and existing stores. Despite the relatively weak number of visitors in tourist locations in the summer season, domestic sales expanded by 19.7% in 2016. Based on Nielsen's data, Migros increased

its market share both in organized FMCG (Fast Moving Consumer Goods) and total FMCG.

Consolidated gross profit was up by 17.3% year-on and reached TL 2,962 million in 2016. At 26.8%, gross profit margin was almost flat with its previous year value. On the other hand, the Company continued to create value for its customers as it did in previous years.

Prudent cost management was maintained throughout the year, as a result of which the rise in personnel and rental costs was balanced to a large extent in 2016. While the EBITDA margin was 6.2%, EBITDA was up by 14% to TL 686 million in the reporting period. The EBITDA margin registered in 2016 remained within the 6.0%-6.5% range the Company targeted for the full year. EBITDAR (pre-rent EBITDA) picked up by 14.5% on a year-to-year basis in 2016, whereas EBITDAR before rent margin was 11.2%.

In 2016, Migros captured all of its targets with respect to new store openings, sales performance and EBITDA.

Nonetheless, despite generating operating profit, the Company booked a net loss of TL 293 million in 2016 due to currency translation differences that do not require a substantial cash outflow and non-recurring expenses.

Total liabilities correspond to 96% of total liabilities and equity (2015: 91%). 40% of the Company's total assets consist of current assets (2015: 35%) with non-current assets making up the remaining 60% (2014: 65%).

Profit Distribution Proposal & Conclusion

Within the framework of (1) principles set forth in the Capital Markets Board (CMB) Communiqué II-19.1 on Dividends, (2) of the relevant provisions of our Company's articles of association, and (3) of our Company's publicly disclosed profit distribution policy, our consolidated financial statements for 2016, which have been prepared in accordance with the Turkish Commercial Code (TCC) and CMB regulations, show a net current loss. For that reason, it has been decided to recommend to the general assembly of shareholders at the 2016 annual meeting that no dividend be paid for the year.

Dear Our Shareholders,

This concludes our report of our Company's 2016 activities and results.

We hereby submit for your consideration and approval our Company's consolidated balance sheet and income statement dated 31 December 2016.

Very truly yours,

Board of Directors

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

Migros Ticaret A.Ş. (“Migros”, “the Company”, “our Company”)

Address	Atatürk Mah. Turgut Özal Bulvarı No:7 34758 Ataşehir / İstanbul
Trade Registry No.	659896
Mersis (Central Registration System) No.	0622052951300016
Phone	0216 579 30 00
Customer Care Line	444 10 44

On 20 October 2015, a two-year agreement was executed with SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş., which holds an operating license to be engaged in performing ratings in accordance with the CMB’s Corporate Governance Principles, for the rating of our Company’s compliance with corporate governance principles.

In the report issued by SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş., our Company’s corporate governance rating was upgraded from 9.46 (94.55%) to 9.50 (95.01%) as

of 30 December 2016, in view of the improvements carried out by Migros during the reporting period.

The individual scores assigned for each heading to our Company are presented below:

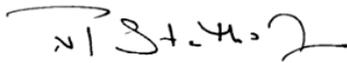
Included in Borsa İstanbul Corporate Governance Index on 4 January 2016, Migros was included in the Sustainability Index, which is also calculated by Borsa İstanbul, from the first day the index was introduced. For three consecutive years, Migros was the one and only company from the food retailing industry to take

place in the “BIST Sustainability Index”, which is based on a review of publicly-floated companies conducted by Borsa İstanbul.

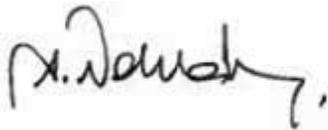
On the back of sustainability initiatives and efforts in 2016, Migros attained a remarkable improvement and upgraded its ‘D’ score received in its initial reporting to the Carbon Disclosure Project (CDP) in 2015 to ‘A-’ and was named among the CDP Turkey Climate Leaders. Migros’ CDP score is in the “Leadership” status, which is the top level in the assessment.

Headings	Weight	Assigned Score (%)
Shareholders	25%	95.45
Public Disclosure and Transparency	25%	97.38
Stakeholders	15%	99.51
Board of Directors	35%	90.95
Average	100%	95.01

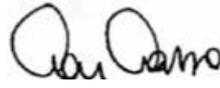
Nikolaos Stathopoulos



Affan Nomak



Can Çaka



Jacob C.A. de Jonge



Mehmet Hürşit Zorlu



1. STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

Migros Ticaret A.Ş. attaches great importance to the implementation of corporate governance principles as prescribed by capital market laws and regulations, the Turkish Commercial Code, and other regulatory requirements. Migros is aware of the benefits that the implementation of these principles will have for the Company, for its shareholders, and ultimately for the country as a whole. Our corporate governance practices are constantly being reviewed and improvements are made in them where necessary both so that we may be in compliance with Corporate Governance Principles Communiqué II-17.1 and so that we may be an exemplary company on such issues. Our corporate governance principles compliance report is prepared as indicated in Capital Markets Board Bulletin 2014/02 dated 27 January 2014 and in the format specified in that board's resolution 2/35 of the same date.

Our Company has adopted the main principles of Corporate Governance which are:

- a) Fairness
- b) Transparency
- c) Responsibility
- d) Accountability.

A corporate governance committee was formed within the Board of Directors in 2007 and charged with overseeing corporate governance matters throughout the Company and with supervising the Investor Relations

Department. Capital market laws and regulations mandate that a corporate governance committee be set up and that its head be chosen from among the Company's independent board members. In a board resolution passed on 28 April 2016, Jacob Cornelio Adriano de Jonge, Nikolaos Stathopoulos, Mehmet Hurşit Zorlu, Can Çaka and Affan Nomak were elected to seats on the corporate governance committee and independent board member Jacob Cornelio Adriano de Jonge, was made committee chairman.

Our corporate website (www.migroskurumsal.com) is updated daily in order to provide more extensive information on the Company to our shareholders. In addition, dedicated websites are available on each of our Company's formats for the information of the general public and our stakeholders. In addition to forming a part of its annual report, Migros' corporate governance principles compliance report may also be found in the "Investor Relations" section of its corporate website located at www.migroskurumsal.com.

Within the scope of the efforts to achieve alignment with corporate governance principles in 2016;

The most recent version of the Company's articles of association that are in conformity with the Turkish Commercial Code and the Capital Market Law are posted on the corporate website (www.migroskurumsal.com).

As required by the Capital Markets Law's communique's stipulation that announcements about general assembly meetings must be made at least three

weeks before the meeting date, our Company's general assembly meeting was duly announced three weeks in advance of the date on which it was to be convened. A general assembly meeting information document containing information about such issues as board members' CVs, the Company's dividend policy, the Board of Directors' profit distribution proposal and schedule, reasons for proposal against profit distribution if applicable, changes in the articles of association with old and new texts presented for purposes of comparison- if any-, the Company's remuneration policy, internal guidelines for General Assembly meetings, disclosure policy, and donation policy is also made available to shareholders on the corporate website at www.migroskurumsal.com.

In compliance with the Turkish Commercial Code, with capital market laws and regulations, and with corporate governance principles communiques, the Board of Directors has set up an Early Detection of Risk Committee. Tayfun Bayazıt, Jacob Cornelio Adriano de Jonge, Hakkı Hasan Yılmaz, İzzet Karaca, Mehmet Hurşit Zorlu, and Erkin Yılmaz (Assistant General Manager - Finance) were elected to be the members of the Early Detection of Risk Committee.

As required by CMB regulations, independent board member Tayfun Bayazıt was elected to its head.

Our Company has become a member of the Investor Relations Association (TÜYİD) in 2012 and of the Corporate Governance Association of Turkey (TKYD) in 2016.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

PART I - SHAREHOLDERS

2.1 Investor Relations

The Investor Relations Department was set up under the responsibility of the assistant general manager for financial affairs. The Investor Relations Department acts in compliance with the requirements of Turkish Commercial Code, capital market laws and regulations and with CMB regulations, communiques, and principles in the conduct of its activities. The Investor Relations Department is actively involved in making it easy for shareholders to protect and exercise their rights, including but not limited to, their rights to obtain information and to examine the Company's records.

The main duties and responsibilities of the Investor Relations Department are as follows:

- Manage general assembly meeting-related matters in compliance with the requirements of laws and regulations and of the Company's articles of association;
- Conduct matters related to share capital increases;
- Conduct matters related to dividend payments;
- Handle shareholder requests and procedures related to general assembly meetings, share capital increases, and dividend payments;
- Represent the Company;
- Represent the Company before such agencies as the Capital Markets Board (CMB), Borsa İstanbul, the Central Registry Agency (CRA), and ISE Settlement and Custody Bank Inc. and liaise with them;
- Maintain records pertaining to the Board of Directors, to committees set up within the board, and to general assembly meetings;
- Provide the Public Disclosure Platform

with information about material events as required by the Public Disclosure Communique (VII-128.6), the Material Events Communique (II-15.1), and other pertinent regulatory requirements;

- Keep track of all matters related to public disclosures covered by the Company's public disclosure policy;
- Prepare documents that may be useful to shareholders at general assembly meetings and ensure that shareholders have easy access to these documents;
- Keep track of the requirements of laws and regulations and of CMB legislation;
- Inform senior management of matters and issues with which the Company must be in compliance;
- Prepare the Company's quarterly and annual reports;
- Coordinate efforts and activities related to Corporate Governance in harmony with the Corporate Governance Committee;
- Prepare quarterly and annual informational presentations and bulletins;
- Provide investment banks/brokerage analysts, fund managers, shareholders, and other stakeholders with information about the Company;
- Propose changes to keep the articles of association in compliance with current laws and regulations;
- Maintain regular and up-to-date records of all communication with investors;
- Keep abreast of and analyze information about competitors and the sector;
- Respond to shareholders' queries and requests for information to the extent allowed by the Company's disclosure policy;
- Have shareholders' paper-form securities dematerialized;

- Coordinate the initiatives and efforts regarding sustainability.
- Coordinate the changes and developments in relation to Borsa İstanbul Corporate Governance and Sustainability Indices, in which the Company is included,

The Investor Relations Department prepares and submits to the Board of Directors a report of its most recent activities monthly. Additionally, the Corporate Governance Committee makes quarterly presentations on the Company's corporate governance practices and investor relations activities. All shareholders who wish to obtain information about the Company may submit their requests by email to yatirimci@migros.com.tr and/or by calling 444 10 44 Customer Service Line. All other channels of communication are also available to shareholders.

Assistant General Manager for Finance:
Erkin Yılmaz

Address: Atatürk Mahallesi Turgut Özal Bulvarı No: 7 34758 Ataşehir / İSTANBUL
Email: erkiny@migros.com.tr

Finance Director: Ferit Cem Doğan
Email: cemdo@migros.com.tr

Investor Relations Group Manager:
Dr. Affan Nomak
Email: affann@migros.com.tr
Capital Market Activities Level 3 License No: 204627
Corporate Governance Rating Specialist License No: 700482

Investor Relations Executive:
Ahmet Hüsamettin Özkök
Email: ahmeto@migros.com.tr
Capital Market Activities Level 3 License No: 209815
Corporate Governance Rating Specialist License No: 702068

The dematerialization of securities is undertaken by Yapı Kredi Securities. During the reporting period, retroactive action was taken at the Company's

headquarters concerning Migros Türk T.A.Ş. shareholders and Tansaş Perakende Mağazacılık T.A.Ş. shareholders who had not taken part in stock options, or had not received dividends to which they were entitled, or who applied to have their paper-form shares dematerialized. In addition, shareholders who called the 444 10 44 Customer Services Line were provided with information and also directed to go to any Yapı Kredi Bank branch in order to exercise their rights. More than 200 shareholders contacted the Investor Relations Department to obtain information on a variety of issues. They were informed in compliance with the requirements of corporate governance principles.

The activities of the Company in 2016 are itemized below.

- Teleconferences conducted during the year: 5
- Investor presentations concerning the Company's financial results: 4
- Financial press releases concerning the Company's financial results: 4
- Material event disclosures sent to the Public Disclosure Platform: 41
- Board of Directors resolutions passed: 22
- Domestic and international conferences and roadshows taken part in: 12
- Analysts and fund managers met with during the year: 205

2.2 Shareholders' Rights to Information

Disclosure

The Investor Relations Department endeavors to respond to requests for information about the Company that it receives as quickly as possible and without making any distinctions among shareholders. Mindful of shareholders'

right to be informed and of their right to have simultaneous, convenient access to information, all announcements about the Company are also published on the Company's corporate website.

Immediately after each announcement of the Company's quarterly results, teleconferences concerning the investor presentation published on our website were conducted. During these teleconferences, detailed information was provided about the presentation.

The shareholders' right to receive and review information as stipulated by the law is not eliminated or restricted neither by any provision contained in the Company's articles of association, nor by any practice based on the Company management's decision.

Auditing

At the meeting of the Board of Directors of Migros, held on 26 February 2016, it was decided according to the proposal by our Audit Committee that PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. be elected as the independent audit company for the 2016 fiscal year. This decision will be submitted to the General Assembly for approval, according to the Board's resolution.

The Migros general assembly of shareholders voted to approve, as the Company's independent auditor for 2016, the firm of PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., which had been selected by the Board of Directors upon the recommendation of the Audit Committee.

A two-member Audit Committee has been formed by the Board of Directors of Migros. Under article 4.5.3 of the CMB's "Communiqué concerning corporate governance principles (11-17.1)", all of the members of the Audit Committee must be selected from among the Company's independent board members. At a

meeting of the Board of Directors on 28 April 2016, a resolution was passed to reconstitute the Audit Committee as a two-person body whose members are both independent board members and İzzet Karaca and Jacob Cornelio Adriano de Jonge were elected to fill these seats. As also required by Capital Markets Board regulations, İzzet Karaca was designated as the committee's chairman.

The Company's articles of association contain no provisions that complicate the conduct of a special audit. The Company management avoids undertaking any transaction that would complicate the execution of a special audit. No requests for the conduct of a special audit at the Company were received from shareholders during the reporting period.

The internal audit activities of the Company are discussed in the relevant sections of the Corporate Governance Principles Compliance Report.

2.3 General Assembly Meetings

Attention is given to covering all issues whose discussion is statutorily mandated when determining items for the agendas of general assembly meetings. General assembly meeting announcements are published in Türkiye Ticaret Sicili Gazetesi, at the Central Registry Agency's electronic general assembly portal, and on the Company's corporate website within the statutorily prescribed periods of time. All shareholders are given convenient access to these announcements. Additionally, a general assembly meeting information document containing detailed information about agenda items that are to be discussed at the meeting is also published on the Company's corporate website at www.migroskurumsal.com, on the electronic General Meeting System (e-GEM) and e-Company portal.

General assembly meetings are held physically at the Company's headquarters (Atatürk Mahallesi, Turgut Özal Bulvarı

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE

No: 7, 34758 Ataşehir, İstanbul) and are simultaneously conducted electronically through the electronic general assembly system. General assembly meetings are open to all stakeholders and are attended by media representatives.

Company officers responsible for the preparation of financial statements and a representative of the independent auditor attended the general assembly meeting so as to provide such information as might be needed and to respond to any questions.

The Company's donation policy is disclosed to shareholders by means of a general assembly meeting information document that is made available before general assembly meetings at the Company's headquarters, on its corporate website at www.migroskurumsal.com, and at the electronic general assembly portal. A separate item concerning charitable donations provided to foundations and associations is included in general assembly meeting agendas and shareholders are provided with information about them.

Annual General Assembly Meeting

The annual general assembly meeting at which Migros's 2015 activities and accounts were examined took place on 23 March 2016 at 14:00 at the Company's head office building located at the address of Atatürk Mahallesi, Turgut Özal Bulvarı No: 7, 34758 Ataşehir, İstanbul for the convenience of those attending and it was also simultaneously conducted electronically through the CRA's e-GEM. The meeting was observed by ministry representative Cengiz Seçen, who had been charged with this duty by the Ministry of Customs and İstanbul Trade Directorate letter 14731513 dated 21 March 2016.

The 2015 balance sheet and income statement, the Board of Directors annual report, the independent auditors' report, and proposal for the distribution of the

year's dividends were made available for the examination of shareholders at the Company's headquarters, on its corporate website at www.migroskurumsal.com, and at the electronic general assembly portal during the three weeks preceding the meeting.

An examination of the attendants list showed that 14, 881,601,437.9 shares out of a possible 17,803,000,000 corresponding to TL 148,816,014.379 of the Company's TL 178,030,000 in capital were represented at the meeting.

Immediately after the meeting, its minutes and attendants list were reported to the Public Disclosure Platform and were also published under the "Information about general assembly meetings" heading of its corporate website at www.migroskurumsal.com and at the e-company portal. Additionally, the general assembly meeting's minutes were also announced in issue 9048 of Türkiye Ticaret Sicili Gazetesi on 6 April 2016. Prior to the meeting, no shareholders submitted any proposals for items to be included in the meeting's agenda.

Shareholders at the Company's annual general assembly meeting were informed about the donations and assistance provided by the Company during the year. The Company made donations totaling TL 355,975.15 consisting of TL 53,500 to Koç University, TL 50,000 to the İstanbul Technical University Foundation, and TL 252,415.15 to other associations and foundations.

In 2015 no company shareholder with a controlling stake, nor any board member, nor any manager with administrative responsibilities nor any spouse or relative (whether by blood or marriage unto the second degree) of any of these has engaged in any transaction with the Company or with any of its subsidiaries or affiliates that might be deemed to involve a conflict of interest; nor did any of them perform, on their own behalf or on behalf

of another, any transaction of a business nature falling within the Company's own or its subsidiaries' or affiliates' object and scope; nor did they act as a partner with unlimited liability in another company engaged in the same kind of business.

2.4 Voting Rights and Minority Rights

As is stipulated in Migros' articles of association, there are no special voting rights at the Company. All votes are of equal weight. Every shareholder at a general assembly meeting is entitled to cast as many votes as the number of shares that they hold. There are no shareholders with cross-shareholding interests. The articles of association provide for no special privileges and/or similar rights with respect to representation on the Board of Directors. Four of the twelve members of the Board of Directors are independent members.

The Company avoids engaging in any and all manner of practices that might obstruct the exercise of shareholders' voting rights.

Those who are entitled to cast votes at general assembly meetings may exercise those rights personally and they may also designate a proxy, who may or may not be a shareholder themselves, to do so on their behalf. A specimen of the proxy statement for shareholders not personally attending a meeting is posted at the Company's headquarters, on its corporate website (www.migroskurumsal.com), and at the CRA's e-GEM portal and is also published in the Türkiye Ticaret Sicili Gazetesi along with the general assembly meeting summons.

Voting on agenda items at general assembly meetings is by an open show of hands by shareholders who are physically present; electronic voting is provided for shareholders who are attending meetings in an electronic environment. Once voting has been completed, the results of physically cast and electronically cast votes are consolidated in the e-GEM.

2.5 Dividend Rights

There are no privileges regarding participation in the Company's profit. Profits are distributed within statutorily prescribed periods of time and as soon as possible after a general assembly meeting has taken place. The actual payment dates are determined by the general assembly.

Payment of dividends has always been an important matter for Migros, which always aimed to protect the interests of its shareholders. The utmost attention is given to the fine balance between the growth strategy and dividend payment policy. A copy of the "Dividend Distribution Policy" formulated by the Board of Directors is sent to the Public Disclosure Platform system along with material event disclosures pertaining to dividend payments. The same information is provided to shareholders at general assembly meetings and is published on the Company's corporate website.

Dividend Policy

"Taking the Company's long-term strategies, investments, financing plans, and profitability as well as compliance with CMB communiqués and regulations into account, the Board of Directors may submit, for the approval of the general assembly, a proposal that a portion—such as may be determined by the board—of current-year profit be paid out as cash, or as bonus shares, or as a specific mix of these two or else that it be retained within the Company.

When a general assembly decides to distribute profits it may itself determine when the dividends are to be paid and similarly it may also authorize the Board of Directors to make such a determination. In all cases, the payment of dividends must begin no later than the end of the fiscal year in which was held the general assembly meeting at which the decision to pay them was taken. Matters related to dividend payments specified in the Capital Markets Law and in CMB communiqués must also be complied with.

There are no shares in the Company that are entitled to special dividend rights; neither is there anyone who is entitled to a share of company profits who is not a shareholder.

This is the Company's policy for the next three years. Any changes to this policy will also be shared with the public separately.

At an annual general assembly meeting of Migros held on 23 March 2016, it was proposed against distributing profit for 2015 fiscal year since the Company's consolidated financial statements for 2015, which were drawn up in accordance with the CMB requirements, showed a net loss for the period, and the General Assembly passed a resolution to that effect.

2.6 Transfer of Shares

The Company's articles of association contain no provisions restricting the transfer of its shares. According to the charter, a general assembly may decide to issue shares at a nominally determined value.

Transfers of the Company's shares are subject to the provisions of the Turkish Commercial Code and of capital market laws and regulations.

Subject to the satisfaction of specific conditions, the Company may acquire its own shares and accept them as collateral.

As stated in the Company's material event disclosure dated 27 January 2016, Capital S.A. ("Moonlight"), one of the shareholders in the Company, notified to our Company that it has transferred the shares it holds in the Company's capital with a total nominal value of TL 26,937,336, including all the rights, obligations and encumbrances thereto, to Kenan Investments S.A., which owns all of the shares in Moonlight, within the frame of intragroup share transfer for a price of TL 26.00 per share. With this transaction, the shareholding interest of Moonlight in the capital of our Company is 15.37% as at the date of the share transfer, and the shareholding interest of Kenan Investments S.A. in the Company's capital exceeded the 15% limit and became 15.13% as at the date of the share transfer.

As a result of these transactions, as of 27 January 2016 Migros' shareholding structure was formed as follows:

Shareholder structure		
Shareholder	Share (%)	Share Amount (TL)
MH Perakendecilik ve Ticaret A.Ş.	50.00	89,015,000
Moonlight Capital S.A.	15.37	27,371,000
Kenan Investments S.A.	15.13	26,937,336
Others	19.49	34,706,664
Total	100.00	178,030,000

Our Company's shareholding structure as of 31 December 2016 is as presented in the table above.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE

PART III: PUBLIC DISCLOSURE AND TRANSPARENCY

3.1 The corporate website and its content

The Company's corporate website is located at www.migroskurumsal.com. It has been serving shareholders and all other interested parties since its launch in 1997.

96 Any and all manner of information and announcements that might have an impact on the exercise of shareholders' rights is made available to shareholders on an up-to-date basis via the corporate website. The website addresses all of the matters set forth in Corporate Governance Principles.

The content of the corporate website (www.migroskurumsal.com) was enriched during the reporting period. There is also a separate website for each of the Company's store formats and these websites are available for our shareholders to use. Our corporate website contains the following sections and their associated sub-sections:

- About Us
- Our Brands & Stores
- Corporate Social Responsibility
- Migros Quality
- Investor Relations
- Migros Career

Besides addressing the matters set forth in section 2.1 ("Corporate Website") of CMB Corporate Governance Communique II-17.1, the Migros corporate website also contains information about many other subjects.

The Investor Relations section of our corporate website covers topics such as "Sustainability", "Migros Corporate", "Financial Reports", "The Increase of Company Capital and Distribution of Dividends", "Information on General Assembly Meetings of Shareholders", "Material Disclosures", "Announcements to Shareholders", "Frequently Asked Questions", and "Contact Us". Our investors can find more detailed information about Migros in the subsections under these main headings. Our "Investor Relations" page is updated as circumstances warrant and as required by law. Every effort is made to make such information easily accessible to stakeholders.

The corporate website also contains trade registry information and the shareholding structure in Turkish and English as required by law.

In addition, the Company's "Privacy and Data Security Policy" is also available at our corporate website. The Policy is intended to clarify the types of data we collect, the reasons and methods of data collection, the purposes such data are used for, and the steps taken to ensure their security.

3.2 Annual Report

The annual report is prepared in such a way as to contain all of the matters specified in the Turkish Commercial Code, in "Regulations concerning the determination of minimum content in companies' annual reports" (published in issue 28395 of Official Gazette on 28 August 2012), and in the corporate governance principles set forth in the appendix to CMB Corporate Governance Communique II-17.1. As so required, the Board of Directors has an annual report

prepared that provides the public with complete and truthful information about the Company's activities.

The following information is provided under the "Board of Directors" heading of the corporate governance principles compliance report section of the annual report: statements pertaining to information about members of the Board of Directors, to duties that executives undertake outside the Company, and to the independence of independent members; information pertaining to committees set up within the Board of Directors that includes their working principles, members, frequency of meetings, and performance along with the board's assessments of the committees' effectiveness; information pertaining to the number of Board of Directors meetings held during the year and members' attendance at them.

The corporate governance principles compliance report also contains, in appropriate sections, information about: changes in the legal framework that may significantly affect the Company's activities; significant lawsuits filed against the Company and their potential consequences; conflicts of interest between the Company and those from which it obtains investment advisory, rating, and similar services along with measures taken by the Company to preclude such conflicts; cross-shareholding interests that involve more than a 5% capital stake; information about corporate social responsibility issues including employee rights, professional/occupational training, and other company activities that have social and/or environmental consequences.

PART IV: STAKEHOLDERS

4.1 Informing Stakeholders

Migros corporate governance practices ensure that stakeholders' rights as embodied in laws and regulations and in its contractual agreements are duly safeguarded. The Company keeps stakeholders informed about issues that may be of concern to them through a variety of communication channels including, but not limited to, its corporate website at www.migroskurumsal.com. Company employees, shareholders, and other individuals and entities with which the Company has a shareholding and/or business relationship may submit suggestions and complaints about such issues directly to company executives. All such submissions are considered and responded to as circumstances required.

Migros publishes the names and contact information of the department heads of the Company on its corporate website thus making it possible for stakeholders to directly contact the manager overseeing a particular issue and direct their questions and opinions to the relevant person firsthand. The objective of this model is to allow for the establishment of a more transparent and effective communications model between the Company and its stakeholders.

Stakeholders are provided with clear and explicit information about the Corporate Governance Committee, the Audit Committee, and the members of both so that they may contact these committees directly in order to report any violations of laws and regulations by the Company and any involvement by the Company in dealings that may be unethical.

The Company keeps shareholders and other interested parties informed through such means as press releases and investor presentations.

The section of the Migros Code of Conduct concerning employees is presented under the title of "Rules of Ethics" and other principles are presented below:

The responsibilities of Migros towards other companies

1. Migros abides by the law in all of its activities.
2. Migros does not derive any unlawful benefit from any person or entity under any circumstances. Procurement decisions regarding goods and services are made based on well-established and publicly disclosed criteria.
3. It is important for Migros that its business partners do not damage its image and reputation and that they respect the accepted business values of the Company.
4. Migros checks and monitors the services it obtains on an ongoing basis from other organizations to ensure that they are provided in full legal compliance.
5. Migros does not share the confidential information of its suppliers with any third party without permission.

Social responsibilities of Migros

1. Migros strives to upgrade its service standards in order to satisfy the expectations of its customers.
2. Migros seeks to set an example for the community by fulfilling all of its tax and other obligations in a complete and timely manner.
3. Migros does not make any derogatory, derisive or offensive statements about other companies, organizations, products or individuals.
4. Migros takes the utmost care in all its activities to preserve nature and historic integrity while acting in accordance with customs and traditions

of the community and observing legal rules and regulations.

5. Migros stands for business ethics in its industry and strives for the establishment, dissemination and adoption of these principles.

The responsibilities of Migros employees towards the Company

1. Migros employees categorically reject any pecuniary or non-pecuniary incentives which may come from any third parties within their areas of responsibility.
2. Migros employees inform their immediate superiors whenever they enter into a direct business relationship with a company in which a close relative is employed or he/she is a minority or majority partner.
3. Migros employees take utmost attention and care in their duties and they make every effort to ensure that the work they perform is higher in quality, faster and more efficient.
4. Migros employees are obliged to refrain from endangering the health and safety of themselves and of other employees who are affected by their actions and their jobs in line with the occupational health and safety training they received and with the employer's relevant instructions.
5. Migros employees are obliged to operate the machinery, equipment, devices, tools, dangerous materials, transportation equipment and other production machinery in the workplace in accordance with their respective guidelines, to properly use protective equipment, not to remove and change such protective equipment arbitrarily, and to cooperate with the employer and employee representatives to assure occupational health and safety in his/her respective job area, in accordance with the employer-provided training and instructions.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE

6. Migros employees refrain engaging in any action or behavior which would damage the image and reputation of the Company and during work hours they comply with the generally accepted code of conduct and the dress policy of the Company.

7 Migros employees do not remain indifferent or silent in any situation which runs counter to the interests of the Company and shall notify the concerned business units.

8. Migros employees avoid waste by putting all the fixtures, tools and equipment owned by the Company to use for their intended purposes. The employees do not use the resources and facilities of the Company for their own private benefit.

9. Migros employees do not divulge any confidential or private information which they might be privy to due to their position or the work they perform outside the Company and they do not give interviews or make statements of any kind to any media organization without the prior consent of the Company management.

The responsibilities of Migros employees towards other employees

Migros employees do not share the private information regarding their co-workers they might be privy to with other third parties outside the Company. Our Company is against any and all sorts of behavior that will tarnish its employees' reputation and honor, or that constitutes infringement of its employees' personal and employment rights; and any and all sorts of harassment (psychological harassment, mobbing, sexual harassment) that disturbs physical, psychological and social health and negatively affects the working life of our employees and our Company, and aims to develop and maintain a fair and respectful working environment for all employees.

Migros employees are obliged not to endanger the health and safety of themselves and of other employees who are affected by their actions and their jobs in line with the occupational health and safety training they received and with the employer's relevant instructions..

General responsibilities

"The Migros Business Ethics Committee" is responsible for dealing with issues that are not addressed by the principles set forth above.

4.2 Stakeholders' Participation in the Company Management

The Article No. 7 of "The Company's Responsibilities toward its Employees" section of the Migros Code of Conduct states: "In matters that are related to employees, Migros seeks to include the opinions of its employees as much as possible in any decision concerning the future of the Company."

The Management of Migros gives a great deal of attention towards the achievement of this goal. As a part of the business style of the Company, Migros employees participate in the decision-making processes concerning their respective areas of work. Migros employees have the opportunity to communicate their new ideas, proposals and demands to the senior management of the Company and Members of the Board of Directors directly or by e-mail.

4.3 Human Resources Policy

The Human Resources Department of Migros, in executing the Company's strategies, aims to develop systems which will ensure the continuous improvement, motivation and management of the human resources staff and implement these systems in line with the corporate principles of the Company. Our human resources are our most important asset. The quality of our products and services reflects the quality of our employees. In our endeavor to create a Company spanning generations, we choose

attracting and employing the best and most competent people; taking maximum advantage of our people's abilities, strengths and creativity; increasing their individual productivity; providing them opportunities to develop themselves; and creating a workplace in which teamwork and solidarity flourish.

Information about company employees' job descriptions and accountabilities and about performance and reward criteria is provided for employees' information through the Migros Human Resources Portal.

Our Principles

Strategic Use of Human Resources:

The Human Resources Department of Migros places the human element on a high pedestal by giving it great strategic importance and creates awareness of its strategic value in all of domestic and overseas units of Migros. Human resources strategies are designed to create and develop a reliable, fast and proactive organizational structure to sustain the industrial leadership of Migros in a competitive business environment. Employees are considered a strategic resource for it is believed that their experience and creativity would be the driving forces in the adaptation of the Company to fast-changing competitive environment and new markets.

Superior Business Ethics and Integrity:

In all dealings with employees, the Company accepts as a fundamental principle to act fairly, in good faith and in an understanding manner abiding by the rules of law and ethics.

Occupational Safety:

Migros assures its employees that it will fulfill all of its obligations towards them, including those at all of its subsidiaries, in compliance with the relevant laws and regulations.

The Company, in order to ensure the safety of its employees in the workplace, complies not only with all legal requirements and regulations stipulated by the Labor and Occupational Safety Law but also with the industry standards on ergonomics and improvement of the working environment. Civil defense activities, which are of great importance for our country, and theoretical and practical training are also provided in cooperation with the concerned public institutions.

Equal Opportunities:

Migros provides services to its customers both in Turkey and overseas through an employee workforce comprising of individuals coming from many different linguistic, religious and ethnic backgrounds. All human resource-related decisions from recruitment and placement to compensation are governed by job position profiles defined in detail. Through the human resource staff evaluation systems, Migros objectively monitors and assesses the competencies, skills and performances of its employees by common principles applied to all. Migros provides equal training, promotion, and career development and compensation opportunities to each of its employees based on the evaluation results through the Integrated Human Resource systems deployed by the Company.

Human Resources Management:

The management of human resources processes and relations with employees at our Company, in line with established human resources policies and principles, is the responsibility of the Assistant General Manager for Human Resources and Industrial Relations; this function is clearly defined and undertaken within the regulations and business ethics principles of the Company.

Participation and Transparency:

Managers and employees at Migros's domestic and overseas subsidiaries are the integral parts of human resources

practices at Migros. Employees are updated on their roles and responsibilities regarding human resources policies and provided with guidance in fulfilling those responsibilities.

Human resources policies and processes are shared with employees on a regular basis by means of the communications resources (intranet, e-mail, distance learning and meetings) of the Company. Employees have access to employee evaluations and are able to receive training and information on the practices and can monitor their individual results.

Assemblies are also conducted as necessary to inform and discuss with employees issues of concern to them such as the Company's financial standing, compensation, career paths, training, and health.

Competitiveness:

Migros plans and manages the professional development of its employees to help them sustain their competitiveness not only within the Company itself but also on a professional level so as to allow the contribution of positive values to the economy, environment and community.

Commitment to Shared Values:

Our Corporate Culture is based on our shared values. These values are:

1. Reliability
2. Leadership
3. Empathy
4. Customer-orientation
5. Productivity
6. Innovativeness.

Actions of employees contradicting the Company's shared values are dealt with appropriately and impartially through the warning system and disciplinary committee procedures. Conducting relations with employees at Migros is the primary function of the Industrial Relations Department. The objectives of this Department are to ensure that all

laws and regulations are fully complied with by the Company, oversee the legal and contractual rights of the employees and manage employee rights so as to maintain labor peace and fulfill all legal obligations.

Our employees who have completed one working year with our Company receive indemnity payment in cases set out by the law, and necessary financial provisions are set aside for this purpose, which are publicly disclosed in our financial statements.

4.4 Code of Ethics and Social Responsibility

The Principles of Business Ethics of Migros are grouped under the following headings:

- The responsibilities of the Company towards its employees
- The responsibilities of employees towards the Company
- The responsibilities of Migros towards other companies
- Responsibilities of the Company towards the society
- General responsibilities.

The responsibilities of the Company towards its employees and the information about the other categories of business ethics principles have been described in the various sections of this Corporate Governance Compliance Report. The Migros Code of Ethics may be accessed from the Company's corporate website at www.migroskurumsal.com.

The Company considers its employees as one of its most valuable assets in today's tough market conditions. One of our Company's greatest competitive advantages is its experience in the industry and qualities possessed and continuously improved by its employees.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE

The responsibilities of Migros towards its employees:

1. Migros is in full compliance of its legal obligations to its employees; in situations where the requirements of law are ambiguous, Migros consults professionals who are experts in the relevant fields.
2. Migros protects the rights of its employees within the framework of its business ethics rules in situations where laws do not sufficiently address to.
3. Candidates for employment, promotion and appointment are evaluated based on their qualifications; all employees are provided equal opportunity.
4. Migros does not get involved in the personal affairs or private lives of its employees and holds all of the private information about its employees in strict confidence.
5. Migros helps its employees to develop professionally and personally by providing them training.
6. Migros does not discriminate on the basis of sex, age, ethnic origin or religion.
7. In matters that are related to employees, Migros seeks to include their opinions as much as possible in any decisions that are related to the future of the Company.
8. Migros provides hygienic and safe working conditions as dictated by the requirements of law and circumstances, and seeks to improve them to the best of its ability.
9. Migros holds private information about its employees that it may receive through various means in strict confidentiality and does not divulge any of it (e.g. medical records, shopping habits, economic data, and the like).

Within the framework of its ethical guidelines, Migros defines its responsibilities to society as follows.

1. Migros strives to satisfy the service quality standards that its customers expect of it.
2. Migros seeks to fulfill its tax and other legally prescribed obligations in a complete and timely manner and to conduct itself in an exemplary manner in the public eye.
3. Migros makes no statements that could be deemed to be condescending, sarcastic or offensive concerning other companies or organizations, goods, or individuals.
4. Migros takes pains in the conduct of its activities to protect the natural environment, to avoid harm to the historical heritage, and to act in keeping with customs, habits, and traditions. Migros complies with the requirements of law on all such issues.
5. Migros stands for business ethics in its industry and strives for the establishment, dissemination and adoption of these principles.

The corporate culture Migros has developed for more than sixty years, includes its concern for public health and hygiene, sensitivity toward identifying and satisfying societal needs, organization of and participation in exemplary educational, cultural, athletic and social activities essential for social development as well as its corporate identity as an "Honest Retailer" sensitive to the environment.

As required by its sense of corporate social responsibility, Migros operates in compliance with laws, the rules of ethics, and respect for human rights in the conduct of all consumer-related services; fulfills the responsibilities incumbent upon it in the furtherance of registered-economy activities that give back to society by enriching national resources; contributes to formal employment through its upholding of statutorily-mandated employee rights. The Company also shares its sense of social responsibility with its social stakeholders - employees, suppliers, subsidiaries, investors and customers and with the public at large. Great importance is given to supporting and spreading of such pioneering and value-adding practices for the improvement of the society.

Migros is aware a good reputation can be ruined in a single blunder. Migros acts ethically and with integrity in every practice it engages in. The Company is well aware that trust cannot be won easily, and that it is a bond that grows and develops slowly over a long period of time between a company and its customers and that once broken, cannot be saved by quick fixes. Migros has been protecting the good health and rights of its customers since 1954. Many innovative practices introduced by Migros encourage good shopping habits and foster consumer awareness. These practices subsequently became industry standards and some have even been made into law.

Detailed information about the Company's social responsibility activities is provided in appropriate sections of the annual report.

PART V: BOARD OF DIRECTORS

5.1 Structure and Composition of the Board of Directors

All of the members of the Migros Board of Directors possess the qualifications required of them in article 4.3 of CMB Corporate Governance Communiqué II-17.1. All of them are professionals distinguished by virtue of their exemplary business knowledge, experience, and background.

The Board of Directors identifies strategic objectives taking into account both the requirements of laws and regulations and the Company's articles of association and internal directives. The board formulates the most appropriate balance among growth and the issues of risk vs return in line with these objectives and, mindful of the Company's long-term interests, administers the Company transparently, accountably, justly, and responsibly.

The Migros Board of Directors consists of twelve members, all of whom are elected by shareholders at a general assembly meeting. The board's membership consists of non-executive board members, except Özgür Tort. Among the board members are independent members who have the ability to act with absolute impartiality in the conduct of their duties.

According to article 4.3.4 of CMB Corporate Governance Communiqué II-17.1, the number of independent board members must not be fewer than one-third of a board's total membership. When determining how many independent board members a board must have, fractions are rounded up to the nearest whole number but in no case may the number of independent board members be fewer than two. In compliance with this rule, four of the twelve members of the Migros Board of Directors are independent members.

Under the articles of association, board members serve for three-year terms at most unless a shorter term of office is specified at the general assembly meeting at which they are elected. A board member whose term of office expires may be reelected. Shareholders assembled in a general assembly meeting may, for just cause and at any time that they deem such action to be necessary, dismiss any board member whether or not such an item is on the meeting agenda.

The Corporate Governance Committee, which performs the duties of a nomination committee at Migros, has created a pool of prospective independent board members during 2016.

There are no binding rules governing board members undertaking duties outside the Company. Any duties that they do perform however are indicated in their CVs.

While women members served on the Board of Directors in previous years, there are no woman members on the current Board of Directors. The Corporate Governance Committee has made a recommendation to the Board of Directors that, in the years ahead, the Board be formed so as to include woman members again. As a matter of principle there are no barriers to or limitations on women serving as members of the Board of Directors except that the number of female board members must not be fewer than 25% of the total membership. All members of the board—male and female—are considered and evaluated entirely on the basis of their professional and sectoral experience and their academic qualifications.

As stated in our Company's material event disclosure of 28 July 2016, Salim Abdullah Khalfan Al Ma'mari has been appointed to fill the member seat on the Board of Directors, which was vacated upon resignation of board member Khalid Hilal Hamood Al Yahmadi, based on the Board of Directors decision adopted on 28 July 2016. Pursuant to Article 363 of the Turkish Commercial

Board of Directors

	Title	Appointed on	Term
Tuncay Özilhan	Chairman (Non-executive)	23.03.2016	1 Year
Nikolaos Stathopoulos	Vice Chairman (Non-executive)	23.03.2016	1 Year
Mehmet Hurşit Zorlu	Member (Non-executive)	23.03.2016	1 Year
Salih Metin Ecevit	Member (Non-executive)	23.03.2016	1 Year
Can Çaka	Member (Non-executive)	23.03.2016	1 Year
Stefano Ferraresi	Member (Non-executive)	23.03.2016	1 Year
Salim Abdullah Khalfan Al Ma'mari	Member (Non-executive)	28.07.2016	1 Year
Ömer Özgür Tort	Member and General Manager (Executive)	23.03.2016	1 Year
Jacob Cornelio Adriano de Jonge	Member (Non-executive)	23.03.2016	1 Year
Tayfun Bayazit	Independent Member (Non-executive)	23.03.2016	1 Year
Hakkı Hasan Yılmaz	Independent Member (Non-executive)	23.03.2016	1 Year
İzzet Karaca	Independent Member (Non-executive)	23.03.2016	1 Year

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE

Code, Mr. Al Ma'mari will serve until the next general assembly meeting to be held, where his appointment will be laid down for the approval of the general assembly of shareholders.

Resumes of the Board Members

Tuncay Özilhan

Born in 1947 in Kayseri, Tuncay Özilhan graduated from Saint Joseph High School in İstanbul, and İstanbul University, Faculty of Economics, before obtaining his MBA from the Long Island University, USA. He started his career as the General Manager of Erciyas Biraçılık in 1977. Mr. Özilhan became the Beer Group Coordinator and then General Coordinator at Anadolu Endüstri Holding, before finally being appointed as Anadolu Group Executive Chairman in 1984. Mr. Özilhan rose to the position of Chairman of the Board of Directors of the Group in May 2007, in which post currently serves. In tandem, he sits as the Chairman on the boards of directors of Anadolu Foundation and various Anadolu Group Companies.

Outside positions held

After serving as the Chairman of TÜSİAD (Turkish Industry and Business Association) from 2001 to 2003, he currently functions as a member of TÜSİAD High Advisory Council, Member of the Board of Directors at DEİK (Foreign Economic Relations Board), Chairman of the Turkish-Russian Business Council of DEİK, Estonian Honorary Consul in İstanbul, and President of the Anadolu Efes Sports Club.

Nikolaos Stathopoulos

Nikolaos Stathopoulos is a Managing Partner and a member of the Investment Committee at BC Partners, which he joined in 2005. He has over 17 years of experience in private equity having led a variety of private equity investments globally. Mr. Stathopoulos serves as the chairman of the boards of directors of OVS SpA, Gruppo Coin and Mergermarket

Group, and board member at Com Hem and Migros.

Before joining BC Partners, Mr. Stathopoulos was a Partner at Apax Partners in London where he spent seven years working on large buy-out transactions. Prior to Apax, he worked as a management consultant with the Boston Consulting Group in London. Mr. Stathopoulos holds an MBA from Harvard Business School and a degree in business administration from the Athens University of Economics and Business.

Outside positions held

He is a member of the Harvard Business School European Leadership Board, Athens University of Economics and Business Advisory Council, Impetus Private Equity Foundation Board of Trustees and a fellow of the Royal Society of Arts. He is also the Chairman of BC Partners Foundation.

Mehmet Hürşit Zorlu

Born in 1959, Mehmet Hürşit Zorlu received a degree from İstanbul University, Faculty of Economics. After holding various positions at Toz Metal and Turkish Airlines, Mr. Zorlu joined Efes Beverage Group under Anadolu Group as a marketing specialist in 1984. Throughout his career with Efes Beverage Group, he functioned as Marketing Supervisor, Assistant Project Development Manager, Project Development Manager and Business Development & Investor Relations Director. Mr. Zorlu then served as Financial Affairs and Investor Relations Director at Efes Beverage Group from 2000 to 2008, Chief Financial Officer of Anadolu Group from 2008 to 2013, and Deputy CEO from January 2013 to February 2017. Mr. Zorlu was appointed as Anadolu Group CEO in February 2017.

Outside positions held

Mr. Zorlu holds seats as a member on the boards of directors of various Anadolu Group companies. He also serves as a member of the board of directors in

associations including TÜYİD (Turkish Investor Relations Society) and TEİD (Ethics and Reputation Society). Mr. Zorlu is also the Chairman of the Corporate Governance Association of Turkey.

Salih Metin Ecevit

Born in 1946, Salih Metin Ecevit graduated from the Faculty of Political Sciences in 1967 and received his master's degree in economics from the Syracuse University in 1976. From 1967 to 1980, he worked as a Government Auditor and served as Deputy General Manager of General Directorate of Revenues at the Ministry of Finance.

Mr. Ecevit joined Anadolu Group in 1980 and worked in various roles, serving as General Manager, Managing Director, and Chairman of the Board of Directors in automotive companies of the Anadolu Group. He retired in 2006, while he was serving as the Automotive Group President, as per the retirement age limit regulations of the Group.

Outside positions held

He served as Board Member and Chairman of the Association of Imported Car Distributors in Turkey from 1992 to 2004. He is a board member in many Anadolu Group companies and serves as the Chairman of the Board of Directors at Yazıcılar Holding.

Can Çaka

Can Çaka received a BSc in electrical and electronics engineering from the Faculty of Engineering at the Middle East Technical University and his master's degree from the Administrative Sciences Department of the same university. He started his career as a business analyst and systems engineer at Texas Instruments Software Ltd. in 1994. He joined Anadolu Efes in 1997 as a Finance Specialist. Between 1997 and 2005, he worked in various positions such as Finance and Administrative Affairs Manager at the Efes Ukraine Brewery, Strategy and Business Development

Manager at Efes Beer Group, and as Strategy and Business Development Director at Efes Beer Group between May 2005 and March 2008. Having served as Financial Affairs and Investor Relations Director of Anadolu Efes since April 2008, Mr. Çaka was appointed to the position of Chief Financial Officer (CFO) of Anadolu Endüstri Holding (Anadolu Group) in January 2013, a post he currently holds.

Outside positions held

Mr. Çaka holds seats at the boards of various Anadolu Group companies. He is also a board member in associations such as the Corporate Governance Association of Turkey (TKYD) and Ethics and Reputation Society of Turkey (TEİD).

Stefano Ferraresi

Born in 1972, Stefano Ferraresi received his undergraduate degree in business administration from Bocconi University in Italy.

Having started his business life at Barclay's Capital, Mr. Ferraresi worked in the Finance Department at Merrill Lynch London office from 2000 to 2002. Having joined BC Partners in 2002, he has been a member of the Board of Directors at Migros since May 2008.

Outside positions held

Stefano Ferraresi serves as a member of the Board of Directors at OVS SpA.

Salim Abdullah Khalfan Al Ma'mari

Born in 1988 in Oman, Salim Abdullah Khalfan Al Ma'mari graduated from Sultan Qaboos University in Oman. Having started his professional life at Ernst & Young in Oman, he worked for General Electric and Export Credit Guarantee Agency (ECGA) between 2013 and 2016. He has been holding a senior executive position at the State General Reserve Fund in Oman since January 2016. Mr. Al Ma'mari has been a member of the Board of Directors at Migros since 28 July 2016.

Ömer Özgür Tort

Ö. Özgür Tort joined Migros Türk T.A.Ş. in the Business Development Department, where he held managerial positions in Project Management, International Investments Coordination and CRM. Mr. Tort worked as Assistant General Manager of Sales and Marketing at Migros' subsidiary in the Russian Federation from 2002 to 2006. In 2006, he carried on with his career as Assistant General Manager of Human Resources at Migros Group. Having specialized in all aspects of retail management in his career, he has become the General Manager of Migros in 2008.

Ö. Özgür Tort sits on the board of directors of the Consumer Goods Forum, the world's largest retail industry network of label manufacturers. After getting his undergraduate degree in industrial engineering from İstanbul Technical University, he went to US for graduate studies. He got his master's degree in engineering management from the University of Missouri. He is married and has one child.

Mr. Tort has been serving as the General Manager of Migros since August 2008, where he is also a board member.

Outside positions held

Ömer Özgür Tort also serves as the Chairman of the Board of Sanal Merkez Ticaret A.Ş., a subsidiary of Migros Ticaret A.Ş. He is also a board member at Trade Council of Shopping Centers and Retailers (in Turkish: AMPD).

Independent Board Members

Jacob Cornelio Adriano de Jonge

Born in 1953 in Sao Paulo, Brazil, Jacob Cornelio Adriano de Jonge received a degree in philosophy from the United States International University of San Diego, USA. He began his career at Makro Brazil in 1977, and worked for SHV Makro for 23 years in various positions (CEO of Makro Venezuela, Korea, Thailand). With SHV Makro, he served as CEO of Makro Asia.

Having worked with Walmart for two years, de Jonge joined Maxeda, as CEO of De Bijenkorf from 2007 until 2012. Maxeda was the largest non-food retailer in the Benelux, taken off the stock exchange by KKR, Permira, Cinven & Alpinvest.

Jacob Cornelio Adriano de Jonge possesses the qualifications of an independent board member as per the CMB's Corporate Governance Principles.

He is not related in whatsoever manner to Migros Ticaret A.Ş. and/or its related parties.

Tayfun Bayazit

Born in 1957, Tayfun Bayazit got his bachelor's degree in mechanical engineering from the Southern Illinois University, followed by a master's degree (MBA) from Columbia University.

Having started his career at Citibank in 1983, Bayazit assumed Executive Vice President and Senior Executive Vice President positions at Yapı Kredi Bank from 1986 until 1995. He was President and CEO at Interbank from 1995 to 1996, and at Banque de Commerce et de Placements from 1996 to 1999. Having served as Vice Chairman at Doğan Holding from 1999 until 2001, Bayazit was later appointed as CEO and Board member at Dışbank (2001-2005), Fortis Bank (2005-2007), and Yapı Kredi Bank (2007-2009), where he consequently

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served as Chairman from 2009 to 2011. He has been working as a consultant since 2011.

Tayfun Bayazıt possesses the qualifications of an independent board member as per the CMB's Corporate Governance Principles. He is not related in whatsoever manner to Migros and/or its related parties.

104 Outside positions held

Tayfun Bayazıt is the founding partner of Bayazıt Consultancy Services. He is an independent member on the boards of directors of Doğan Şirketler Grubu Holding A.Ş., TAV Havalimanları Holding A.Ş., Boyner Perakende ve Tekstil Yatırımları A.Ş. and Boyner Büyük Mağazacılık A.Ş. He is also a board member at SAF REIT. Chairman of MB Advisory Kurumsal Danışmanlık Hizmetleri A.Ş. (subsidiary of Mediobanca), Primist Gayrimenkul Geliştirme ve Yatırım A.Ş. and Taaleri Portföy Yönetimi A.Ş., he serves as the Country Corporate Officer at Marsh & McLennan Group, Turkey. Mr. Bayazıt also holds seats on the boards of directors of Marsh Sigorta ve Reasürans Brokerliği A.Ş., Marsh Italia SpA, Beşiktaş Gayrimenkul Geliştirme San. ve Tic. Ltd. Şti., Bomonti Gayrimenkul Pazarlama İnşaat ve San. Tic. A.Ş. and Embarq, Turkey (non-governmental organization), and he is on the advisory board of Taaleritehdas Asset Management Ltd., Finland. He is also a faculty member at Koç University.

Hakkı Hasan Yılmaz

Born in 1957, Hakkı Hasan Yılmaz got his bachelor's degree in industrial engineering from the Middle East Technical University.

He began his business life at Presiz Metal İmalat Sanayi as an industrial engineer and then worked as a market analyst at TAKSAN Takım Tezgahları A.Ş. and as a capital goods specialist at DPT (State Planning Organization) from 1981 to 1984.

He assumed various positions at Unilever Turkey between 1984 until 1995, acting as brand manager, marketing manager, sales director and was assigned as chairman/CEO of Lever A.Ş. in 1991. He left the company while serving in the position of Regional Leader responsible for East Asia detergent business located at London Unilever Head Office. He served as the Chairman and CEO of Uzay Gıda (Pepsi Foods/Frito Lay) from 1995 to 1996. He was called back as the Chairman and CEO of all nine entities in Turkey, in which Unilever was the majority shareholder, from 1996 to 2000.

He started lecturing at Koç University as faculty member in 2000. In 2002, he joined Koç Holding as President of Food, Retailing and Tourism, responsible for more than 20 companies, one of which was Migros. He was a member of the Board of Directors of Migros from April 2002 until April 2006. He acted as the CEO of Hürriyet Gazetecilik ve Matbaacılık A.Ş. between 2010 and 2012 and he was a board member of this company between 2008 and 2013. In 2013, he was appointed as the CEO of Fenerbahçe Sports Club and Fenerbahçe Futbol A.Ş.

Hakkı Hasan Yılmaz possesses the qualifications of an independent board member as per the CMB's Corporate Governance Principles. He is not related in whatsoever manner to Migros Ticaret A.Ş. and/or its related parties.

Outside positions held

Hakkı Hasan Yılmaz serves as board of directors and advisory board member for various companies. He also continues to lecture in Koç.

İzzet Karaca

Born in 1954, İzzet Karaca received his degree in industrial engineering from Boğaziçi University in 1977. He started his professional career the same year at Koç Research and Development Centre. He held Industrial Engineer and IT Manager position until 1985. From 1985 to 1988, he served as Systems and Organization Director at Ford Otosan. From 1988, he held several positions at Unilever in Germany, Turkey and Baltic States including Internal Audit Group Manager, Logistics Manager, Commercial Director and Managing Director.

From 2011 to 2013, Mr. Karaca served as Chairperson of International Investors Association. After serving as the Executive Chairman at Unilever Turkey and Unilever NAMET RUB (North Africa, Middle East, Russia, Ukraine and Belarus) region, and as member of Unilever CEO Forum, he retired on 31 December 2013.

In 2015, he published his first book titled "The New CEO is... You".

İzzet Karaca possesses the qualifications of an independent board member as per the CMB's Corporate Governance Principles. He is not related in whatsoever manner to Migros Ticaret A.Ş. and/or its related parties.

Independent Board Members' Affidavit

To the Board of Directors of Migros Ticaret Anonim Şirketi ("the Company"):

Owing to my having been proposed as a candidate for a seat as an independent board member on your Company's Board of Directors at your Company's general assembly meeting for the year 2015 to be held on 23 March 2016, I hereby declare and wish it to be known by all Company organs, shareholders, and other interested parties that I am a candidate to serve as an independent board member at the Company within the framework of the Company's articles of association and the criteria of the Capital Markets Board's Corporate Governance Principles and that I possess the qualifications to do so and furthermore:

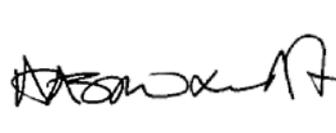
- a) That neither I, nor my spouse, nor any relative of mine whether by blood or by marriage unto the second degree, have, within the most recent five years, entered into any employment relationship in an administrative capacity involving significant duties and responsibilities, owned more than 5% of the capital or voting rights or privileged shares either jointly or individually, or have established a significant commercial relation with the Company, or with corporations over which the Company holds management control or significant influence or with shareholders who
- b) That within the most recent five years, I have not been a shareholder (5% and more), not worked in an administrative capacity undertaking significant duties and responsibilities or not served as a member of the board of directors in any company, particularly companies involved in the Company's auditing (including tax audit, statutory audit, internal audit), rating, or consulting functions that the Company purchases or sells a substantial amount of goods or services within the framework of the contracts executed, during the period of such sale or purchase,
- c) That, as may be seen from my resume, I am possessed of the professional training, knowledge, and experience necessary to duly fulfill the duties I shall undertake as an independent member of the Board of Directors;
- d) That, as of the date on which my candidacy for board membership was proposed and this affidavit is submitted, I am not a full-time employee of any public agency or organization and that, if elected, I shall not be for the duration of my term of office;
- e) That I am a resident of Turkey as defined in the Income Tax Law;
- f) That I am possessed of ethical standards and of professional repute and experience sufficient to enable me to make a positive contribution to the Company's affairs, to maintain my impartiality in any disputes that may arise among the Company's shareholders, and to come to decisions freely on the basis of all stakeholders' interests;
- g) That I will be able to devote to the Company's affairs an amount of my time sufficient to keep track of the conduct of the Company's activities and to fully satisfy the requirements of the duties I will be undertaking
- h) I have not served as a member on the Company's board of directors for more than six years within the last ten years,
- i) I have not served as an independent board member in more than three companies over which the Company or the controlling shareholders of the Company hold management control and in more than five listed companies in total.



Jacob Cornelio Adriano de Jonge



Tayfun Bayazit



Hakki Hasan Yilmaz



İzzet Karaca

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5.2 Operating Principles of the Board of Directors

As specified in corporate governance principles, the Board of Directors conducts its activities in line with the corporate governance principles of transparency, accountability, fairness, and responsibility. Taking the opinions of its internal committees into account, the Board of Directors devises internal control systems that incorporate risk management and information mechanisms and processes capable of minimizing the adverse impact of risks that might affect company stakeholders. The effectiveness of risk management and internal control systems is reviewed at least once a year. Information about the functionality and effectiveness of the internal control system is provided in the annual report.

As required by CMB Corporate Governance Communique II-17.1, the Board of Directors plays a proactive role in ensuring effective communication between the Company and its stakeholders and in addressing and resolving any disputes that may arise. To accomplish this, it cooperates closely with the Corporate Governance Committee and with the Investor Relations Department.

During 2016 the Migros Board of Directors passed twenty-two resolutions on a variety of subjects. Majority of the full membership were present at every meeting in which these decisions were taken and the decisions were passed by a majority of those in attendance. Under the articles of association, invitations to board meetings may be sent out by the chairman (or his deputy) at least three days in advance of the meeting date by means of fax, letter, or email. These invitations indicate the meeting date, time, place, and agenda. Whenever the board is convened, it may agree upon a schedule for the regular conduct of meetings during the year.

A secretariat is charged with organizing and conducting meeting-related matters both before and after meetings are held. This secretariat is also responsible for the regular maintenance of meeting-related records, for making entries in the Board of Directors Book of Resolutions, and for making this register accessible to board members for their inspection. Any and all manner of views may be expressed during board meetings. If any dissenting votes are cast against a particular resolution, information about this is included in the minutes along with the justifications for such dissent. No dissenting opinions were entered into the minutes of any board meetings that took place during 2016. Any questions that may be raised by board members and the answers given to them are also entered into the minutes. Issues pertaining to board meetings and decision quorums are governed by the Turkish Commercial Code.

The agendas for board meetings are determined in line with the suggestions and guidance of board members and senior executives. Even if no other item has been placed on a meeting's agenda, the Company's monthly financial statements and investment program are discussed.

Each member of the Migros Board of Directors is entitled to one vote. No members have been granted weighted voting or veto rights.

Members of the Migros Board of Directors are covered by insurance against the risk that the Company may suffer a loss on account of misjudgment and errors in the performance of their duties. Liability insurance policies in the amount of USD 25 million have been taken out on board members and senior executives in 2016.

Members of the Board of Directors are not allowed to vote in the issue of acquitting board members of their fiduciary responsibilities at general assembly meetings.

5.3 Number, Structure, and Independence of Committees Established within the Board of Directors

An audit committee, a corporate governance committee and an early detection of risk committee have been set up both in compliance with the requirements of CMB Corporate Governance Communique II-17.1 and in order to help the Board of Directors better fulfill its duties and responsibilities. Owing to the structure of the board, neither a nominating committee nor a remuneration committee has been set up: the functions of such committees are performed by the Corporate Governance Committee. These committees' areas of responsibility, their working principles, and their memberships are determined and publicly disclosed by the Board of Directors.

Under CMB Corporate Governance Communique II-17.1, all audit committee members and the heads of other committees must be selected from among a board's independent members. Care is taken to avoid having any single board member serving on more than one committee. However because the heads of the three committees must be independent board members and because all of the members of an audit committee must also be independent board members, the members of the Migros Audit Committee necessarily serve on more than one committee. No executive board member or general manager may serve on these committees.

The activities of the board's Audit Committee, Corporate Governance Committee, and Early Detection of Risk Committee for 2016 have been reviewed and assessed by the board. It was ascertained that in the conduct of their operations these committees had been mindful of the requirements of laws and regulations and that their activities had a beneficial impact on the Company's practices.

a. Audit Committee

At a meeting of the Board of Directors held on 28 April 2016, it was decided that the Audit Committee should consist of two independent board members and that İzzet Karaca and Jacob Cornelio Adriano de Jonge were elected to fill these seats. In compliance with CMB regulations, İzzet Karaca was chosen to serve as committee chairman.

Besides auditing the Company's accounting system and its publicly disclosed financial statements, the Audit Committee also oversees the operation and effectiveness of independent auditing and of the Company's internal control and internal audit systems. As required by Corporate Governance Principles, the selection of independent auditors, the preparation of independent auditing contracts and the initiation of independent auditing processes, and every stage of the activities of the independent auditors are subject to the oversight of the Audit Committee.

The Audit Committee determines methods and criteria that are to be applicable when examining and finalizing any complaints the Company receives about its accounting and internal control system or its independent auditing and when company personnel are given access to confidential reports about in-house accounting and independent auditing matters.

Every year, the Audit Committee submits its proposal for the designation of the Company's independent audit firm for the fiscal year from 1 January until 31 December.

Prior to the public disclosure of annual and interim financial statements and having consulted and obtained the opinions of the Company officers concerned and of the independent auditors, the Audit Committee provides the Board of Directors with a written declaration concerning its own assessment of the statements' compatibility with respect to the Company's approved accounting principles and of their truthfulness and accuracy.

The Audit Committee convenes at least four times a year. The results of these meetings are set down in minutes that are submitted to the Board of Directors along with any decisions that are taken. Information about the Audit Committee's operations and meeting results is included in the Company's annual report.

The Audit Committee immediately notifies the Board of Directors in writing of any findings it makes concerning its duties and areas of responsibility and of its assessments and recommendations concerning such matters.

Operating Principles of the Audit Committee

Purpose and Scope

Set up under the Capital Market legislation, the Audit Committee reports to the Board of Directors.

The purpose of the Audit Committee is to verify that the Company's accounting and reporting system runs in accordance with applicable laws and regulations, to supervise the audit and public disclosure of financial information, and the operation and efficiency of independent audit and internal control system.

Authority

The Audit Committee is formed and authorized by the Board of Directors, which also sets out its duties and operating principles. As and when it deems necessary, the Audit Committee seeks opinion from independent experts regarding its activities, and the cost of necessary advisory services are borne by the Company.

The Audit Committee acts within the frame of its authorization and responsibilities, and makes recommendations to the Board of Directors, which is ultimately responsible for the final decision at all times.

Detailed information about the Committee structure and meetings, duties and responsibilities, basis and enforcement is provided under the Investor Relations tab on our corporate website.

b. Corporate Governance Committee

The Migros Board of Directors has set up a corporate governance committee to oversee corporate governance practices at the Company and to coordinate the activities of the Investor Relations Department. At its meeting on 28 April 2016, the board decided to elect Jacob Cornelio Adriano de Jonge, Nikolaos, Stathopoulos, and Mehmet Hurşit Zorlu, Can Çaka and Investor Relations Group Manager Affan Nomak as the members of the Corporate Governance Committee. In compliance with CMB regulations, the board also decided to appoint Jacob Cornelio Adriano de Jonge to head the committee.

It was decided that the Corporate Governance Committee should also fulfill the duties of both a nominating committee and a remuneration committee as is allowed by CMB Corporate Governance Communique II-17.1. Accordingly and in the fulfillment

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of its duties as a nominating committee, the Corporate Governance Committee is responsible for creating a transparent system capable of identifying, vetting, and training suitable candidates to fill seats on the Board of Directors and to undertake management positions that have administrative responsibilities and to develop policies and strategies for dealing with such issues. The Corporate Governance Committee also makes regular assessments of the structure and efficiency of the Board of Directors and submits to the board its recommendations for possible changes in such matters.

In the fulfillment of its duties as a remuneration committee, the Corporate Governance Committee determines and oversees principles, criteria, and practices which are to be used in the remuneration of members of the Board of Directors and of managers with administrative responsibilities and which take the Company's long-term goals into account. The committee submits to the Board of Directors its recommendations concerning the remuneration that is to be paid to members of the Board of Directors and to managers with administrative responsibilities subject to the degree to which the recipients have satisfied remuneration-related criteria.

As defined by the Board of Directors in accordance with the same communicate and other pertinent laws, regulations, and administrative provisions, the principal activities of this committee consist of determining whether or not corporate governance principles are being complied with and, if they are not being complied with, of identifying the reasons why and also any conflicts of interest arising from less than full compliance; of making recommendations to the Board of Directors to improve corporate governance practices; and of overseeing

the activities of the Investor Relations Department. The goal of these efforts is to continuously improve the Company's corporate governance practices. The committee consists of five members and meets at least four times a year.

Operating Principles of the Corporate Governance Committee

Purpose and Scope

Set up under the Capital Market legislation, the Corporate Governance Committee reports to the Board of Directors.

In line with the CMB Corporate Governance Communiqué (II-17.1), the purpose of the Corporate Governance Committee is to establish whether corporate governance principles are implemented at our Company, the reasons for non-implementation, if applicable, and conflicts of interest resulting from failure to achieve complete alignment with these principles. The Committee is responsible for suggesting improvements regarding corporate governance practices to the Board of Directors and for overseeing the activities of the Investor Relations Department.

Pursuant to the Corporate Governance Communiqué, the Corporate Governance Committee fulfills the functions of the Nomination Committee and the Remuneration Committee, as well.

Authority

The Corporate Governance Committee is formed and authorized by the Board of Directors, which also sets out its duties and operating principles. As and when it deems necessary, the Corporate Governance Committee seeks opinion from independent experts regarding its activities, and the cost of necessary advisory services are borne by the Company.

The Committee acts within the frame of its authorization and responsibilities, and makes recommendations to the Board of Directors, which is ultimately responsible for the final decision at all times.

Detailed information about the Committee structure and meetings, duties and responsibilities, basis and enforcement is provided under the Investor Relations tab on our corporate website.

c. Early Detection of Risk Committee

At a meeting of the Board of Directors held on 28 April 2016, it was decided to elect Tayfun Bayazit, Jacob Cornelio Adriano de Jonge, Hakkı Hasan Yılmaz, İzzet Karaca, Mehmet Hurşit Zorlu, and Erkin Yılmaz to seats on an early detection of risk committee which had been set up in compliance with the requirements of Turkish commercial law, capital market laws and regulations, and corporate governance principles. As also required by Capital Markets Board regulations, Tayfun Bayazit was designated as the committee's head.

As defined by the Board of Directors in accordance with the Turkish Commercial Code and capital market laws and regulations, the activities of the Early Detection of Risk Committee consist of identifying, at an early stage, risks that might endanger the Company's existence, well-being, and continuity; of taking measures needed to deal with such risks; and of managing risk. The Early Detection of Risk Committee performs a review of risk management systems at least once a year. The committee convenes six times a year.

Operating Principles of the Early Detection of Risk Committee

Purpose and Scope

Set up under the Capital Market legislation and in accordance with Article 378 of the Turkish Commercial Code, the Early Detection of Risk Committee reports to the Board of Directors.

The purpose of the Early Detection of Risk Committee is to early detect the risks that may threaten the existence, development and survival of the Company, to implement the necessary measures in relation to identified risks, and to manage the risk.

Authority

The Early Detection of Risk Committee is formed and authorized by the Board of Directors, which also sets out its duties and operating principles. As and when it deems necessary, the Early Detection of Risk Committee seeks opinion from independent experts regarding its activities, and the cost of necessary advisory services are borne by the Company.

The Early Detection of Risk Committee acts within the frame of its authorization and responsibilities, and makes

recommendations to the Board of Directors, which is ultimately responsible for the final decision at all times.

Detailed information about the Committee structure and meetings, duties and responsibilities, basis and enforcement is provided under the Investor Relations tab on our corporate website.

5.4 Risk Management and Internal Control Mechanisms

Borrowings

As at 31 December 2016, TL equivalent of the Company's loan payables is TL 2.963.536 thousand.

Within the scope of the refinancing of the Company's loan payable with a nominal value of EUR 830 million;

It has been resolved to take out a loan for EUR 730 million and separately a TL loan equivalent to EUR 100 million, and a credit agreement has been signed on 30 April 2015 by and between our Company and Garanti Bank, İşbank, Akbank, TSKB and Commercial Bank of Qatar (Q.S.C) with an 8-year maturity, involving interest and principal amount repayments at 6-month intervals. Within

the frame of the same credit agreement, an additional "EUR 100 million facility has been allocated to our Company valid for 8 years" for any potential working capital requirements in the future. Pledge has been created in favor of creditor banks on all of the shares held in Migros Ticaret A.Ş. by MH Perakendecilik ve T.A.Ş., Moonlight Capital S.A. and Kenan Investments S.A.

On 26 May 2016, the Company has made a prepayment on its existing financial borrowings, and prepaid the portion of EUR 10,307 thousand and TL 4,047 thousand for the installment due in November 2016 of the short-term portion of its long-term loans.

On 26 October 2016, our Company and Rabobank signed an agreement, which will enable taking out a short-term loan up to TL 170 million from Rabobank for the Company's potential overall cash needs in the future such as short-term investments and working capital. Of this facility, the portion of TL 100 million with a 1-year maturity has been received on 7 November 2016.

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The redemption schedule of principal amounts of bank borrowings at 31 December 2016 is as follows:

(TL thousand)	Tenge loan (TL equivalent)	Euro loan (TL equivalent)	TL Loan	Total (TL equivalent)	Share (%)
1 January 2017- 31 December 2017	-	76,479	108,096	184,575	6.20%
1 January 2018- 31 December 2018	1,031	229,411	24,285	254,727	8.60%
1 January 2019- 31 December 2019	4,123	350,468	37,100	391,691	13.20%
1 January 2020- 31 December 2020	4,123	430,117	45,532	479,772	16.20%
1 January 2021- 31 December 2021	4,123	509,793	53,967	567,883	19.20%
1 January 2022- 31 December 2022	4,123	605,367	64,084	673,574	22.70%
1 January 2023 - 24 October 2023	4,123	366,394	38,786	409,303	13.80%
	21,646	2,568,029	371,850	2,961,525	100.00%

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In 2015, the Company started a new initiative for readdressing the Enterprise Risk Management activities based on a holistic perspective and for restructuring the enterprise risk processes. Within this context, in 2016 the Company continued to receive consultancy service from Marsh Insurance and Reinsurance Brokerage company in order to evaluate existing risk management and to manage risks more effectively.

Enterprise Risk Management restructuring process entails the main headings of:

- Defining risk criteria,
- Creation of risk assessment (impact and likelihood) scales,
- Preparation of consolidated risk inventory,
- Development of necessary action plans for mitigating and/or eliminating the risks in question,
- Description of the targeted risk management framework, and
- Integration of established aspects within the Enterprise Risk Management system.

In the conduct and performance of its financial and operational reviews, the Internal Audit Department adheres to the following principles.

- Effective and efficient utilization of the resources of the Company,
- Effectiveness of the internal control mechanisms on operations and activities,
- Reliability of financial statements,
- Confirmation of Company assets
- Efficiency and effectiveness of business operations,

- Compliance of employees with the quality management documentation and administrative instructions approved by the management,

The fundamental duties of the Internal Audit Department consist, among other things, of investigating/ examining activities and transactions which previously had been determined and reported as having elements of risk in order to ascertain the degree to which such risks have been eliminated or brought under control in line with management-approved recommendations; performing follow-up reviews in situations where more detailed investigations and examinations are necessary.

Any irregularities that may be discovered during the course of review activities are investigated in detail with the aim of allowing measures to be taken as necessary while recommendations are also made concerning what action should be taken to deal with any losses which the Company is ascertained to have suffered. In all of these efforts, altering processes in such a way as to prevent recurrences of similar incidents is an issue of fundamental concern.

In line with risk analyses and the year's internal control plan, in 2016 the Internal Audit Department conducted financial and operational reviews of various departments and processes. Assessments and recommendations based on review results are submitted to company senior management along with the reports in which matters where improvements may be made in keeping with the philosophy of continuous development are also pointed out. Besides financial and operational reviews,

the Internal Audit Department also conducts follow-up reviews on issues about which senior management was previously informed and it was agreed that measures needed to be taken.

5.5 Mission, Vision and Strategic Goals of the Company

The Company's vision is to be in tune with each and every consumer by providing a service in different formats in line with the strategy of expanding in the retail industry in Turkey and neighboring countries and always being ahead of consumer expectations.

The Company's mission is to play a leading role in improving the quality of life at home and abroad with a business structure that is as innovative and productive as it is customer-focused, trusted, and mindful of people, the community, and the environment; to generate long-term, satisfying returns for its employees, business partners, and shareholders; to maintain its sectoral leadership in growth and operational profitability.

In line with this mission, Migros structures its strategies to achieve sustainable quality and earn respect as the industry leader through an approach to customer satisfaction which raises the standards of retailing in the countries in which it is active.

The senior management of the Company develops strategies to achieve these objectives in accordance with the vision defined by the Board of Directors. Accordingly, our main strategy is to provide our customers with high quality, modern, reliable services at affordable prices. Targets set to achieve these strategies are shared with all the

organizational units and supported by business plans. The Corporate Performance Management System in place facilitates monitoring and evaluation of these targets and business results as well as their assessment and revision whenever necessary.

Annual, quarterly and monthly reporting structures have been created to enable the Board of Directors to carry out its basic administrative functions such as planning, organizing and supervising.

Members are kept informed by means of annual meetings at which the most recent five-year plan is presented to the Board of Directors, by annual budget and review meetings, and by monthly meetings at which the Company's business results are presented and the board's feedback is solicited. Detailed monthly reports are also submitted to the board for its information. In this way, all of the members of the Board of Directors are able to track the Company's ongoing efforts to fulfill its targets and to immediately intervene and provide guidance when necessary.

5.6 Financial Rights Provided to Board Members and to Managers with Administrative Responsibilities

The financial rights to be provided to members of the Board of Directors are discussed as a separate agenda item at general assembly meetings.

At a general assembly meeting held on 23 March 2016, shareholders voted to pay independent board members a monthly salary of TL 10,000 (gross), to pay independent board members residing abroad an additional attendance fee of TL 12,000 (gross) for each board meeting they attend, and not to pay any monthly salary or attendance fees to other board members. The remuneration of independent board members involves neither company stock options nor company performance-based compensation plans. All of the benefits provided to senior executives are declared in the footnotes to the financial statements.

The Remuneration Policy applicable to members of the Board of Directors and senior executives was submitted for the

attention of shareholders at the annual general assembly meeting of 23 March 2016, and published on the corporate website at www.migroskurumsal.com.

The benefits provided to senior executives consist of salaries, bonuses, pension contributions, company-leased automobiles, and employer's share of social security premiums.

Migros makes no loans and extends no credit to any senior executive. Neither does it extend any form of personal credit to senior executives through third parties or otherwise provide senior executives with any form of surety.

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Benefits Provided to Senior Executives During the Reporting Period

"Senior management" is defined as the chairman and members of the Company's Board of Directors, general manager and assistant general managers.

Details concerning benefits provided to senior executives are presented below.

(TL thousand)	01 Jan – 31 Dec 2016	01 Jan – 31 Dec 2015
Short-term benefits provided to employees	16,168	14,284
Total	16,168	14,284

OTHER ISSUES

No administrative or criminal proceedings of a significant nature have been initiated against the Company or any of its board members on account of any violation of laws or regulations.

A number of lawsuits that have been filed against or in favor of the Company are currently being litigated. These suits are concerned primarily with receivable-, rent-, or business-related issues. At the end of each reporting period, the Company's management reviews and assesses the potential consequences and financial impact of such litigation and, based on its best judgment, provisions are set aside to cover likely losses or gains. Detailed information about such matters is provided in the footnote 16 of the consolidated financial statements. The Company is not a party to any mutual cross-shareholding.

According to the agreement signed by and between our Company and Tez-Koop trade union last year, the collective bargaining agreement covers the period between 1 May 2014 and 30 April 2017.

Other issues related to corporate governance principles are presented below.

a) Company Disclosure Policy

Material events are publicly disclosed in a truthful and timely manner as prescribed by CMB Communiqué II-15.1 concerning such matters. In addition, any and all manner of significant information that might influence shareholders' and other stakeholders' decisions is also publicly disclosed. In the public disclosure of such information, the following channels are used depending on the nature and particulars of the announcement:

- Material event disclosures sent to the Public Disclosure Platform,
- Financial reports sent to the Public Disclosure Platform,
- Annual and interim reports,
- The corporate website at www.migroskurumsal.com,
- Informational and presentation documents published for stakeholders,
- Prospectuses, circulars, notices and other documentation issued pursuant to capital market laws and regulations,
- Printed and visual media press releases,
- Notices and announcements published in Türkiye Ticaret Sicili Gazetesi and in daily newspapers.

In order to ensure that shareholders and other stakeholders have convenient access to public disclosures such as presentations, press releases, and press conferences, such materials are also published on the Company's corporate website at www.migroskurumsal.com.

Information publicly disclosed through the Public Disclosure Platform is also sent to financial data providers and to printed and visual media. Statements about issues that may have an impact on the Company's future prospects are also publicly disclosed through the channels indicated above depending on their nature and as required by laws and regulations.

The identities of individuals who may have access to confidential company information before the public disclosure of material events are publicly disclosed. The names of the Company's board members and senior executives are published in the annual report along with that of the independent auditors. Information about any changes taking place in the Company's senior management during the reporting period was provided in the annual report.

In situations where CMB regulations require a public announcement concerning news, statements, and/or rumors about the Company which appear in the press, in other media, or on websites and of which the Company becomes aware, such disclosures are made, depending on the nature, through Public Disclosure Platform announcements, data providers, and/or written and visual media; similarly and in order to ensure that shareholders and other stakeholders have convenient access to such disclosures they are also published on the Company's corporate website at www.migroskurumsal.com.

The Migros Disclosure Policy is formulated by the Board of Directors and updated as circumstances and regulations dictate. This policy is presented to shareholders convened in a general assembly and then published on the Company's corporate website at www.migroskurumsal.com. The Investor Relations Department strives to respond to questions that shareholders ask the Company truthfully, completely, equitably, and within the framework of this disclosure policy.

The Migros Disclosure Policy requires that any and all manner of information must be provided upon request unless such information is in the nature of a trade secret or, if divulged, would give other individuals or organizations a competitive advantage over Migros or would have an adverse impact on the Company's activities.

Like its public disclosure policy, the Migros Dividend Policy is also formulated by the Board of Directors and publicly disclosed by being included in the Company's annual report, published on the Company's corporate website at www.migroskurumsal.com, and presented to shareholders convened in a general assembly.

When identifying individuals who will have administrative responsibility at the Company, the requirements and criteria stipulated in the Turkish Commercial Code (Statute 6102), the Capital Markets Law (Statute 6362), CMB communiques, and other applicable laws, regulations, and administrative provisions are taken into account.

b) Material Event Disclosures

During 2016 the Company submitted 41 material event disclosures to the Public Disclosure Platform. Whenever the Public Disclosure Platform demanded further information about such announcements or the Company's response to news appearing in the media, the Company responded to such requests urgently.

Periodic financial statements, notes, annual reports and interim annual reports are shared with the public to provide an accurate and complete view of the Company's financial position. Financial statements are prepared in compliance with national/international accounting standards in consolidated format in compliance with communiques issued by the CMB. The accounting policies of the Company are referred to in the notes to financial statements. The Company's annual reports are prepared in sufficient detail to allow all concerned parties to obtain the necessary information and are updated every fiscal year in line with the applicable legislation/needs.

After every public disclosure of the Company's quarterly financial statements in 2016, presentations and bulletins concerning them were published on the Company's corporate website at www.migroskurumsal.com to inform shareholders. The same information was simultaneously communicated to the Public Disclosure Platform.

The Company designates an independent audit firm each year and requires this independent audit firm to rotate after a given period. Consultancy services are not obtained from the firm designated as an independent auditor.

The Board of Directors consists of twelve members: Tuncay Özilhan (Chairman), Nikolaos Stathopoulos (Vice-Chairman), Mehmet Hurşit Zorlu, Salih Metin Ecevit, Can Çaka, Stefano Ferraresi, Salim Abdullah Khalfan Al Ma'mari, Ömer Özgür Tort, Jacob Cornelio Adriano de Jonge, Tayfun Bayazit, Hakkı Hasan Yılmaz and İzzet Karaca.

Detailed information about the members of the Migros Board of Directors is provided in the relevant section of the annual report.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE**c) Disclosure of Ultimate Controlling Individual(s) Shareholder(s)**

The shareholding structure of Migros is presented below.

Shareholder structure		
Shareholder	Share (%)	Share Amount (TL)
MH Perakendecilik ve Ticaret A.Ş.	50.00	89,015,000
Moonlight Capital S.A.	15.37	27,371,000
Kenan Investments S.A.	15.13	26,937,336
Others	19.49	34,706,664
Total	100.00	178,030,000

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Legal and Real Persons Indirectly Holding an Interest in the Capital as per the Latest Situation		
Shareholder	Share Amount (TL)	Share (%)
BC Partners	57,077,984.77	32.06
S. Kamil Yazıcı	16,630,674.63	9.34
DeA Capital	12,260,889.28	6.89
Tülay Aksoy	8,598,981.09	4.83
Tuncay Özilhan	8,404,291.18	4.72
İzzet Özilhan Varisleri	5,732,654.76	3.22
Turkish Private Equity Fund II	2,322,793.95	1.30
S. Vehbi Yazıcı	2,279,013.99	1.28
Anadolu Endüstri Holding A.Ş. Other	30,016,052.35	16.86
Total	143,323,336.00	80.51

There are no preferred shares.

Information about changes in the Company's capital structure taking place during the year was publicly disclosed immediately through the Public Disclosure Platform system. Such changes are also announced in the pertinent sections of the Company's 2016 annual report.

Under Material Events Communique II- 15.1, material event disclosures must be made by any company chairman, board member, general manager, or assistant general managers, by any individual with significant decision-making responsibilities and authorities, by any shareholder who directly or indirectly controls more than 5% of the Company's capital or voting rights, and by anyone acting in concert with any of these whenever they purchase or sell shares in Migros. No such dealings of this nature occurred during the reporting period.

d) Public Disclosure of Individuals Who Are In a Position to Access Inside Information

Names of the members of the Board of Directors and auditors of our Company and of those in senior management positions as well as any changes to the senior management during the year are presented in the Annual Report. Individuals who have access to insider information about the Company are identified below.

Board of Directors

Tuncay Özilhan	Chairman
Nikolaos Stathopoulos	Vice-Chairman
Mehmet Hürşit Zorlu	Member
Salih Metin Ecevit	Member
Can Çaka	Member
Stefano Ferraresi	Member
Salim Abdullah Khalfan Al Ma'mari	Member
Ömer Özgür Tort	Member and General Manager
Jacob Cornelio Adriano de Jonge	Independent Member
Tayfun Bayazıt	Independent Member
Hakkı Hasan Yılmaz	Independent Member
İzzet Karaca	Independent Member
Ömer Özgür Tort	General Manager
Ahmet Fuat Yanar	Assistant General Manager
Erkin Yılmaz	Assistant General Manager
Demir Aytaç	Assistant General Manager
Cem Lütfi Rodoslu	Assistant General Manager
Hakan Şevki Tuncer	Assistant General Manager
Tarık Karlıdağ	Assistant General Manager
Mustafa Murat Bartın	Assistant General Manager

As a consequence of its auditing functions, the Company's independent auditors PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. also has access to insider information.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE

e) Silent Period

The Chief Executive Officer, Chief Financial Officer, Finance Director, Corporate Communications Director, Investor Relations Group Head, and the Chairman and members of the Board of Directors and other Company executives designated by the Corporate Governance Committee are assigned to act as spokespeople to represent our Company in all contacts with shareholders, investors, brokerage analysts and other stakeholders through any communication channel, including the printed press, within the frame of the Company's disclosure policy.

Individuals designated as Company spokespeople are obliged to abide by the Silent Period practice, which starts one week before the disclosure of quarterly financial results and lasts until the date of such disclosure.

The beginning and ending dates of the Silent Period practice are published on the corporate website, under the heading Financial Calendar once the disclosure dates of financial statements are fixed. The disclosure dates of financial results and the corresponding Silent Periods are fixed before financial statements are disclosed, and announced by way of the Financial Calendar.

During the course of the Silent Period, Company spokespeople may not make comments regarding the Company's financial position, except for the information publicly disclosed in the name of the Company. In this period, analysts', investors' and similar individuals' questions about the financial position are left unanswered. Yet, people authorized to make public disclosures about the Company may participate in conferences, panels and similar events and deliver speeches during the Silent Period, strictly provided that they observe the confidentiality of inside information.

f) BIST Sustainability Index of Borsa İstanbul

Taking place in the BIST Sustainability Index since November 2014 – October 2015 period when the index was started to be calculated, and the only retail company in it, Migros continues to take place in the index in the November 2016 – October 2017 period. The Company's sustainability activities can be reached under the Investor Relations tab on the corporate website.

g) Relations with Customers and Suppliers

Getting to know its customers and markets by monitoring and acting proactively on them and pioneering change are among the crucial factors behind the innovative business style of Migros. For this reason, a number of "firsts" such as consumer rights took hold in the retail industry only after they were introduced by Migros as early as in the 1960s and 1970s. By introducing the Migros Club system for the first time in Turkey, in 1998, Migros had an opportunity to become better acquainted with its customers and provide them with differentiated service. And through this system, the Company gained the opportunity to approach its customers not only collectively but also individually by conducting customer data analyses. Migros aims to fulfill the expectations of its customers as satisfactorily as possible through the stores it operates in different formats.

In the retail industry where any product seen in any store can be imitated quickly, Migros' experience and deep-rooted innovation embedded in its corporate culture, as well as investments in supporting technology, together create a competitive advantage that cannot be easily replicated.

In the 1990s, Migros became the first retail company to introduce the barcode system and electronic cash registers which reduced waiting times at the checkout counters and decreased the Company's operating costs dramatically. Thanks to the B2B system which has been set up jointly with suppliers, all the parties involved benefit from savings in both logistics and costs. This system benefits all the stakeholders, and especially the Company's customers.

Migros has conducted a Customer Satisfaction Survey regularly since 1994. In 2016 survey, 3,774 of our customers who shop at our stores were asked about their opinion. The analyses undertaken on the survey results help us to have an idea about the current and future expectations of our customers. Occasional surveys conducted at kiosks inside the stores on specific matters provide the Company with the chance to hear the customers and their expectations.

Customer Relationship Management (CRM) analysis of Migros Club data and the mystery shopper surveys which are aimed at improving the service levels are quality-based performance tools specific to Migros.

Some of the other activities undertaken to achieve customer satisfaction include:

- Migros was awarded ISO 9001 Quality Management System certification in August 2005
- Migros was awarded TS EN ISO 22000 Food Safety Management System certification by the Turkish Standards Institution (TSI) in December 2006.

- Migros selects each of its suppliers after conducting appropriate due diligence. Suppliers are audited by reputable independent organizations and products are subjected to periodic quality audits.
- In November 2013, the perspective of the Company's integrated quality management system was expanded with the inclusion of ISO 10002 Customer Satisfaction Management System certification.
- Since the day it was founded, Migros has striven to surpass its customers' expectations and to respond immediately to their requests. ISO 10002 certification is evidence of the Company's commitment to the principle of customer satisfaction. The system makes improvements in service quality possible based on internal and external customer feedback.
- Migros obtained OHSAS 18001 Occupational Health and Safety Management System certification in July 2015.
- In 2016 Migros was awarded TS EN ISO 14001 Environmental Management System certificate, and thus became the first food retailer holding five certificates granted by the TSE (Turkish Standards Institution) within the scope of Quality Management Systems.
- Migros has espoused "Good Agricultural Practices" expressed by the motto "GOOD AGRICULTURE = GOOD FUTURE", which is one of the Company's social responsibility initiatives in the area of "health", and an agricultural model that is designed to be socially viable, economically productive, while protecting human, animal and environmental health.
- On 17 November 2009, Migros became the first retailer in Turkey to be awarded GAP group certification. The Company has continued to abide by GAP principles and its certification has been renewed every year since then.
- Having made internationally recognized food safety standards the touchstone of its practices and operations, Migros has adopted the mission of supplying wholesome products under safe conditions in order to guarantee the unreserved confidence of its customers. In line with this goal, food products are carefully and constantly monitored and controlled from initial procurement until they reach the consumer.
- Under Migros' Supplier Performance System, the production premises of all food suppliers are systematically inspected and monitored through food safety management systems. Products are randomly sampled and subjected to quality control analyses at regular intervals.
- Every new product to be put on sale at the Company's stores undergoes preliminary quality control performed by quality experts.
- Before they enter the Company's warehouses, goods received from suppliers are subjected to detailed organoleptic, chemical, and physical analysis based on many quality control parameters defined for each product by quality control experts. Goods that do not meet these stringent quality standards are rejected.
- Cold chain assurance, one of the most essential criteria in achieving food safety, is constantly monitored online at every stage from distribution center and storage, during shipment, and until it reaches the final consumer.
- Every food product that is put on Migros' shelves is randomly sampled and subjected to quality control analyses at regular intervals by accredited independent laboratories to ensure compliance with the Turkish Food Codex and with applicable laws, regulations, and administrative provisions.
- Non-food imported products such as toys, stationery, textiles etc. are subjected to strict controls. Prior to their importation, the Company has these goods analyzed at accredited independent laboratories to ensure that they are safe and contain no harmful substances such as phthalate plasticizers or azo compounds.
- Migros-labeled food and non-food items are subjected to even stricter controls. Such goods are not put on sale until and unless their places of production, labeling, and other applicable parameters have been checked and their compliance with laws and regulations has been established. Even after they appear on the shelves, Migros reviews product safety by means of analyses performed at regular intervals.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE

- Products on shelves are regularly checked by a team of store quality specialists. During such checks, attention is given not just to cold chain continuity, labeling, and expiration dates but also to compliance with food safety system requirements.
- Personnel employed at all the stores attend training programs on hygiene in order to ensure quality safety.
- The Company's stores are subjected to unannounced inspections performed by accredited independent agencies within the scope of integrated quality management systems, so as to ensure the safety of products sold to customers.
- In the promotional program of the Company we call "Aksiyon", products are offered for sale at discount prices for a period of 15 days
- All customer suggestions received at the stores or the Call Center are evaluated and the results are communicated to customers as soon as possible. Customers can forward their complaints quickly and easily to company store managers via a toll-free customer line and by e-mail which can be sent to managers at all levels.

- In keeping with its objective of being a technological leader and making life easier through innovations, Migros has in place "self-checkout" solution "Jet kasa" in a large number of its stores. Customers who prefer to use "Jet kasa" avoid waiting in line and can check-out by themselves in three easy steps. As the number of customers using 'Jet kasa' increases by the day, so does the number of stores featuring this facility.

Efforts to ensure full customer satisfaction are presented in the relevant section of the Annual Report.

h) Authorities and Responsibilities of Board Members and Managers

The duties and authorities of board members and managers are explicitly defined in the Company's articles of association, which may be found on the Company's corporate website at www.migroskurumsal.com.

The Migros Board of Directors is empowered to take decisions on all matters pertaining to whatever kinds of business and/or transactions are necessary for the Company to achieve its object and scope save for those that are exclusively reserved to the general assembly of shareholders by laws and regulations or by the Company's charter.

Managers' authorities and responsibilities are defined in their power of signature statements.

i) Prohibition on Doing Business with or Competing against the Company

No member engaged in any business transaction involving the Company or took part in any activity that could be deemed to be in competition with the Company.

j) Research & Development Activities

R&D costs incurred by the Company during 2016 amounted to TL 12,264 thousand (2015: TL 10,654 thousand).

Having received R&D Center certificate from the Ministry of Science, Industry and Technology, Migros Ticaret A.Ş. has continued with technical research and development activities in business development and software during 2016.

Under the Migros R&D center, Migros administrative units develop new initiatives for the improvement of processes in relation to retailing activities carried out at Store and Distribution Centers or for creation of new processes. Mostly entailing innovative solutions and smart systems integrated with technology, the applications also serve to touch our customers and suppliers.

k) Events after the Balance Sheet Date

Information on the events after the balance sheet date (subsequent events) is presented in the Note 31 of the Summary Consolidated Financial Statements for the period 1 January - 31 December 2016.

CONVENIENCE TRANSLATION INTO ENGLISH OF
INDEPENDENT AUDITOR'S REPORT
 ON THE BOARD OF DIRECTORS' ANNUAL REPORT ORIGINALLY ISSUED IN TURKISH



To the Board of Directors of Migros Ticaret A.Ş.

Auditor's Report on the Board of Directors' Annual Report

1. We have audited the annual report of Migros Ticaret A.Ş. ("the Company") and its subsidiaries (collectively referred to as "the Group") for the period ended 31 December 2016.

Board of Directors' responsibility for the Annual Report

2. The Group's management is responsible for the fair preparation of the annual report and its consistency with the consolidated financial statements in accordance with the Article 514 of the Turkish Commercial Code ("TCC") No. 6102 and Capital Markets Board's ("CMB") "Communiqué Serial II No: 14.1 "Principles of Financial Reporting in Capital Markets" ("the Communiqué"), and for such internal control as management determines is necessary to enable the preparation of the annual report.

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Independent Auditor's Responsibility

3. Our responsibility is to express an opinion on the Group's annual report based on the independent audit conducted pursuant to the Article 397 of TCC and the Communiqué, whether or not the financial information included in this annual report is consistent with the Group's consolidated financial statements that are subject to independent auditor's report dated 9 March 2017 and presented fairly..

Our independent audit was conducted in accordance with Independent Auditing Standards that are a part of the Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority. Those standards require that ethical requirements are complied with and that the independent audit is planned and performed to obtain reasonable assurance whether the financial information in the annual report is fairly presented and consistent with the consolidated financial statements.

An independent audit requires applying audit procedures to obtain audit evidence on the historical financial information. The procedures selected depend on the professional judgment of the independent auditor.

We believe that the independent audit evidences we have obtained during our independent audit are sufficient and appropriate to provide a basis for our opinion.

Opinion

4. Based on our opinion, the financial information in the annual report of the Board of Directors of Migros Ticaret A.Ş. is consistent with the audited consolidated financial statements and presented fairly, in all material respects..

Other Responsibilities Arising from Regulatory Requirements

5. Pursuant to subparagraph 3 of the Article 402 of the TCC, No.6102, within the context of ISA 570 "Going Concerns", we have not encountered any significant issue which we are required to be reported with regard to the inability of Migros Ticaret A.Ş. to continue its operations for the foreseeable future.

PwC Bağımsız Denetim ve
 Serbest Muhasebeci Mali Müşavirlik A.Ş.

Burak Özpoyraz, SMMM
 Partner

İstanbul, 13 March 2017

MİGROS TİCARET A.Ş.

**CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED
FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016**

(Originally Issued in Turkish)

CONVENIENCE TRANSLATION INTO ENGLISH OF
INDEPENDENT AUDITORS' REPORT
 ORIGINALLY ISSUED IN TURKISH



To the Board of Directors of Migros Ticaret A.Ş.

Report on the Consolidated Financial Statements

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1. We have audited the accompanying consolidated financial statements of Migros Ticaret A.Ş. (the “Company”) and its subsidiaries (collectively referred to as the “Group”), which comprise the consolidated balance sheet as at 31 December 2016 and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period then ended and a summary of significant accounting policies and other explanatory notes.

Management’s Responsibility for the Consolidated Financial Statements

2. The Group’s management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Turkish Accounting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditor’s Responsibility

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our audit was conducted in accordance with standards on auditing issued by the Capital Markets Board of Turkey and Independent Auditing Standards that part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority. Those standards require that ethical requirements are complied with and that the audit is planned and performed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An independent audit involves performing procedures to obtain evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on independent auditor’s professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to error or fraud. In making those risk assessments, the independent auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An independent audit includes also evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the independent audit evidence we have obtained during our audit is sufficient and appropriate to provide a basis for our audit opinion.

CONVENIENCE TRANSLATION INTO ENGLISH OF
INDEPENDENT AUDITORS' REPORT
ORIGINALLY ISSUED IN TURKISH



Opinion

- 122 4. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Migros Ticaret A.Ş. and its subsidiaries as at 31 December 2016 and their financial performance and cash flows for the period then ended in accordance with Turkish Accounting Standards.

Other Responsibilities Arising from Regulatory Requirements

5. In accordance with subparagraph 4 of Article 398 of the Turkish Commercial Code ("TCC") No: 6102; auditor's report on the early risk identification system and committee has been submitted to the Company's Board of Directors on 9 March 2017.
6. In accordance with subparagraph 4 of Article 402 of the TCC; no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January - 31 December 2016 is not in compliance with the code and provisions of the Company's articles of association in relation to financial reporting.
7. In accordance with subparagraph 4 of Article 402 of the TCC; the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.

A handwritten signature in black ink, appearing to read 'B. Özpoyraz', written in a cursive style.

Burak Özpoyraz, SMMM
Partner

Istanbul, 9 March 2017

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Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish

MİGROS TİCARET A.Ş.

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2016 AND 2015

(Amounts expressed in thousands of Turkish Lira ("TRL") unless otherwise indicated.)

(Currencies other than TRL are expressed in thousands unless otherwise indicated.)

	Notes	2016	2015
ASSETS			
Current Assets:			
Cash and cash equivalents	4	1.155.942	839.424
Financial investments	5	714	4.085
Trade receivables			
- Due from related parties	26	600	496
¹²⁴ - Trade receivables from third parties	7	57.838	49.349
Other receivables from third parties	8	8.258	5.924
Derivative instruments	6	602	-
Inventories	9	1.272.752	1.104.373
Prepaid expenses	10	34.792	31.465
Other current assets		527	407
Total current assets		2.532.025	2.035.523
Non-current assets:			
Financial investments	5	1.165	1.165
Other receivables from third parties	8	2.280	2.035
Derivative instruments	6	18	422
Investment properties	11	144.719	146.405
Property, plant and equipment	12	1.268.333	1.220.623
Intangible assets			
- Goodwill	14	2.252.992	2.251.427
- Other intangible assets	13	107.038	84.689
Prepaid expenses	10	28.834	18.428
Total non-current assets		3.805.379	3.725.194
Total assets		6.337.404	5.760.717

The accompanying notes form an integral part of these consolidated financial statements.

Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish

MİGROS TİCARET A.Ş.

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2016 AND 2015

(Amounts expressed in thousands of Turkish Lira ("TRL") unless otherwise indicated.)

(Currencies other than TRL are expressed in thousands unless otherwise indicated.)

	Notes	2016	2015
LIABILITIES			
Current liabilities:			
Short term portion of long term borrowings	15	238.513	212.910
Short term borrowings	15	102.012	-
Trade payables			
- Due to related parties	26	175.170	146.099
- Trade payables to third parties	7	2.488.489	2.081.705
Employee benefits payables	17	76.261	47.193
Other payables to third parties	8	65.017	41.442
Deferred income	10	32.416	24.397
Taxes on income	24	19.952	9.595
Short term provisions			
- Short term provisions for employee benefits	17	93.105	75.970
- Other short term provisions	16	27.672	83.283
Other current liabilities		2.153	3.077
Total current liabilities		3.320.760	2.725.671
Non-current liabilities:			
Long term borrowings	15	2.623.011	2.380.236
Other payables to third parties	8	3.629	3.181
Deferred income	10	4.592	850
Long term provisions			
- Long term provisions for employee benefits	17	79.057	64.283
Deferred tax liabilities	24	65.200	70.510
Total non-current liabilities		2.775.489	2.519.060
Total liabilities		6.096.249	5.244.731
EQUITY			
Attributable to equity holders of parent	25	240.335	515.342
Share capital		178.030	178.030
Additional contribution to share capital		27.312	27.312
Share premium		678.233	678.233
Other comprehensive income/expense not to be classified to profit or loss defined benefit plans re-measurement (losses)/gains		(9.180)	(8.350)
Other comprehensive income/expense to be classified to profit or loss Currency translation differences		23.512	4.720
Restricted reserves		439.138	504.766
Other capital reserves		(365)	(365)
Accumulated losses		(803.376)	(498.540)
Net loss		(292.969)	(370.464)
Non-controlling interest		820	644
Total equity		241.155	515.986
Total liabilities and equity		6.337.404	5.760.717

The accompanying notes form an integral part of these consolidated financial statements.

Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish

MİGROS TİCARET A.Ş.

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2016 AND 2015

(Amounts expressed in thousands of Turkish Lira ("TRL") unless otherwise indicated.)

(Currencies other than TRL are expressed in thousands unless otherwise indicated.)

	Notes	2016	2015
Revenue	18	11.059.224	9.389.829
Cost of sales (-)	18, 19	(8.097.682)	(6.864.180)
Gross Profit		2.961.542	2.525.649
General administrative expenses (-)	19	(348.982)	(320.631)
Marketing expenses (-)	19	(2.176.045)	(1.833.667)
126 Other operating income	20	108.694	80.906
Other operating expenses (-)	20	(205.054)	(188.625)
Operating profit		340.155	263.632
Income from investment activities	21	1.154	1.326
Expenses from investment activities (-)	21	(44.210)	(211.462)
Operating income before financial income/(expense)		297.099	53.496
Financial income	22	52.316	46.555
Financial expense (-)	23	(576.526)	(446.035)
Net loss before tax from continuing operations		(227.111)	(345.984)
Tax expense from continuing operations		(65.807)	(24.469)
- Income tax expense (-)	24	(72.355)	(67.339)
- Deferred tax income	24	6.548	42.870
Net loss		(292.918)	(370.453)
Net income loss attributable to:			
- Non-controlling interest		51	11
- Equity holders of parent		(292.969)	(370.464)
Loss per share (TRL)	27	(1,65)	(2,08)

The accompanying notes form an integral part of these consolidated financial statements.

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MİGROS TİCARET A.Ş.

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016 AND 2015

(Amounts expressed in thousands of Turkish Lira ("TRL") unless otherwise indicated.)

(Currencies other than TRL are expressed in thousands unless otherwise indicated.)

	Notes	2016	2015
Net loss for the period		(292.918)	(370.453)
Other comprehensive income/(loss):			
Items not to be reclassified to profit or loss			
- Defined benefit plan re-measurement (losses)/gains	17	(1.037)	3.746
Tax effect of items not to be reclassified to profit or loss			
- Defined benefit plan re-measurement (losses)/gains, tax effect	24	207	(749)
Items to be reclassified to profit or loss			
- Exchange differences on translation		18.917	(25.397)
Other comprehensive income/(loss), after tax		18.087	(22.400)
Total comprehensive loss		(274.831)	(392.853)
Total comprehensive loss attributable to:			
- Non-controlling interests		176	90
- Equity holders of parent		(275.007)	(392.943)

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016 AND 2015

(Amounts expressed in thousands of Turkish Lira ("TRL") unless otherwise indicated.)

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	Share capital	Balancing account for merger capital	Share premium	Other comprehensive income/expenses not to be reclassified to profit or loss	Other comprehensive income/expenses to be reclassified to profit or loss
				Defined benefit plans re-measurement (losses)/gains	Exchange differences on translation
Balances at 1 January 2015	178.030	27.312	678.233	(11.347)	30.196
Transfers	-	-	-	-	-
Total comprehensive expense	-	-	-	2.997	(25.476)
Net loss for the period	-	-	-	-	-
Cumulative translation differences	-	-	-	-	(25.476)
Defined benefit plans re-measurement gains	-	-	-	2.997	-
Balances at 31 December 2015	178.030	27.312	678.233	(8.350)	4.720
Balances at 1 January 2016	178.030	27.312	678.233	(8.350)	4.720
Transfers	-	-	-	-	-
Total comprehensive loss	-	-	-	(830)	18.792
Net loss for the period	-	-	-	-	-
Currency translation differences	-	-	-	-	18.792
Defined benefit plan re-measurement losses	-	-	-	(830)	-
Balances at 31 December 2016	178.030	27.312	678.233	(9.180)	23.512

⁽¹⁾ Gain on sale of subsidiary shares amounting to TRL 65.816 presented as restricted reserves in the prior years has been transferred to accumulated losses account as of the date of the consolidated balance sheet upon completion of the legal period in which it had to be kept in restricted reserves in accordance with the tax legislation (Note 25). Besides, incentives related to research and development, has to be kept under this reserve account for 5 years and should not be withdrawn during that period, have been classified as "Restricted reserves".

Restricted reserves (*)	Other reserves	Retained earnings		Attributable to equity holders of the parent	Non - controlling interests	Total equity
		Accumulated losses	Net income/ (loss) for the period			
504.766	(365)	(594.738)	96.198	908.285	554	908.839
-	-	96.198	(96.198)	-	-	-
-	-	-	(370.464)	(392.943)	90	(392.853)
-	-	-	(370.464)	(370.464)	11	(370.453)
-	-	-	-	(25.476)	79	(25.397)
-	-	-	-	2.997	-	2.997
504.766	(365)	(498.540)	(370.464)	515.342	644	515.986
504.766	(365)	(498.540)	(370.464)	515.342	644	515.986
(65.628)	-	(304.836)	370.464	-	-	-
-	-	-	(292.969)	(275.007)	176	(274.831)
-	-	-	(292.969)	(292.969)	51	(292.918)
-	-	-	-	18.792	125	18.917
-	-	-	-	(830)	-	(830)
439.138	(365)	(803.376)	(292.969)	240.335	820	241.155

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CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016 AND 2015

(Amounts expressed in thousands of Turkish Lira ("TRL") unless otherwise indicated.)

(Currencies other than TRL are expressed in thousands unless otherwise indicated.)

	Notes	2016	2015
Cash flows from operating activities:			
Loss for the period		(292.918)	(370.453)
Adjustments related to reconciliation of loss		992.150	992.039
Adjustments for depreciation and amortisation expenses	19	199.516	185.901
Adjustments for impairment on receivables	20	1.709	3.357
Adjustments for impairment on other financial assets or investments	21	-	530
Adjustments for inventory provisions	9	636	8.501
Adjustments for impairment on property, plant and equipment	12, 21	27.910	6.734
Adjustments for impairment on other intangible assets	13, 21	-	202.175
Adjustments for impairment on investment properties	11, 21	8.136	-
Adjustments for provision for employee benefits	17	57.933	51.376
Adjustments for provision for litigation	16	5.169	10.057
Adjustments for other provisions	20, 23	(36.737)	8.080
Adjustments for interest income	20, 22	(28.554)	(28.599)
Adjustments for interest expense	23	168.389	135.295
Adjustments for deferred finance expense from term purchases	20	178.324	160.520
Adjustments for unearned finance income from term sales	20	(40.931)	(39.510)
Adjustments for unrealized foreign currency translation difference		377.667	263.388
Adjustments for fair value losses arising from derivatives	22, 23	166	(932)
Adjustments for income tax expense	24	65.807	24.469
Loss on sale of property plant and equipment	21	7.010	697
Changes in working capital		310.528	168.244
Adjustments for increase in trade receivables		(9.786)	(5.396)
Adjustments for increase in other receivables related with operations		(13.061)	(6.871)
Adjustments for increase in inventories		(169.015)	(162.897)
Adjustments for increase in trade payables		438.902	337.426
Adjustments for increase in other payables related with operations		63.488	5.982
Cash flows from operating activities		1.009.760	789.830
Interest received		65.206	66.351
Interest paid		(181.372)	(166.489)
Employee benefits paid	17	(27.061)	(26.209)
Taxes paid		(61.998)	(60.859)
Other provisions paid	16	(24.082)	(6.463)
Net cash provided by operating activities		780.453	596.161

The accompanying notes form an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016 AND 2015

(Amounts expressed in thousands of Turkish Lira ("TRL") unless otherwise indicated.)

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	Notes	2016	2015
Cash outflows from the purchase of tangible and intangible assets	12, 13, 14	(294.037)	(275.786)
Cash outflows from the purchase of investment properties	11	(3.170)	(4.743)
Cash inflows from the sale of tangible and intangible assets		2.145	2.630
Cash flows from investing activities		(295.062)	(277.899)
Proceeds from borrowings		121.974	-
Repayment of borrowings		(132.248)	(30.125)
Cash paid with respect to derivative instruments		(364)	(836)
Interest received		4.245	1.758
Interest paid		(165.392)	(128.201)
Cash flows from financing activities		(171.785)	(157.404)
Increase in cash and cash equivalents before effect of exchange rate changes		313.606	160.858
Effect of exchange rate changes on cash and cash equivalents		2.912	(10.508)
Net increase in cash and cash equivalents		316.518	150.350
Cash and cash equivalents at the beginning of period	4	839.424	689.074
Cash and cash equivalents at the end of period	4	1.155.942	839.424

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

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NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

Migros Ticaret A.Ş., previously named as Moonlight Perakendecilik ve Ticaret Anonim Şirketi (“Moonlight”), (collectively referred to as “Migros Ticaret” or the “Company”), was established on 19 March 2008 and is registered in Istanbul, Turkey under the Turkish Commercial Code.

Moonlight acquired 50,83% of Migros Türk Ticaret A.Ş. (“Migros Türk”) shares on 30 May 2008 from Koç Holding A.Ş. (“Koç Holding”) at a price of TRL 1.922.440 subsequent to the approval of the Competition Board. As of 31 December 2008, Moonlight increased its shares in Migros to 97,92% through purchases made in Istanbul Stock Exchange on various dates.

¹³² In accordance with the decision taken during Migros Türk’s general assembly held on 28 April 2009, Migros Türk decided to merge with Moonlight through a takeover of its assets and liabilities as a whole within the framework of Capital Markets Board (“CMB”) regulations, Turkish Commercial Code, Law No. 451, and other related articles and Corporate Tax Law No. 19-20. As a result of the mentioned merger, Moonlight’s capital was decided to be increased from TRL 174.323.340 to TRL 178.030.000 (Amount expresses in Turkish Lira) and in accordance with the merger agreement approved during the General Assembly, merger ratio of 0,97918 and share exchange ratio of 1,00 was determined. As a result of the merger, registered shares amounting to TRL 3.706.660 (Amount expresses in Turkish Lira) issued by Moonlight were distributed to the minority shareholders of Migros Türk in exchange for their Migros Türk shares.

The General Assembly held on 28 April 2009 regarding the merger was registered on 30 April 2009 and the merger had been legally recognised on that date. As a result of the merger, Moonlight’s trade name has been changed to Migros Ticaret A.Ş.

The Company and its subsidiaries together will be referred as “the Group”.

MH Perakendecilik ve Ticaret A.Ş (“MH”) transferred its Migros Ticaret A.Ş shares with the nominal value of TRL 27.371.000 to its parent company, Moonlight Capital S.A., in exchange for TRL 26 per share on 13 November 2014. MH Perakendecilik ve Ticaret A.Ş. (“MH”) transferred its Migros Ticaret A.Ş shares with the nominal value of TRL 26.937.336 to its parent company, Moonlight Capital S.A., in exchange for TRL 26 per share on 31 December 2014 (Amounts expresses in Turkish Lira). As a result of these transactions, as of 31 December 2014, the shareholding of “MH” and Moonlight Capital S.A. are 50,00% and 30,51%, respectively.

On 15 July 2015 Moonlight Capital S.A. sold 80,50% of the shares of MH Perakendecilik ve Ticaret A.Ş. which holds 50% of Migros Ticaret A.Ş. shares to Anadolu Endüstri Holding A.Ş. (“AEH”) With this transaction, the total shares directly and indirectly held by Moonlight Capital S.A. in the capital of the Company has decreased to 40,25% and the shares indirectly held by AEH in the Company have reached 40,25% as of July 15, 2015. As a result of the mentioned share purchase, the Group is jointly controlling by Moonlight Capital S.A. and AEH.

The Company is mainly engaged in the retail sales of food and beverages, consumer and durable goods through its Migros, M-Jet, 5M, M-Jet and Macrocenter banner stores in Turkey, shopping centers, Ramstores banner stores abroad and internet. The Company also rents floor space in the shopping malls to other trading companies. As of 31 December 2016, the Group operates in 1.605 stores in total (31 December 2015: 1.410) which comprise 1.590 retail stores and 15 wholesale stores with a total net space of 1.078.761 m² (2015: 1.016.118 m²) including 1.069.675 m² for retail and 9.086 m² for wholesale. As of 31 December 2016, the average number of employees is 21.438 (2015: 20.707). Retail is the main business segment of the Group and constitutes almost 97% of gross sales (2015: 97%).

The address of the registered office is as follows:

Atatürk Mah., Turgut Özal Blv.,
No: 7 Ataşehir İstanbul

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These consolidated financial statements have been approved for issue by the Board of Directors (“BOD”) on 9 March 2017 and signed by Ö. Özgür Tort, General Manager, and Erkin Yılmaz, Assistant General Manager, on behalf of the BOD. General Assembly of the Company and regulatory bodies have the right to amend the consolidated financial statements after the issue in the General Assembly meeting of the Company.

Subsidiaries

The Company has the following subsidiaries (the “Subsidiaries”). The nature of the business of the Subsidiaries and for the purpose of the consolidated financial statements, their respective geographical segments are as follows:

Subsidiaries	Country of incorporation	Geographical segment	Nature of business	December 2016 (%)	December 2015 (%)
Ramstore Bulgaria E.A.D. (“Ramstore Bulgaria”)	Bulgaria	Bulgaria	Dormant	100,0	100,0
Ramstore Kazakhstan LLC (“Ramstore Kazakhstan”)	Kazakhstan	Kazakhstan	Retailing	100,0	100,0
Ramstore Macedonia DOO (“Ramstore Macedonia”)	Macedonia	Bulgaria	Retailing	99,0	99,0
Sanal Merkez Ticaret A.Ş. (“Sanal Merkez”) ^(*)	Turkey	Turkey	Dormant	100,0	100,0

^(*) Not included in the scope of consolidation on the grounds of materiality.

In line with the Group’s long term growth strategies, the Group signed a share purchase agreement with Tesco Overseas Investments Limited (“Seller”) on 10 June 2016 for the purchase of Seller’s shares representing approximately 95,50% of the total share capital of Tesco Kipa Kitle Pazarlama Ticaret Lojistik ve Gıda Sanayi A.Ş. (“Kipa”). In accordance with the share purchase agreement and the latest annual financial statements of Kipa dated 29 February 2016, the total price of shares was calculated as TRL 302.287 as of the agreement date (10 June 2016). In order to obtain the necessary legal permission, an application was made to the Competition Authority on 21 June 2016 and the related application was approved on 9 February 2017. Following the adjustments based on the estimated annual closing balance sheet of Kipa (28 February 2017) the total purchase price of shares was determined as TRL 199.012 and paid to the Seller on the transfer date (1 March 2017). This amount will be subject to a final price adjustment in accordance with the definitive audited annual closing balance sheet of Kipa. As explained in Note 31, the Group has taken over the management control Kipa as of 1 March 2017 and the financial statements of Kipa will be subject to full consolidation in the consolidated financial statements of Migros as of 31 March 2017. Retail is the main operation of the acquired business.

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

2.1.1 Basis of preparation and presentation of financial statements

The consolidated financial statements are prepared in accordance with Communiqué Serial II, No:14.1, “Principles of Financial Reporting in Capital Markets” (the Communiqué) published in the Official Gazette numbered 28676 on 13 June 2013. According to Article 5 of the Communiqué, consolidated financial statements are prepared in accordance with the Turkish Accounting Standards (TAS) issued by Public Oversight Accounting and Auditing Standards Authority (POAASA). TAS contains Turkish Accounting Standards, Turkish Financial Reporting Standards (TFRS) and its addendum and interpretations. The consolidated financial statements of the Group are prepared as per the CMB announcement of 7 June 2013 relating to financial statements presentations. Comparative figures are reclassified, where necessary, to conform to changes in the presentation of the current year’s consolidated financial statements.

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(Amounts expressed in thousands of Turkish Lira (“TRL”) unless otherwise indicated.)

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In accordance with the CMB resolution issued on 17 March 2005, listed companies operating in Turkey are not subject to inflation accounting effective from 1 January 2005. Therefore, the consolidated financial statements of the Group have been prepared accordingly.

The Company and its Turkish subsidiaries, associates and joint ventures maintain their books of accounts and prepare their statutory financial statements in accordance with the Turkish Commercial Code (“TCC”), tax legislation, the Uniform Chart of Accounts issued by the Ministry of Finance and principles issued by CMB. The foreign subsidiaries maintain their books of account in accordance with the laws and regulations in force in the countries in which they are registered. These consolidated financial statements have been prepared under historical cost conventions except for financial assets and financial liabilities which are carried at fair value. The consolidated financial statements are based on the statutory records, which are maintained under historical cost conventions, with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with TAS.

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2.1.2 Changes in the accounting policies, estimates and errors

Significant changes in accounting policies and accounting errors are applied retrospectively and prior period financial statements are restated. The effect of changes in accounting estimates affecting the current period is recognised in the current period; the effect of changes in accounting estimates affecting current and future periods is recognised in the current and future periods.

2.1.3 Functional and reporting currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated financial statements are presented in TRL, which is the functional currency of Migros Ticaret A.Ş. and the reporting currency of the Group.

Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- Income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions),
- All resulting exchange differences are recognised in other comprehensive income.

2.2 Summary of significant accounting policies

Accounting policies applied by subsidiaries can be changed in order to convenience with the accounting policies applied by the Group. Accounting policies which applied to preparation of consolidated financial statements are summarized is as follows:

(a) Basis of consolidation

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

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Subsidiaries are companies over which Migros Ticaret has capability to control the financial and operating policies for the benefit of Migros Ticaret, through the power to exercise more than 50% of the voting rights relating to shares in the companies owned direct and indirect by itself having the power to exercise control over the financial and operating policies.

Intercompany transactions, balances and unrealised gains on transactions between the group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of parent.

When the group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities.

The table below sets out all Subsidiaries and demonstrates their shareholding structures:

Direct and indirect shareholding by Migros or its subsidiaries (%)

Subsidiary	2016	2015
Ramstore Bulgaria ⁽¹⁾	100,00	100,00
Ramstore Kazakhstan	100,00	100,00
Ramstore Macedonia	99,00	99,00
Sanal Merkez ⁽²⁾	100,00	100,00

⁽¹⁾ Ramstore Bulgaria closed down its three stores and ceased its retail operations as of March 2007.

⁽²⁾ Sanal Merkez are excluded from the scope of consolidation on the grounds of materiality. The subsidiary has been classified and accounted for as financial assets in the consolidated financial statements (Note 5).

(b) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a basis within other operating income or other operating expenses.

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Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

(c) Revenue

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. The specific accounting policies for the group's main types of revenue are explained below:

Sales of goods - Retail

The Group operates in the retail sales of food and beverages, consumer and durable goods through its stores, shopping centers, Ramstores Banner abroad and internet sales. Sales of goods are recognised when a group entity sells a product to a customer. Retail sales are usually made against a cash or credit card payment.

Sales of goods - Wholesale

Revenue from the sales of goods is recognised when a group entity has delivered products to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products were shipped to the specified location, the risks of obsolescence and loss were transferred to the wholesaler, the wholesaler accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has an objective evidence that all criteria for acceptance are satisfied. Sales are recorded based on the price specified in the sales contracts, net of the discounts if available and returns at the time of sale.

Rent revenue

The Group recognises rent income on accrual basis based on the agreement.

(d) Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost is determined primarily on the basis of the weighted average cost method. For processed inventories, cost includes direct materials, direct labor and the applicable allocation of fixed and variable overhead costs based on a normal operating capacity. Revenues and discounts from suppliers, sales premiums and advertising participation fees are accounted on an accrual basis and booked against cost of inventories.

(e) Property, plant and equipment

Property, plant and equipment obtained are carried at the cost less accumulated depreciation and, if any, impairment. Depreciation is provided over the economic useful lives for property, plant and equipment on a straight-line basis. Since land does not have definite useful lives, land is not depreciated.

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The depreciation period for property, plant and equipment which approximate the economic useful lives of such assets, are as follows:

	Useful Lives (Years)
Buildings	25-50
Leasehold improvements	over period of lease ^(*)
Machinery and equipment	4-10
Furniture and fixtures	5-12
Motor vehicles	4-8

^(*) Leasehold improvements include the expenses made for the leased properties and are depreciated over the shorter of the lease term and their useful lives.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The increase in the carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

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Expenses for repair and maintenance of property, plant and equipment are normally charged to the income statement. They are, however, capitalized and depreciated through the estimated useful life of the property, plant and equipment in exceptional cases if they result in an enlargement or substantial improvement of the respective assets.

(f) Intangible assets

Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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Brands

Brands that are acquired separately are accounted for at their acquisition cost, and brands that are acquired as a part of business combination are accounted for at their fair value in the consolidated financial statements. The Group assessed the useful life of brand as indefinite since there is no foreseeable limit to the period over which a brand is expected to generate net cash inflows for the Group. A brand is not subject to amortisation as it is considered to have an indefinite useful life. A brand is tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount when the carrying amount of the brand exceeds its recoverable amount.

Rent agreements

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Rent agreements are designated as intangible assets by the Group and consist of taken over rent agreements of the stores that purchased. Lease contracts are recorded at their fair values at the date of purchase, and amortised during the contract period.

Computer softwares (Rights)

Rights arising on computer software are recognised at its acquisition cost. Computer software is amortised on a straight-line basis over their estimated useful lives and carried at cost less accumulated amortization. The estimated useful life of computer software is 5 years.

Internally-generated intangible assets and development expenditures

Expenditure on research activities is recognized as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

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Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

(g) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

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(h) Financial assets

Classification

The group classifies its financial assets in the following categories:

- Financial assets at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

Reclassification

The group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

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Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Measurement

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At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- For financial assets at fair value through profit or loss' - in profit or loss within other income or other expenses
- For available-for-sale financial assets that are monetary securities denominated in a foreign currency - translation differences related to changes in the amortised cost of the security are recognised in profit or loss and other changes in the carrying amount are recognised in other comprehensive income
- For other monetary and non-monetary securities classified as available-for-sale - in other comprehensive income

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognised in profit or loss as part of revenue from continuing operations when the group's right to receive payments is established.

Interest income from financial assets at fair value through profit or loss is included in the net gains/(losses). Interest on available-for-sale securities, held-to-maturity investments and loans and receivables calculated using the effective interest method is recognised in the statement of profit or loss as part of revenue from continuing operations.

Details on how the fair value of financial instruments is determined are disclosed in Note 30.

Impairment

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

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Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

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Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Income recognition

Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Dividends

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits.

(1) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

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(i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See Note 2.2 (h) for further information about the group's accounting for trade receivables and impairment policies.

(j) Trade payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 90 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

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(k) Borrowings and borrowing costs

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(l) Earnings per share

Earnings per share presented in the consolidated statement of income are determined by dividing consolidated net income attributable to that class of shares by the weighted average number of such shares outstanding during the year concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issued without a corresponding change in resources by giving them retroactive effect for the year in which they were issued and for each earlier period.

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(m) Subsequent events

Subsequent events are composed of any event between the balance sheet date and the publication date of the balance sheet, even if they arise after any announcements of profits or other financial data.

The Group restates its consolidated financial statements if such subsequent events arise.

(n) Provisions, contingent liabilities and contingent assets

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Contingent liabilities are assessed continuously to determine whether the possibility of an outflow of resources embodying economic benefits is probable. When the possibility of an outflow of resources embodying economic benefits is probable for the accounts classified as contingent liabilities, provision is provided in the financial statements for related contingent liabilities except for the situations there is not a reliable estimation.

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The Group discloses the contingent liabilities that are probable but there is not a reliable estimation for the amount of resources embodying economic benefits.

Assets that result from previous events that cannot be controlled fully by the Group and depend on the realization of one or more uncertain events, is considered as a contingent asset. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(o) Leases

The Group as lessee

Operational lease

Leases where the lesser retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. These include rent agreements of premises, which are cancellable subject to a period of notice. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

The Group as lessor

Operational leases

The Group presents assets subject to operating leases in the balance sheets according to their nature. Lease income from operating leases is recognized in income on a straight-line basis over the lease term. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Operating leases are amortized based on their cost after deducting their residual values.

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(p) Related parties

Parties are considered related to the Group if;

(a) directly, or indirectly through one or more intermediaries, the party:

- (i) controls, is controlled by, or is under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries);
- (ii) has an interest in the Company that gives it significant influence over the Company; or
- (iii) has joint control over the Company;

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(b) the party is an associate of the Company;

(c) the party is a joint venture in which the Company is a venture;

(d) the party is member of the key management personnel of the Company or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e);

(g) the party has a defined benefit plan for the employees of the Company or a related party of the Company.

Related party transactions are transfer of resources or obligations between related parties, regardless of whether a price is charged.

(r) Segment reporting

The operating segments are evaluated in parallel to the internal reporting and strategic sections presented to the organs or persons authorised to make decisions regarding the activities of the Group. The organs and persons authorised to make strategic decisions regarding the Group’s activities with respect to the resources to be allocated to these sections and their evaluation are defined as the Group’s senior managers of the Group. The Group’s senior managers follow up the Group’s activities on a geographical basis (Note 3).

(s) Government incentives and grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

(t) Investment properties

Buildings held for rental yields or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business are classified as “investment property”. Investment properties are carried at cost less accumulated depreciation and any accumulated impairment losses. Investment properties are depreciated with the straight-line depreciation method over their useful lives that until 50 years (Note 11).

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Investment properties are reviewed for impairment losses. Where the carrying amount of the investment property is greater than the estimated recoverable amount, it is written down to its recoverable amount. The recoverable amount of the investment property is the higher of future net cash flows from the recognised of this investment property or fair value less cost to sell.

(u) Income taxes

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes have been calculated on a separate-entity basis.

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The current income tax payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(v) Employee termination benefits

Defined Benefit Plan

In accordance with existing social legislation in Turkey, the Group companies operating in Turkey are required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

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In the consolidated financial statements, the Group has reflected a liability using the Projected Unit Credit Method and based upon estimated inflation rates and factors derived using the Group's experience of personnel terminating their services and being eligible to receive such benefits and discounted by using the current market yield at the balance sheet date on government bonds.

Defined Contribution Plan

The Group pays contributions to the Social Security Institution of Turkey on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are accrued.

¹⁴⁶ (y) Cash flow statement

Cash flows during the period are classified and reported by operating, investing and financing activities in the cash flow statements.

Cash flows from operating activities represent the cash flows of the Group generated from retailing activities.

Cash flows related to investing activities represent the cash flows that are used in or provided from the investing activities of the Group (fixed investments and financial investments).

Cash flows arising from financing activities represent the cash proceeds from the financing activities of the Group and the repayments of these funds.

Cash and cash equivalents comprise cash on hand and bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash with maturities equal or less than three months and which are subject to an insignificant risk of changes in value (Note 4).

(z) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(aa) Derivatives and hedging activities

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in profit or loss within finance costs, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in profit or loss within other operating income or other operating expenses.

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

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The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 6. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

(ab) Dividend

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Dividend income from investments is recognised when the shareholder's right to receive payment has been established. As a part of distribution of dividends, dividend liabilities are reflected to consolidated financial statements as liabilities, on the period of declaration.

(ac) Paid in capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(ad) Share premium

Share premium represents differences resulting from the sale of the Company's Subsidiaries' and Associates' shares at a price exceeding the face value of those shares or differences between the face value and the fair value of shares issued for acquired companies (Note 25).

(ae) Deferred finance income/charges

Deferred finance income/charges represent imputed finance income/charges on credit sales and purchases. Such income/charges calculated by using the effective interest method are recognised as financial income or expenses over the period of credit sale and purchases, and included under financial income and expenses.

2.3 Critical accounting estimates and assumptions

The preparation of financial statements necessitates the use of estimates and assumptions that affect asset and liability amounts reported as of the balance sheet date, explanations of contingent liabilities and assets; and income and expense amounts reported for the accounting period. Although these estimates and assumptions are based on all management information related to the events and transactions, actual results may differ from them. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities for the next reporting period are outlined below.

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(a) Goodwill impairment test

As explained in related accounting policy, the Group performs impairment tests on goodwill annually at 31 December. The recoverable amount of the cash generating unit has been determined based on the fair value less costs to sell calculations. Those calculations are based on discounted net cash flow after tax projections which are based on the Group's eight-year business plans. Those projections are calculated in terms of TRL and the growth rate expected to be realized after eight years is assumed to be nil. Discount rate used to calculate the present value of net cash flows is 9,09% (2015: 9,40%) annually, after tax, and includes the Group's specific risk factors as well (Note 14).

(b) Impairment on leasehold improvements

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As explained in related accounting policy, property, plant and equipment are carried at the cost less accumulated depreciation and, if any, impairment. The Group evaluates its operational performance on a store-by-store basis and each store's continuity depends on the discounted net cash flow projections. Those cash flow projections are calculated, on a consistent basis to the Group's five year business plans and on a store-by-store basis by taking into consideration the remaining useful life of each store. In this context, the Group executed an impairment estimate on the leasehold improvements on stores by considering the continuity of each store.

(c) Impairment on intangible assets

As explained in related accounting policy, intangible assets such as trademarks and other intangible assets with indefinite useful lives are not amortised. Instead, those assets are tested whether there is impairment on the carrying amount of them. The Group performs this test for intangible assets by comparing the brand's carrying amount to the discounted cash flow projections of the assets which are calculated on the basis of the Group's five year business plans. The Group has performed an impairment test on intangible assets at 31 December 2016 and has identified impairment on brand as a result of this test (Note 13).

(d) Provisions

As explained in related accounting policy, provisions are recognized when the Group has a present legal or enforced obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when reliable estimate can be made of the amount of the obligation. In this context, the Group has evaluated the legal proceedings and damage claims raised against in courts as at 31 December 2016 and for the ones where the Group estimates more than 50% probability of losing the cases in courts, necessary provisions are accounted for in the consolidated financial statements (Note 16).

2.4 Comparative information and restatement of prior period financial statements

The Group's consolidated financial statements have been prepared in comparison with the previous period in order to give accurate trend analysis regarding the financial position and performance. In compliance with the presentation of financial statements comparative informations are reclassified and significant changes are explained when necessary.

The Group has reassessed the square meters of stores which are used for the purpose of retail operations and earning rent revenue and accordingly following reclassifications have been made by the Group management in the 31 December 2015 consolidated balance sheet with the purpose of comparable presentation with the consolidated balance sheets as of 31 December 2016:

Land and buildings amounting to TRL 87.723 which were accounted for under "Property, plant and equipment" in the consolidated balance sheet as of 31 December 2015 have been classified into "Investment properties".

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2.5 New and Revised Turkish Accounting Standards

a) The new standards, amendments to published standards and interpretations effective applicable as of 31 December 2016:

- TFRS 14 “Regulatory deferral accounts”, effective from annual periods beginning on or after
- 1 January 2016. TFRS 14, “Regulatory deferral accounts” permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt TFRS. However, to enhance comparability with entities that already apply TFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items.
- Annual improvements 2014, effective from annual periods beginning on or after 1 January 2016. These set of amendments impacts 4 standards:
 - TFRS 5, “Non-current assets held for sale and discontinued operations” regarding methods of disposal.
 - TFRS 7, “Financial instruments: Disclosures”, (with consequential amendments to TFRS 1) regarding servicing contracts.
 - TAS 19, “Employee benefits” regarding discount rates.
 - TAS 34, “Interim financial reporting” regarding disclosure of information.
- Amendment to TFRS 11, “Joint arrangements” on acquisition of an interest in a joint operation, effective from annual periods beginning on or after 1 January 2016. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.
- Amendments to TAS 16, “Property, plant and equipment”, and TAS 41, “Agriculture”, regarding bearer plants, effective from annual periods beginning on or after 1 January 2016. These amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. It has been decided that bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of TAS 16, instead of TAS 41. The produce growing on bearer plants will remain within the scope of TAS 41.
- Amendment to TAS 16, “Property, plant and equipment” and IAS 38, “Intangible assets”, on depreciation and amortisation, effective from annual periods beginning on or after 1 January 2016. In this amendment the it has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. It is also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.
- Amendments to TAS 27, “Separate financial statements” on the equity method, effective from annual periods beginning on or after 1 January 2016. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.
- Amendment to TFRS 10, “Consolidated financial statements” and TAS 28, “Investments in associates and joint ventures”, effective from annual periods beginning on or after 1 January 2016. These amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.
- Amendment to TAS 1, “Presentation of financial statements” on the disclosure initiative, effective from annual periods beginning on or after 1 January 2016, these amendments are as part of the TASB initiative to improve presentation and disclosure in financial reports

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b) Standards and amendments issued but not yet effective as of 31 December 2016:

- Amendments to TAS 7, “Statement of cash flows” on disclosure initiative, effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the TASB’s Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.
- Amendments TAS 12, “Income Taxes”, effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset’s tax base. It also clarifies certain other aspects of accounting for deferred tax assets.
- 150 • Amendments to TFRS 2, “Share based payments” on clarifying how to account for certain types of share-based payment transactions, effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in TFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee’s tax obligation associated with a share-based payment and pay that amount to the tax authority.
- TFRS 9, “Financial instruments”, effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in TAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.
- TFRS 15, “Revenue from contracts with customers”, effective from annual periods beginning on or after 1 January 2018. TFRS 15, “Revenue from contracts with customers” is a converged standard from the TASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.
- Amendment to TFRS 15, “Revenue from contracts with customers”, effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The TASB has also included additional practical expedients related to transition to the new revenue standard.
- TFRS 16, “Leases”, effective from annual periods beginning on or after 1 January 2019, This standard replaces the current guidance in TAS 17 and is a far-reaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). TFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a “right-of-use asset” for virtually all lease contracts. The TASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the TASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under TFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As the date of financial statements approval, following standards, interpretations and changes has been published as draft by the POAASA.

- TFRS 9 “Financial instruments”

The Group will evaluate the effects of new and revised standards and interpretations on its operations and will be implemented after its effective date.

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2.6 Going concern

The consolidated financial statements of the Group have been prepared assuming that the Company and subsidiaries will continue as a going concern on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.

2/3 of the Group’s share capital and legal reserves are not covered due to accumulated losses. The Board of Directors is responsible for summoning the General Assembly as per Article 376 “Capital Loss, Liabilities in Excess of Assets” of Turkish Commercial Code (“TCC”) No. 6102. The Group management has evaluated the measures to be presented in the Ordinary General Assembly of 2016.

Acquisition of Kipa

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As explained in Note 1, in line with the Group’s long term growth strategies, the Group signed a share purchase agreement with Tesco Overseas Investments Limited (“Seller”) on 10 June 2016 for the purchase of Seller’s shares representing approximately 95,50% of the total share capital of Tesco Kipa Kitle Pazarlama Ticaret Lojistik ve Gıda Sanayi A.Ş. (“Kipa”). In accordance with the share purchase agreement and the latest annual financial statements of Kipa dated 29 February 2016, the total price of shares was calculated as TRL 302.287 as of the agreement date (10 June 2016). In order to obtain the necessary legal permission, an application was made to the Competition Authority on 21 June 2016 and the related application was approved on 9 February 2017. Following the adjustments based on the estimated annual closing balance sheet of Kipa (28 February 2017) the total purchase price of shares was determined as TRL 199.012 and paid to the Seller on the transfer date (01 March 2017). This amount will be subject to a final price adjustment in accordance with the definitive audited annual closing balance sheet of Kipa.

As a result of the preliminary work performed by the Group management, it is expected that the fair value of the assets to be acquired will be significantly higher than the purchase price and a negative goodwill (acquisition profit) will be recognised. Therefore, the mentioned transaction will significantly bolster to the equity of the Group.

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Offsetting accumulated losses with legal reserves and share premiums

The Group has share premium of TRL 678.233 and legal reserves amounting to TRL 439.138 in consolidated financial statements as at 31 December 2016. The Group management plans to offset the accumulated losses amounting to TRL 803.376 with the share premiums and legal reserves subsequent to the Ordinary General Assembly of 2016.

NOTE 3 - SEGMENT REPORTING

Management determines the operating segments based on the reports analyzed and found effective in strategic decision making by the Board of Directors.

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Management assesses the Group's performance on a geographic level as Turkey and other countries since the gross sales of these subsidiaries are below 10% of the Group sales. Reportable operating segment revenue comprises primarily retail sales, rent income and wholesales. Rent income and wholesale revenues are not recognized as reportable segments as they are not stated in detail in the reports provided to the board of directors. The board of directors assesses the performance of the operating segments based on a measure of Earning Before Interest, Tax, Depreciation and Amortisation, "EBITDA" and Earning Before Interest, Tax, Depreciation, Amortisation and Rent, "EBITDAR". The Group calculates the EBITDA by deducting general administrative expenses and selling, marketing and distribution expenses and adding depreciation expenses, unused vacation liability paid in current period, employee termination benefit provision expense, unused vacation liability expense on gross profit amount in consolidated statements of income.

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The segment information provided to the board of directors as of 31 December 2016 and 2015 is as follows:

a) Segment analysis as of 31 December 2016:

	Turkey	Other countries	Combined total	Intersegment eliminations	Total
External revenues	10.723.229	335.995	11.059.224	-	11.059.224
Inter segment revenues	5.448	-	5.448	(5.448)	-
Sales revenue	10.728.677	335.995	11.064.672	(5.448)	11.059.224
Cost of sales	(7.850.928)	(252.202)	(8.103.130)	5.448	(8.097.682)
Gross profit	2.877.749	83.793	2.961.542	-	2.961.542
Marketing expenses	(2.120.690)	(55.355)	(2.176.045)	-	(2.176.045)
General administrative expenses	(314.346)	(34.636)	(348.982)	-	(348.982)
Addition: Depreciation and amortisation expenses	181.874	17.642	199.516	-	199.516
Addition: Provision for employment termination benefits	13.737	-	13.737	-	13.737
Addition: Employment termination benefits paid	19.474	-	19.474	-	19.474
Addition: Unused vacation pay liability	17.135	-	17.135	-	17.135
EBITDA	674.933	11.444	686.377	-	686.377
Addition: Rent expenses	535.187	18.204	553.391	-	553.391
EBITDAR	1.210.120	29.648	1.239.768	-	1.239.768

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b) Segment analysis as of 31 December 2015:

	Turkey	Other countries	Combined total	Intersegment eliminations	Total
External revenues	8.961.762	428.067	9.389.829	-	9.389.829
Inter segment revenues	4.717	-	4.717	(4.717)	-
Sales revenue	8.966.479	428.067	9.394.546	(4.717)	9.389.829
Cost of sales	(6.541.695)	(327.202)	(6.868.897)	4.717	(6.864.180)
Gross profit	2.424.784	100.865	2.525.649	-	2.525.649
Marketing, selling and distribution expenses	(1.761.570)	(72.097)	(1.833.667)	-	(1.833.667)
General administrative expenses	(275.204)	(45.427)	(320.631)	-	(320.631)
Addition: Depreciation and amortisation expenses	159.749	26.152	185.901	-	185.901
Addition: Provision for employment termination benefits	12.181	-	12.181	-	12.181
Addition: Employment termination benefits paid	19.717	-	19.717	-	19.717
Addition: Unused vacation pay liability	12.986	-	12.986	-	12.986
EBITDA	592.643	9.493	602.136	-	602.136
Addition: Rent expenses	457.196	23.082	480.278	-	480.278
EBITDAR	1.049.839	32.575	1.082.414	-	1.082.414

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A reconciliation of EBITDA figure to income before tax is provided as follows:

	2016	2015
EBITDAR reported segments	1.239.768	1.082.414
Rent expenses	(553.391)	(480.278)
EBITDA reported segments	686.377	602.136
Depreciation and amortisation	(199.516)	(185.901)
Provision for employee termination benefits	(13.737)	(12.181)
Termination benefits paid	(19.474)	(19.717)
Unused vacation provision	(17.135)	(12.986)
Other operating income	108.694	80.906
Other operating expense (-)	(205.054)	(188.625)
Operating profit	340.155	263.632
Income from investing activities	1.154	1.326
Expense from investing activities (-)	(44.210)	(211.462)
Operating profit before finance income/(expense)	297.099	53.496
Financial income	52.316	46.555
Financial expense (-)	(576.526)	(446.035)
Loss before tax	(227.111)	(345.984)

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Segment assets and liabilities

The figures provided to the board of directors with respect to total assets and liabilities are measured in a manner consistent with the consolidated financial statements. These assets and liabilities are allocated based on the operations of the segment and the physical location of the asset.

	2016	2015
Turkey	6.107.267	5.518.843
Other countries	312.671	322.164
Segment assets	6.419.938	5.841.007
Less: Inter-segment eliminations	(82.534)	(80.290)
Total assets per consolidated financial statements	6.337.404	5.760.717

	2016	2015
Turkey	5.992.561	5.153.497
Other Countries	122.595	107.897
Segment liabilities	6.115.156	5.261.394
Less: Inter-segment eliminations	(18.907)	(16.663)
Total liabilities per consolidated financial statements	6.096.249	5.244.731

Segment information of capital expenditures as of 31 December 2016 and 2015:

	2016	2015
Turkey	280.981	264.657
Other countries	16.226	15.872
	297.207	280.529

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NOTE 4 - CASH AND CASH EQUIVALENTS

	2016	2015
Cash	63.438	46.233
Banks		
- demand deposit ^(*)	110.003	61.152
- time deposit	434.666	292.375
Cheques in collection	137	70
Other cash and cash equivalents	547.698	439.594
	1.155.942	839.424

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^(*) The Group transfers the cash in its stores registers to the bank on a daily basis. In accordance with the bank agreements, transferred cash amounts have temporary blockages for a certain period of time. As of 31 December 2016, a cash amount of TRL 84.719 in bank accounts is temporarily blocked due to the mentioned cash transfer. (2015: TRL 52.318)

Weighted average effective interest rates on TRL and EURO denominated time deposits as of 31 December 2016 are 11,1% and 2,0% respectively (2015: 12,8% and 1,5%)

Other cash and cash equivalents consist of credit card receivables. Credit card receivables with a maturity of less than one month are discounted at 31 December 2016 with annual rate of 8,4% (2015: 11,5%)

The maturity analysis of time deposits at 31 December 2016 and 2015 is as follows:

	2016	2015
1 - 30 days	359.617	290.573
31 - 90 days	75.049	1.802
91 - 180 days ^(*)	714	4.085
	435.380	296.460

^(*) Related amount indicating the bank deposits with 90-180 days maturity recognised as cash fund by the Group (Note 5).

NOTE 5 - FINANCIAL INVESTMENTS

Short term financial investments

	2016	2015
Time deposit ^(*)	714	4.085
	714	4.085

^(*) Related amount indicating the bank deposits with 90-180 days maturity recognised as cash fund by the Group.

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Long term financial investments

	2016	2015
Long term available for sale investments Financial assets - (Unlisted financial assets)	1.165	1.165
	1.165	1.165

Unlisted financial assets

	2016		2015		157
	TRL	Share (%)	TRL	Share (%)	
Sanal Merkez Ticaret A.Ş.	1.165	100,00	1.165	100,00	

As explained in Note 1, the subsidiary that is not included in the scope of consolidation on the grounds of materiality has been accounted at cost less impairment as of 31 December 2016.

NOTE 6 - DERIVATIVE INSTRUMENTS

Short term derivative instruments

	2016	2015
Foreign currency options	602	-
	602	-

Long term derivative instruments

	2016	2015
Cap option	18	422
	18	422

The Group entered into a number of foreign currency options with banks in order to hedge its exchange rate risk. As at the settlement date, the Group sells TRL and purchases Euro at agreed strike prices.

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The fair values of the foreign exchange contracts as of 31 December 2016 are as follows:

	Euro amount to be purchased	TRL amount to be sold	Fair value (TRL)
Foreign currency options	6.000	25.500	602

The Group entered into several interest cap contracts with banks in order to hedge its interest rate risk. The details and fair values of contracts as of 31 December 2016 and 2015 are as follows:

158 2016:

	Agreement type	Transaction date	Effective date	Expiration date	Derivative instrument amount (EUR)	Fair value (TRL)
Current assets	Foreign currency option	22 June 2016	24 June 2016	31 May 2017	2,5 million	118
	Foreign currency option	22 June 2016	24 June 2016	31 May 2017	2,5 million	441
	Foreign currency option	22 June 2016	24 June 2016	31 May 2017	1 million	43
Non-current assets	Interest cap	23 July 2015	26 Nov 2015	28 May 2018	35,2 million	3
	Interest cap	23 July 2015	24 Nov 2015	29 May 2018	281,3 million	14
	Interest cap	27 July 2015	24 Nov 2015	29 May 2018	35,2 million	1

2015:

	Agreement type	Transaction date	Effective date	Expiration date	Derivative instrument amount (EUR)	Fair value (TRL)
Current assets	Cap	21 Nov 2014	28 Nov 2014	30 Nov 2016	360 million	-
Non-current assets	Cap	23 July 2015	24 Nov 2015	29 May 2018	281,3 million	358
	Cap	23 July 2015	26 Nov 2015	28 May 2018	35,2 million	32
	Cap	27 July 2015	24 Nov 2015	29 May 2018	35,2 million	32

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NOTE 7 - TRADE RECEIVABLES AND PAYABLES

Trade receivables:

	2016	2015
Receivables from tenants and wholesale activities	55.511	45.639
Doubtful receivables	36.966	32.748
Notes receivables	585	2.256
Due from related parties (Note 26)	600	496
Less: Provision for doubtful receivables	(34.998)	(31.057)
Less: Unearned finance income on term sales	(226)	(237)
	58.438	49.845

The maturity of trade receivables are generally less than one month as of 31 December 2016 and they were discounted with the annual rate of 8,4% (2015: 11,0%).

Movement of provision for doubtful receivables is as follows:

1 January 2015	25.410
Current year charge	3.611
Collections and reversals	(254)
Currency translation differences	2.290
31 December 2015	31.057
1 January 2016	31.057
Current year charge	1.709
Collections and reversals	(252)
Currency translation differences	2.484
31 December 2016	34.998

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Trade payables:

	2016	2015
Supplier current accounts	2.492.767	2.094.948
Due to related parties (Note 26)	175.170	146.099
Expense accruals	23.137	11.102
Unincurred finance cost on term purchases	(27.415)	(24.345)
	2.663.659	2.227.804

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The maturity of trade payables is generally less than three months and they are discounted with annual rate of 9,2 % as of 31 December 2016 (2015: 9,9 %)

NOTE 8 - OTHER RECEIVABLES AND PAYABLES

Short term other receivables

	2016	2015
Receivables from personnel	7.106	4.639
Receivables from insurance companies	863	1.285
Other	289	-
	8.258	5.924

Long term other receivables

	2016	2015
Deposits and guarantees given	2.280	2.035
	2.280	2.035

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Other short term payables

	2016	2015
Other taxes and funds payable	25.586	21.345
Value added tax payables ("VAT")	24.067	9.263
Credit card bills collection account ^(*)	15.364	10.834
	65.017	41.442

^(*) Majority of the payables above consist of related banks' credit card bill collections made in the stores. The collections have the maturity of less than one month.

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Long term other payables

	2016	2015
Deposits and guarantees received	3.629	3.181
	3.629	3.181

NOTE 9 - INVENTORIES

	2016	2015
Raw materials	7.276	7.191
Work in progress	8.762	5.244
Trade goods	1.271.713	1.106.184
Other	1.208	1.325
Less: Provision for impairment	(16.207)	(15.571)
	1.272.752	1.104.373

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NOTE 10 - PREPAID EXPENSES AND DEFERRED REVENUES

Short term prepaid expenses

	2016	2015
Prepaid rent expenses	17.690	14.468
Prepaid insurance expenses	10.160	7.939
Advances given	3.197	2.744
Prepaid other expenses	3.745	6.314
	34.792	31.465

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Long term prepaid expenses

	2016	2015
Advances given for property, plant and equipment	20.241	3.379
Prepaid rent expenses	8.593	15.049
	28.834	18.428

Short term deferred revenues

	2016	2015
Customer cheques	27.805	20.711
Deferred revenues	4.611	3.686
	32.416	24.397

Long term deferred revenues

	2016	2015
Deferred revenues	4.592	850
	4.592	850

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NOTE 11 - INVESTMENT PROPERTY

	1 January 2016	Additions	Disposal	Impairment (*)	Transfers (**)	Currency translation difference	31 December 2016
Cost							
Land and buildings	193.943	3.170	(4.600)	-	11.361	4.246	208.120
Accumulated depreciation							
Buildings	(47.538)	(4.572)	1.558	(8.136)	(5.171)	458	(63.401)
Net book value	146.405						144.719

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	1 January 2015	Additions	Transfers (***)	Currency translation difference	31 December 2015
Cost					
Land and buildings	170.396	4.743	17.463	1.341	193.943
Accumulated depreciation					
Buildings	(34.791)	(4.073)	(6.189)	(2.485)	(47.538)
Net book value	135.605				146.405

(*) The Group has performed impairment analysis for its investment properties and concluded that carrying amount of investment properties exceed its net recoverable amount by TRL 8.136. As a result, provision for impairment has been accounted for under expenses from investment activities (Note 21).

(**) The Group has reassessed the square meters of stores which are used for the purpose of retail operations and earning rent revenue in Samal Shopping and property, plant and equipment which has net book value of TRL 6.190 transferred to investment properties.

(***) Ankara Ankamall Shopping Mall Center was transferred from property, plant and equipment to investment property. As of 31 December 2016 the total rentable area is 6.741 m² (2015: 6.741 m²) and its fair value is TRL 61.850 (2015: TRL 61.850). The mentioned fair value is determined according to the real estate valuation report dated March 2015 of Ekol Gayrimenkul Değerleme ve Danışmanlık A.Ş. The mentioned fair value is determined as an appropriate reconciliation of the "Direct capitalization" and "Market value" methods.

Depreciation expenses of investment property in the period have been accounted for under general administrative expenses.

Investment properties of the Group consist of rented area to other retailers in Samal shopping mall, Tastak store in Kazakhstan and Skopje shopping mall in Macedonia. At 31 December 2016, total investment property of Kazakhstan and Macedonia are 2.857 and 9.364 m² respectively (2015: Kazakhstan 6.150 m², Macedonia 8.043 m²). In the last quarter of 2016, the average rent area decreased due to the refurbishment at Ramstore Samal Shopping Mall Center in Kazakhstan.

Fair value of the investment properties in Kazakhstan and Macedonia are TRL 38.319 and TRL 102.540 (2015: Kazakhstan TRL 38.319, Macedonia TRL 102.540). The mentioned fair values are determined according to real estate valuation report dated December 2016 of TSKB Gayrimenkul Değerleme A.Ş. The mentioned fair values are determined with the "Discounted cash flow" method.

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There is no mortgage or pledge on the investment properties of the Group as of 31 December 2016.

The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounted to TRL 21.228 (2015: TRL 22.159). Direct operating expenses arising on the investment property in the period include maintenance and repair costs which amounted to TRL 4.151 (2015: TRL 5.061).

The total fair value of the investment properties is TRL 202.709 and it is TRL 57.990 higher than the carrying net book value in the interim condensed consolidated financial statements as of 31 December 2016.

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT

164 Movement of property, plant and equipments period ended at 31 December 2016 is as follows;

	1 January 2016	Additions	Disposals	Impairment ⁽¹⁾	Transfers	Currency translation differences	31 December 2016
Cost							
Land and buildings	382.910	6.396	(336)	-	(7.936)	8.813	389.847
Leasehold improvements	516.389	44.268	-	(12.528)	22.504	2.985	573.618
Machinery and equipments	617.634	78.070	(24.253)	-	38.918	5.353	715.722
Motor vehicles	2.173	818	(920)	-	348	181	2.600
Furniture and fixtures	317.621	29.821	(5.195)	-	13.352	5.046	360.645
Construction in progress	22.579	98.769	-	-	(95.753)	1.823	27.418
	1.859.306	258.142	(30.704)	(12.528)	(28.567)	24.201	2.069.850
Accumulated depreciation							
Buildings	(68.658)	(5.447)	15	(24.608)	5.044	(4.317)	(97.971)
Leasehold improvements	(207.794)	(54.819)	-	9.226	-	(1.597)	(254.984)
Machinery and equipments	(234.987)	(73.394)	19.677	-	127	(4.190)	(292.767)
Motor vehicles	(1.158)	(417)	677	-	-	(56)	(954)
Furniture and fixture	(126.086)	(30.232)	4.222	-	-	(2.745)	(154.841)
	(638.683)	(164.309)	24.591	(15.382)	5.171	(12.905)	(801.517)
Net book value	1.220.623						1.268.333

⁽¹⁾ The Group has performed impairment analysis for its property, plant and equipment and concluded that carrying amount of investment properties exceed its net recoverable amount by TRL 24.608. As a result, provision for impairment has been accounted for under expenses from investment activities. Furthermore impairment loss amounting to TRL 3.302 consists of leasehold improvements of the stores closed in 2016 (Note 21).

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Movement of property, plant and equipments for the period ended as of 31 December 2015 is as follows;

	1 January 2015	Additions	Disposals	Impairment ^(*)	Transfers	Currency translation differences	31 December 2015
Cost							
Land and buildings	391.944	15.082	-	-	(17.337)	(6.779)	382.910
Leasehold improvements	539.917	57.686	-	(31.252)	(42.013)	(7.949)	516.389
Machinery and equipments	544.833	63.104	(22.770)	-	42.849	(10.382)	617.634
Motor vehicles	2.489	379	(630)	-	-	(65)	2.173
Furniture and fixtures	278.484	32.370	(4.503)	-	12.136	(866)	317.621
Construction in progress	25.388	79.395	-	-	(83.211)	1.007	22.579
	1.783.055	248.016	(27.903)	(31.252)	(87.576)	(25.034)	1.859.306
Accumulated depreciation							
Buildings	(57.164)	(19.348)	-	-	6.189	1.665	(68.658)
Leasehold improvements	(226.365)	(49.379)	-	24.518	39.470	3.962	(207.794)
Machinery and equipments	(196.705)	(65.190)	20.553	-	-	6.355	(234.987)
Motor vehicles	(1.253)	(388)	485	-	-	(2)	(1.158)
Furniture and fixture	(102.379)	(27.243)	3.538	-	-	(2)	(126.086)
	(583.866)	(161.548)	24.576	24.518	45.659	11.978	(638.683)
Net book value	1.199.189						1.220.623

^(*) Impairment loss amounting to TRL 6.734 consists of leasehold improvements of the stores closed in 2015 (Note 21).

There is no pledges on property, plant and equipments as of 31 December 2016 and 2015. Depreciation expenses related to property, plant and equipment have been accounted under general administrative expenses. The total fair value of land and buildings owned by the Group in Turkey, Kazakhstan and Macedonia is TRL 670.972 as of 31 December 2016. The mentioned fair values are determined according to real estate valuation reports of Denge Gayrimenkul ve Danışmanlık A.Ş., Ekol Gayrimenkul Değerleme ve Danışmanlık A.Ş., Nova Taşınmaz Değerleme ve Danışmanlık A.Ş. and TSKB Gayrimenkul Değerleme A.Ş. which were conducted during year 2015. The mentioned fair values are mainly determined according to "Comparison with peers" method. Total fair value of land and buildings are TRL 379.096 higher than the carrying net book value in the consolidated financial statements as of 31 December 2016.

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NOTE 13 - INTANGIBLE ASSETS

Movement of intangible assets period ended at 31 December 2016 is as follows;

	1 January 2016	Additions	Business combination ⁽⁴⁾	Transfers	Currency translation differences	31 December 2016
Cost						
Trademark	-	-	2.787	-	-	2.787
¹⁶⁶ Rent agreements ⁽²⁾	32.982	-	-	-	-	32.982
Rights	109.205	25.200	3.082	17.206	1.197	155.890
Other intangible assets ⁽³⁾	87.214	4.435	-	-	-	91.649
	229.401	29.635	5.869	17.206	1.197	283.308
Accumulated amortisation						
Rent agreements ⁽²⁾	(30.147)	(959)	-	-	-	(31.106)
Rights	(54.471)	(27.613)	-	-	(923)	(83.007)
Other intangible assets ⁽³⁾	(60.094)	(2.063)	-	-	-	(62.157)
	(144.712)	(30.635)	-	-	(923)	(176.270)
Net book value	84.689					107.038

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Movement of intangible assets period ended at 31 December 2015 is as follows;

	1 January 2015	Additions	Disposals	Impairment loss ⁽¹⁾	Transfers	Currency translation differences	31 December 2015
Cost							
Trademark ⁽¹⁾	202.175	-	-	(202.175)	-	-	-
Rent agreements ⁽²⁾	32.982	-	-	-	-	-	32.982
Rights	71.071	27.220	(375)	-	12.232	(943)	109.205
Other intangible assets ⁽³⁾	28.783	550	-	-	57.881	-	87.214
	335.011	27.770	(375)	(202.175)	70.113	(943)	229.401
Accumulated amortisation							
Rent agreements ⁽²⁾	(28.401)	(1.746)	-	-	-	-	(30.147)
Rights	(38.562)	(16.541)	375	-	-	257	(54.471)
Other intangible assets ⁽³⁾	(18.631)	(1.993)	-	-	(39.470)	-	(60.094)
	(85.594)	(20.280)	375	-	(39.470)	257	(144.712)
Net book value	249.417					84.689	

⁽¹⁾ IFRS 3, "Business Combinations", requires the acquirer at the acquisition date to allocate the cost of a business combination by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values as at that date.

The fair value of Tansaş trademark which was considered as an identifiable intangible asset by the Group was determined by the relief from royalties method and estimated the fair value of the trademarks in the amount of TRL 202.175 at the acquisition date 30 May 2008. This amount has been accounted for as an intangible asset in the consolidated financial statements. Since the trademark does not have a definite useful life and it is foreseen that certain expenses will be incurred each year in order to maintain its value, it is considered as an intangible asset with an indefinite useful life and therefore has not been amortised. Additionally, the Group assesses the intangible assets with indefinite useful lives annually for any indication of impairment.

In order to provide operational benefits, mainly starting from the second quarter of the year 2015, the Group has started to operate its 204 Tansaş stores under Migros-MigrosJet banner. In this context, according to the impairment test made as of 31 December 2015, no fair value of Tansaş trademark is determined by using the "Relief from Royalties" method. The impairment value in Tansaş trademark is calculated in the amount of TRL 202.175 and recognized under "expenses from investment activities" in profit and loss table for the year ended 31 December 2015.

⁽²⁾ The Group determined the value of the benefit derived from the lease contracts of MMM and Maxi stores, which were designated as intangible assets, at an amount of TRL 32.982 and was accounted for under the intangible assets in the consolidated financial statements. Lease contracts are recorded at their fair values at the date of purchase, and amortised during the contract period.

⁽³⁾ On 24 July 2008 the Group purchased all of the furniture and fixtures of local retail chain Maxi Market's Silivri, Tekirdağ and Çengelköy stores, with a total sales area of 13.000 m², from Hamoğlu Yönetim Organizasyonu Personel Taşınacılık ve Yemek Üretim Hizmetleri İşletmecilik A.Ş. and also took over the rent agreements of the mentioned stores. The purchase cost in the amount of TRL 10.297 which exceeds the fair value of the purchased furniture and fixtures has been accounted for as an intangible asset and has been amortised over the rent agreement period.

On 10 March 2009, the Group purchased all of the furniture and fixtures of 7 stores belonging to Mak Gıda Pazarlama San. ve Tic. A.Ş., ("Mak Gıda") a local retail chain operating in Gaziantep region, with a total sales area of 9.592 m² and on 12 February 2009 the Group purchased all of the furniture and fixtures of 21 stores belonging to Yonca Marketçilik ve İnş. Hiz. San. ve Tic. A.Ş. ("Yonca"), a local retail chain mainly operating in Adana region, with a total sales area of 17.480 square meters and also took over the rent agreements of the mentioned stores. The excess amount of the consideration given over the fair value of acquired assets in the total amount of TRL 18.486, TRL 601 for the Mak Gıda and TRL 17.885 for Yonca, respectively- was accounted for under other intangible assets and has been amortised over the rent agreement period.

⁽⁴⁾ In order to increase Macrocenter's structure and operational experience, on 22 November 2016, the Group has acquired the intangible assets' of Tazedirekt A.Ş. ("Tazedirekt"), an online food retailer firm. As of the transaction date, the fair value of the acquired trademark based on cost model amounting to TRL 2.787, has been accounted for under intangible assets in the consolidated financial statements. Since the trademark does not have a definite useful life and it is foreseen that certain expenses will be incurred each year in order to maintain its value, it is considered as an intangible asset with an indefinite useful life and therefore has not been amortised. Besides, as of the transaction date, the fair value of acquired software based on cost model amounting to TRL 3.082 has been accounted for under intangible assets in the consolidated financial statements.

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Amortisation expenses related to intangible assets have been accounted under general administrative expenses.

NOTE 14 - GOODWILL

	2016	2015
Opening balance	2.251.427	2.251.427
Additions	1.565	-
Closing balance	2.252.992	2.251.427

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The details of the calculation of goodwill are as follows:

a) On 30 May 2008, Moonlight acquired 50,83259% of the shares of Migros, which operates in the retail sector, from Koç Holding. Moonlight Capital SA signed a share transfer agreement regarding this acquisition in February 2008 on behalf of Moonlight. Dividends paid to Koç Holding by Migros amounting to TRL 53.626 were deducted from the sales price determined on the share transfer agreement and the consideration determined as TRL 1.923.740 was paid in cash on the closing date. The transfer of the shares of Migros to Moonlight succeeding Moonlight Capital SA has been completed on 30 May 2008 for TRL 1.923.740. As a result of the price adjustment defined in share transfer agreement, price difference amounting to TRL 1.300 has been realised on behalf of Moonlight and this amount has been paid in August.

Pursuant to Communiqué Serial IV No. 8 on Principles Regarding Proxy Voting at Shareholders' Meetings of Publicly Held Joint Stock Corporations Exercising Proxy Solicitation and Tender Offers, the Company purchased 30,76% of the shares of Migros in consideration of the sum of TRL 1.148.553 from other shareholders of Migros in August 2008, prior to the call for tender realised between 6 October and 20 October 2008; and between those dates, in compliance with the call liability, purchased 16,31% of shares in Migros in consideration of the sum of TRL 637.212.

Acquisitions mentioned above have been collectively considered in goodwill calculation. The fair values of plant property and equipment acquired as a result of the acquisition of Migros Türk shares, have been determined through the best estimate of the management and included in the consolidated financial statements.

Net assets acquired by Migros and the details of the calculation of goodwill are as follows:

Total acquisition cost	3.708.205
Net asset acquired	(1.468.995)
Goodwill	2.239.210

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b) The Group, acquired Ades Gıda San. ve Tic A.Ş., Amaç Gıda Tic ve San A.Ş. and Egeden Gıda Tüketim ve Tic. A.Ş. at 31 July 2010.

Net assets acquired by Migros and the details of the calculation of goodwill are as follows:

Total acquisition cost	14.886
Net asset acquired	(2.669)
Goodwill	12.217

c) The Group, acquired intangible assets of Tazedirekt A.Ş. with the total acquisition cost of TRL 6.260. Net assets acquired and the details of the calculation of goodwill are as follows:

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Total acquisition cost	6.260
Net asset acquired	(4.695)
Goodwill	1.565

Total acquisition cost does not include any other costs except explained above. Fair value of acquired assets as of the acquisition date is as follows:

Intangible assets	5.869
Deferred tax liability	(1.174)
Total acquisition cost, net	4.695

Impairment tests for goodwill

The whole amount of goodwill is related to the acquisition of Migros Türk, the Group management considers the synergy to be created by the important domestic market position as the main reason for the goodwill. Accordingly, the Group management allocated the above mentioned goodwill amount to Turkish domestic operations which is the main cash generating unit, considering its market share and importance of the total turnover of the domestic operations in the Group consolidation.

The recoverable amount of cash-generating unit was determined based on value-in-use calculations. These value-in-use calculations include the discounted after tax cash flow projections, which are based on TRL budgets approved by management covering an eight year period. The growth rate expected to be realized after eight years is assumed to be nil and in the preparation of these analysis it has been assumed by the management that existing profitability of the Company will be maintained.

The Group management determined the budgeted gross profit margin by taking into consideration the previous performance of the company and the market growth expectations. The discount rate 9,09% used is the after tax discount rate and includes the company-specific risks. The fact that the after-tax discount rate used in the calculation of discounted cash flows is higher/lower by 100 basis points (such as 8,09% or 10,09% instead of 9,09%) causes a decrease/increase of TRL 648.516 (2015: TRL 838.667) in the fair value calculations for which sales costs are deducted, as of 31 December 2015. Within the context of analysis performed by the Management, above mentioned changes in the key assumptions on which recoverable amount is based would not cause carrying amount to exceed its recoverable amount.

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NOTE 15 - FINANCIAL LIABILITIES

	31 December 2016		Total TRL equivalent
	Effective interest rate	In original currency	
Short term borrowings			
With fixed interest rate - TRL	14,34%	102.012	102.012
Total short term borrowings			102.012
Current portion of long term borrowings			
With floating interest rate - EUR	5,25%	53.336	197.873
With fixed interest rate - TRL	13,93%	40.312	40.312
With fixed interest rate - EUR	15,00%	31.086	328
Total current portion of long term bank borrowings			238.513
Total short term bank borrowings			340.525
Non-current bank borrowings			
With floating interest rate - EUR	5,25%	638.317	2.368.091
With fixed interest rate - TRL	13,93%	233.274	233.274
With fixed interest rate - Tenge	15,00%	2.050.000	21.646
Total non-current bank borrowings			2.623.011
Total financial liabilities			2.963.536

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The redemption schedule of bank borrowings with effective interest rate at 31 December 2016 is as follows:

	Tenge loan TRL equivalent	Euro loan TRL equivalent	TRL Loan (TRL equivalent)	Total (TRL equivalent)
1 January 2017- 31 December 2017	328	197.873	142.324	340.525
1 January 2018- 31 December 2018	1.031	323.296	47.173	371.500
1 January 2019- 31 December 2019	4.123	401.754	47.966	453.843
1 January 2020- 31 December 2020	4.123	432.475	44.135	480.733
1 January 2021- 31 December 2021	4.123	455.609	39.843	499.575
1 January 2022- 31 December 2022	4.123	484.381	36.231	524.735
1 January 2023 - 24 October 2023	4.123	270.576	17.926	292.625
	21.974	2.565.964	375.598	2.963.536

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The fair value of bank borrowings at 31 December 2016 is TRL 2.987.487.

The redemption schedule of principal amounts of bank borrowings at 31 December 2016 is as follows:

	Tenge loan TRL equivalent	Euro loan TRL equivalent	TRL Loan (TRL equivalent)	Total (TRL equivalent)
1 January 2017- 31 December 2017	-	76.479	108.096	184.575
1 January 2018- 31 December 2018	1.031	229.411	24.285	254.727
1 January 2019- 31 December 2019	4.123	350.468	37.100	391.691
1 January 2020- 31 December 2020	4.123	430.117	45.532	479.772
1 January 2021- 31 December 2021	4.123	509.793	53.967	567.883
1 January 2022- 31 December 2022	4.123	605.367	64.084	673.574
1 January 2023 - 24 October 2023	4.123	366.394	38.786	409.303
	21.646	2.568.029	371.850	2.961.525

As per the resolution of the Board of Directors for the refinancing the Company's current debt of Euro 830 million, an agreement has been signed on 30 April 2015 between Migros Ticaret A.Ş. and Türkiye Garanti Bankası A.Ş., Türkiye İş Bankası A.Ş., Akbank T.A.Ş., Türkiye Sınai Kalkınma Bankası A.Ş. and Commercial Bank of Qatar (Q.S.C) for EUR 730 million and EUR 100 million equivalent of TRL with a maturity of 8 years and semi-annual interest payment and amortization. Furthermore, an additional EUR 100 million facility is provided to the Company valid for 8 years for any potential working capital requirements in the future.

With respect to long term bank loans, all Migros Ticaret A.Ş. shares owned by MH Perakendecilik ve Ticaret A.Ş., Moonlight Capital S.A. and Kenan Investments S.A. were provided as collateral to the financial institutions as from the grant date of the loan. As of 31 December 2016, shares of Migros Ticaret A.Ş. which represents 80,51% of shares and amounting to TRL 143.323.336 (Express in Turkish Lira) nominal value (14.332.333.600 shares) owned by MH Perakendecilik ve Ticaret A.Ş., Moonlight Capital S.A. and Kenan Investments S.A. were pledged (31 December 2015: 14.332.333.600 shares representing 80,51%).

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The Group has an obligation to meet various covenants according to bank borrowings. The Group meets the covenant requirements which calculated on consolidated financial statement as of 31 December 2016.

With respect to current portion of non-current bank loans, the Group has made an early payment of EUR 10.307 and TRL 4.047 on 26 May 2016 relating to November 2016 instalment.

	31 December 2015		
	Effective interest rate	In original currency	Total TRL equivalent
172 Current portion of long term borrowings			
With floating interest rate - EUR	5,25%	53.746	170.783
With fixed interest rate - TRL	13,93%	41.733	41.733
With fixed interest rate - EUR	2,00%	124	394
Total current bank borrowings			212.910
Non-current bank borrowings			
With floating interest rate - EUR	5,25%	671.824	2.134.789
With fixed interest rate - TRL	13,93%	245.447	245.447
Total non-current bank borrowings			2.380.236
Total financial liabilities			2.593.146

The redemption schedule of TRL equivalents of bank borrowings with effective interest rate at 31 December 2015 is as follows:

	Euro Loan TRL equivalent	TRL Loan	Total TRL equivalent
1 January 2016 - 31 December 2016	171.177	41.733	212.910
1 January 2017- 31 December 2017	207.864	40.766	248.630
1 January 2018- 31 December 2018	263.064	41.391	304.455
1 January 2019- 31 December 2019	326.907	42.086	368.993
1 January 2020- 31 December 2020	351.906	38.725	390.631
1 January 2021- 31 December 2021	370.732	34.960	405.692
1 January 2022- 31 December 2022	394.145	31.791	425.936
1 January 2023 - 26 May 2023	220.171	15.728	235.899
	2.305.966	287.180	2.593.146

The fair value of bank borrowings at 31 December 2015 is TRL 2.611.799.

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NOTE 16 - PROVISIONS, COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions	2016	2015
Provision for litigation	27.105	30.172
Customer loyalty programs	567	528
Provision for tax penalty ⁽¹⁾	-	52.583
	<u>27.672</u>	<u>83.283</u>

There are various lawsuits filed against or in favour of the Group. Receivables, rent or labour disputes constitute the majority of these lawsuits. The Group management estimates the outcomes of these lawsuits and estimates their financial impact according to which the necessary provisions are accounted.

⁽¹⁾ A limited tax review has been conducted on the Group's Value Added Tax ("VAT") accounting treatment of wastages relating to goods purchased in 2008, 2009, 2010, 2011 and 2012. The tax review was finalized on November 2014 and a principal tax fine of TRL 27.484 (TRL 45.602 including the interest) was calculated following the objection raised in the Tax Review Report which argues that the amounts exceeding the shrinkage limits can not be treated as deductions in the tax accounts, therefore VAT relating to these purchased goods can not be subject to deduction. Therefore, a provision amounting to TRL 52.583 (TRL 27.484 for the principal part and TRL 25.099 for the interest charges) has been accounted for in the consolidated financial statements as of 31 December 2015. An application in accordance with the Law numbered 6736 on Restructuring of Public Receivables has been made on 6 October 2016. After restructuring, the Group has paid TRL 15.846 in total (TRL 13.742 principal and TRL 2.104 interest charges) on 24 November 2016. Therefore release of provision amounting to TRL 36.968 has been recognised as other operating income and interest charges of current period amounting to TRL 231 has been recognised as financial expenses in the consolidated financial statements as of 31 December 2016.

Movement of provision for lawsuits is as follows:

1 January 2015	26.578
Increase during period	10.057
Payments during period	(6.463)
31 December 2015	30.172
1 January 2016	30.172
Increase during period	5.169
Payments during period	(8.236)
31 December 2016	27.105

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Collaterals, Pledges, Mortgages

2016:

	TRL amount	Total TRL	USD	Euro
A. CPM given on behalf of the Company's legal personality	86.092	84.378	487	-
B. CPM given on behalf of fully consolidated subsidiaries	-	-	-	-
174 C. CPM given for continuation of its economic activities on behalf of third parties	-	-	-	-
D. Total amount of other CPM	-	-	-	-
i. Total amount of CPM given behalf of the majority shareholder	-	-	-	-
ii. Total amount of CPM given behalf of other group companies which are not in scope of B and C	-	-	-	-
iii. Total amount of CPM given behalf of third parties which are not in scope of C	-	-	-	-
Total collaterals, pledges and mortgages	86.092	84.378	487	-
Proportion of the other CPM's to equity (%)	0,0	-	-	-

2015:

	TRL amount	Total TRL	USD	Euro
A. CPM given on behalf of the Company's legal personality	82.958	81.585	472	-
B. CPM given on behalf of fully consolidated subsidiaries	-	-	-	-
C. CPM given for continuation of its economic activities on behalf of third parties	-	-	-	-
D. Total amount of other CPM	-	-	-	-
i. Total amount of CPM given behalf of the majority shareholder	-	-	-	-
ii. Total amount of CPM given behalf of other group companies which are not in scope of B and C	-	-	-	-
iii. Total amount of CPM given behalf of third parties which are not in scope of C	-	-	-	-
Total collaterals, pledges and mortgages	82.958	81.585	472	-
Proportion of the other CPM's to equity (%)	0,0	-	-	-

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Contingent assets and liabilities

Guarantees given at 31 December 2016 and 2015 are as follows:

	2016	2015
Letter of guarantees given	86.092	82.958
	<u>86.092</u>	<u>82.958</u>

Guarantees received at 31 December 2016 and 2015 are as follows:

	2016	2015
Guarantees obtained from customers	88.356	91.215
Mortgages obtained from customers	26.825	23.342
	<u>115.181</u>	<u>114.557</u>

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The future aggregate minimum lease payments under non-cancellable operating leases of land and stores are as follows. Amounts are expressed in the total amount to be paid by the end of the lease term although the time periods specified in the contracts in line with the vast majority of our stores early release have a right to give notice of the condition.

	2016	2015
Payable within 1 year	40.843	29.133
Payable in 1 to 5 years	10.017	6.128
5 years and more	-	366
	<u>50.860</u>	<u>35.627</u>

With respect to long term bank loans, all Migros Ticaret A.Ş. shares owned by MH Perakendecilik ve Ticaret A.Ş., Moonlight Capital S.A. and Kenan Investments S.A. were provided as collateral to the financial institutions as from the grant date of the loan. As of 31 December 2016, shares of Migros Ticaret A.Ş. which represents 80,51% of shares and amounting to TRL 143.323.336 (Express in Turkish Lira) nominal value (14.332.333.600 shares) owned by MH Perakendecilik ve Ticaret A.Ş., Moonlight Capital S.A. and Kenan Investments S.A. were pledged (31 December 2015: 14.332.333.600 shares representing 80,51%).

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NOTE 17 - EMPLOYEE BENEFITS

	2016	2015
Due to personnel	41.644	31.813
Social security deductions	34.617	15.380
	76.261	47.193

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	2016	2015
Provision for unused vacation	93.105	75.970
Provision for employment termination benefits	79.057	64.283
	172.162	140.253

Movement of provision for unused vacation is as follows:

1 January 2015	62.984
Increase during period	19.478
Payments during period	(6.492)
31 December 2015	75.970
1 January 2016	75.970
Increase during year	24.722
Payments during period	(7.587)
31 December 2016	93.105

Provision for employment termination benefits

Under the Turkish Labour Law, the Company is required to pay termination benefits to each employee who has completed one year of service and who reaches the retirement age, whose employment is terminated without due cause, is enlisted for military service or passed away. The termination benefit to be paid is one month wage per a service year up to the maximum employment termination benefit limit.

In the consolidated financial statements as of 31 December 2016 and 2015, the Group reflected a liability calculated using the projected unit credit method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds.

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The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of employees.

The following actuarial assumptions were used in the calculation of the total liability:

	2016	2015
Discount rate (%)	3,77	3,77
Turnover rate to estimate the probability of retirement (%)	82,88 - 100,00	79,77 - 100,00

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. As the maximum liability is revised once every six months, the maximum amount of TRL 4.426,16 effective from 1 January 2017 (1 January 2016: TRL 4.092,53) has been taken into consideration in calculating the reserve for employment termination benefit of the Group.

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In the calculation, the employees were separated into two groups based on the working years in the Group: 0-14 years and 15 years and above. The probability of retirement is used as 82,88% and 100% for the employees working 0-14 years and 15 years and above, respectively.

Movements in the provision for employment termination benefits are as follows:

1 January 2015	55.848
Increase during period	31.898
Payments during period	(19.717)
Actuarial gain	(3.746)
31 December 2015	64.283
1 January 2016	64.283
Increase during period	33.211
Payments during period	(19.474)
Actuarial gain	1.037
31 December 2016	79.057

The Company has signed a collective labour agreement with Tez-Koop İş Sendikası (labour union) for the period of 1 May 2014 and 30 April 2017.

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NOTE 18 - REVENUE

Details of domestic and foreign sales before other sales, discounts and returns are as follows:

	2016	2015
Domestic sales	10.979.857	9.210.030
Foreign sales	335.065	425.650
Other sales	14.492	15.648
¹⁷⁸ Gross sales	11.329.414	9.651.328
Discounts and returns (-)	(270.190)	(261.499)
Sales revenue, net	11.059.224	9.389.829
Cost of sales	(8.097.682)	(6.864.180)
Gross profit	2.961.542	2.525.649

Details of domestic and foreign sales before other sales, discounts and returns are as follows:

	2016	2015
Retail sales revenue	10.931.238	9.316.993
Rent income	297.591	242.074
Wholesale revenue	86.093	76.613
	11.314.922	9.635.680

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NOTE 19 - EXPENSE BY NATURE

Total	2016	2015
Staff costs	1.078.928	893.441
Rent	553.391	480.278
Depreciation and amortisation	199.516	185.901
Energy	137.402	126.566
Transportation	99.625	82.861
Porterage and cleaning	77.094	61.198
Advertising	71.139	65.626
Warehouse	69.352	55.804
Repair and maintenance	43.299	37.848
Mechanisation	28.879	25.733
Security	26.678	22.996
Taxes and other fees	14.727	14.455
Communication	10.408	9.631
Other	114.589	91.960
	2.525.027	2.154.298
Marketing, selling and distribution expenses	2016	2015
Staff costs	959.255	787.968
Rent	552.760	479.692
Energy	136.118	125.324
Transportation	99.625	82.861
Porterage and cleaning	74.749	59.306
Advertising	71.139	65.591
Warehouse	69.352	55.804
Repair and maintenance	42.700	37.235
Mechanisation	26.033	22.083
Security	25.640	22.135
Taxes and other fees	13.453	13.275
Communication	8.932	7.931
Other	96.289	74.462
	2.176.045	1.833.667

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General administrative expenses	2016	2015
Depreciation and amortisation	199.516	185.901
Staff costs	119.673	105.473
Other	29.793	29.257
	348.982	320.631

Expenses by nature in cost of sales for the year ended at 31 December 2016 and 2015 are as follows:

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	2016	2015
Cost of goods sold	8.066.073	6.833.376
Cost of service rendered	31.609	30.804
	8.097.682	6.864.180

Cost of trade goods include discounts, incentives and volume rebates obtained from suppliers. Service costs comprise energy, advertising, cleaning, security and administrative expenses incurred in the Group's shopping malls.

NOTE 20 - OTHER OPERATING INCOME AND EXPENSES

Other operating income	2016	2015
Interest income on term sales	40.931	39.510
Cancelled tax penalty provision (Note 16)	36.968	-
Interest income from operating activities	24.309	26.841
Other	6.486	14.555
	108.694	80.906

Other operating expenses	2016	2015
Interest expense on term purchases	178.324	160.520
Litigation provision	5.169	10.057
Bad debt provision expense	1.709	3.357
Other	19.852	14.691
	205.054	188.625

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NOTE 21 - INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES

	2016	2015
Income from investing activities		
Gain on sale of property, plant and equipment	1.154	1.326
	1.154	1.326
Expense from investing activities	2016	2015
Losses from impairment provision investment properties and property, plant and equipment	32.744	-
Loss on sale of property, plant and equipment (Note 11, 12)	8.164	2.023
Losses from leasehold improvements of closed stores (Note 12)	3.302	6.734
Impairment on intangible assets (Note 13)	-	202.175
Impairment on financial assets	-	530
	44.210	211.462

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NOTE 22 - FINANCIAL INCOME

	2016	2015
Foreign exchange gains	47.469	39.077
Interest income on bank deposits	4.245	1.758
Financial income on derivatives	602	5.720
	52.316	46.555

NOTE 23 - FINANCIAL EXPENSES

	2016	2015
Foreign exchange losses	391.350	278.887
Interest expense on bank borrowings	168.389	135.295
Financial expense on derivatives	768	4.788
Interest expense on tax penalty (Note 16)	231	8.080
Refinancing expense	-	8.969
Other	15.788	10.016
	576.526	446.035

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NOTE 24 - TAX ASSETS AND LIABILITIES

	2016	2015
Income tax payable	72.355	67.339
Less: Prepaid current income taxes	(52.403)	(57.744)
Taxes on income	19.952	9.595

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	2016	2015
Deferred tax assets	51.188	43.954
Deferred tax liabilities	(116.388)	(114.464)
Deferred tax liabilities, net	(65.200)	(70.510)

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated change based on the Group results for the period. Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, tax liabilities, as reflected in these consolidated financial statements, have been calculated on a separate-entity basis.

Turkey

In Turkey, corporation tax rate for the year 2016 is 20% (2015: 20%). Corporation tax is applied to the total income of the companies after adjusting for certain disallowable expenses, exempt income (participation exemption, investment exemption, etc.), investment and other allowances (R&D activities allowances etc.). No further tax is payable unless the profit is distributed (except withholding tax at the rate of 19,8% on the investment incentive allowance utilised within the scope of the Income Tax Law transitional article 61).

Except for the dividends paid to non-resident corporations, which have a representative office in Turkey, or resident corporations, dividends are not subject to withholding tax. Dividends paid to other organizations or individuals are subject to withholding tax at the rate of 15% .Transfer of profit to capital is not accepted as a dividend distribution.

Corporations are required to pay advance corporation tax quarterly at the rate of 20% on their corporate income (2015: 20%). Advance tax is declared by the 14th and paid by the 17th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. Despite the credit from annual corporation tax liability, if the company still has excess advance corporate tax, it can receive this balance in cash from the Government or as a credit for another financial debt to the Government.

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods.

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In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within the 25th of the fourth month following the close of the related financial year. Tax returns are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

There are numerous exemptions in the Corporation Tax Law concerning the corporations. Those related to the Company are as follows:

Domestic participation exemption:

Dividend income earned from investments in another company's shares is excluded in the calculation of the corporate tax (dividend income gained related to the participation in investment funds and investment trust shares is excluded).

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Preferential right certificate sales and issued premiums exemption:

New share issue premiums, which represent the difference between the nominal and sale values of shares issued by joint-stock companies, are exempt from corporation tax.

Foreign company participation exemption:

The participation income of corporations participating for at least one continuous year of 10% that does not have their legal or business centre in Turkey (except for corporations whose principal activity is financial leasing or investment of marketable securities) up until the date the income is generated and transferred to Turkey and until the date of the filing of the corporate income tax return of the fiscal year in which the income is generated is exempt from corporation tax subject to those subsidiaries being subject to corporate income tax, or alike in their country of legal or business centre at the rate of at least 15% (the corporate income tax rate applicable in Turkey for those companies whose principal activity is financial assurance or insurance).

Real estate, investment equity, preferential rights, usufruct shares, founding shares, sales exemption:

A 75% portion of corporations' profits from the sale of participation shares, founding shares, pre-emptive rights and property, which have been in their assets for at least for two years, is exempt from corporate tax provided that these profits are added to share capital and are not withdrawn within five years. Income from the sale is generated until the end of the second calendar year following the year in which sale was realized.

Tax exemption from software and R&D activities:

According to tax law, 100% of the expenses due to R&D activities incurred by corporate firms are exempt from tax basis.

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Other geographical segments

Effective tax rate of Kazakhstan, Bulgaria and Macedonia is 20%, 10%, 10% respectively (2015: 20%, 10%, 10%)

The details of taxation on income for the periods ended 31 December 2016 and 2015 are as follows:

	2016	2015
Current period income tax expense	(72.355)	(67.339)
Deferred tax income	6.548	42.870
Current period tax expense	(65.807)	(24.469)

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is applied as 10% from 24 April 2003 until 22 July 2006. This rate was changed to 15% commencing from 22 July 2006. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

Withholding tax at the rate of 19,8% is still applied to investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Subsequent to this date, investments without investment incentive certificates do not qualify for tax allowance.

	2016	2015
Loss before tax	(227.111)	(345.984)
Calculated tax income according to parent company tax rate (20%)	45.422	69.196
Differences in tax rate of subsidiaries	87	(5)
Expected tax expense of the Group	45.509	69.191
Effect of non-deductable expenses	(111.381)	(100.785)
Effect of exemptions for R&D	1.875	1.492
Effect of non-taxable incomes	444	346
Temporary differences which deferred tax not calculated	-	5.734
Other	(2.254)	(447)
Tax expense of Group	(65.807)	(24.469)

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Deferred income tax

The Group recognises deferred tax assets and liabilities based upon temporary differences arising between their financial statements prepared in accordance with TFRS and its statutory tax financial statements. Temporary differences generally arise due to the recording of incomes and expenses in different reporting periods according to Tax Laws and TAS. As of 31 December 2016 deferred income taxes will be calculated on temporary differences that are expected to be realized or settled based on the taxable income in the coming years under the liability method using a principal tax rate of 20%, 20%, 10% and 10% for Turkey, Kazakhstan, Bulgaria and Macedonia, respectively (31 December 2015: 20%, 20%, 10% and 10% respectively).

The composition of cumulative temporary differences and the related deferred income tax assets and liabilities in respect of items for which deferred income tax has been provided as of 31 December 2016 and 2015 using the currently enacted tax rates, is as follows:

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	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	2016	2015	2016	2015
Deferred tax assets:				
Short term provisions	131.094	106.142	26.219	21.228
Inventories	42.368	43.226	8.474	8.645
Provision for employee termination benefits	79.057	64.283	15.811	12.857
Unearned interest income	226	237	45	47
Other	3.194	5.886	639	1.177
			51.188	43.954
Deferred tax liabilities:				
Fair value changes of derivatives	620	422	(124)	(84)
Property, plant and equipment and intangible assets	580.921	578.929	(108.959)	(108.762)
Deferred finance expense	27.415	24.345	(5.483)	(4.869)
Other	9.108	3.745	(1.822)	(749)
			(116.388)	(114.464)
Deferred tax liability, net			(65.200)	(70.510)

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	2016	2015
Deferred tax assets will be utilised in more than 1 year	15.918	12.962
Deferred tax assets will be utilised in less than 1 year	35.270	30.992
	51.188	43.954
Deferred tax liabilities will be incurred in more than 1 year	(110.781)	(109.595)
Deferred tax liabilities will be incurred in less than 1 year	(5.607)	(4.869)
	(116.388)	(114.464)
Deferred tax liability, net	(65.200)	(70.510)
1 January 2015		(112.630)
Deferred tax expense from continuing operations		42.870
Accounted for under equity		(749)
Currency translation difference		(1)
31 December 2015		(70.510)
1 January 2016		(70.510)
Deferred tax income from continuing operations		6.548
Additions from business combinations		(1.174)
Accounted for under equity		207
Currency translation difference		(271)
31 December 2016		(65.200)

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NOTE 25 - CAPITAL, RESERVES AND OTHER EQUITY ITEMS

The Company’s authorised and issued capital consists of 17.803.000.000 shares at 1 shares of Kr1 nominal value as of 31 December 2016 (31 December 2015: 17.803.000.000 shares). All shares are paid-in and no privileges are given to different share groups and shareholders. MH Perakendecilik ve Ticaret A.Ş. (“MH”) transferred its Migros Ticaret A.Ş. shares with the nominal value of TRL 27.371.000 to its parent company, Moonlight Capital S.A., in exchange for TRL 26 per share on 13 November 2014 (Amounts express in Turkish Lira). MH Perakendecilik ve Ticaret A.Ş. (“MH”) transferred its Migros Ticaret A.Ş. shares with the nominal value of TRL 26.937.336 to its parent company, Moonlight Capital S.A., in exchange for TRL 26 per share on 31 December 2014. On 27 January 2016, Moonlight Capital S.A. conducted a sale transaction of shares, with all rights, obligations and encumbrances, held by Moonlight Capital S.A. in Migros Ticaret A.Ş. with a total nominal value of TRL 26.937.336 pursuant to the Accession Agreement dated 27 January 2016 for a price of TRL 26 per share to Kenan Investments S.A. which owns all of the shares of Moonlight Capital S.A (Amounts express in Turkish Lira). within the scope of intragroup share transfer. As a result of these transactions, the shareholding of MH, Moonlight Capital S.A. and Kenan Investments S.A. are 50,00%, 15,37% and 15,13%, respectively.

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The shareholders of the Company and their shareholdings stated at historical amounts at 31 December 2016 and 2015 are stated below:

	2016		2015	
	TRL	Share (%)	TRL	Share (%)
MH Perakendecilik ve Ticaret A.Ş.	89.015	50,00	89.015	50,00
Moonlight Capital S.A.	27.371	15,37	54.308	30,51
Kenan Investments S.A.	26.937	15,13	-	-
Other	34.707	19,49	34.707	19,49
Total	178.030	100,00	178.030	100,00

Restricted Reserves

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code (“TCC”), The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the Company’s paid-in capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in capital. On the other hand, in the event that it is decided to distribute the entire profit for the period as dividends, exclusively for this situation a second legal reserve is set aside at 9% for the portion exceeding 5% of the capital issue/paid from the net distributable profit for the period. Under the TCC, the legal reserves can be used only to offset losses and are not available for any other usage unless they exceed 50% of paid-in capital. In accordance with CMB Financial Reporting Standards, the Company classified the above mentioned amounts under “Restricted reserves”, the amount of restricted reserves is TRL 438.950 as of 31 December 2016 (2015: TRL 438.950).

In accordance with CMB accounting and financial reporting standards; TRL 65.816 is followed under a separate fund account in the Company’s legal books in order to benefit from the investment sales income exemption. To benefit from the exemption, the related profit has to be kept under this fund account for 5 years and should not be withdrawn during that period. The mentioned amount has been accounted for under “restricted reserves” account in accordance with the CMB accounting and transferred to “accumulated losses” account as of 31 December 2016.

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In accordance with the Communiqué Serial: II No:14.1 according to the CMB's announcements clarifying the said Communiqué, "Share Capital", "Restricted Reserves Allocated from Profit" and "Share Premiums" need to be recognized over the amounts contained in the legal records. The valuation differences (such as inflation adjustment differences) shall be disclosed as follows:

- if the difference is arising from the valuation of "Paid-in Capital" and not yet been transferred to capital should be classified under the "Inflation Adjustment To Share Capital";
- if the difference is arising from valuation of "Restricted Reserves" and "Share Premium" and the amount has not been subject to dividend distribution or capital increase, it shall be classified under "Retained Earnings". Other equity items shall be carried at the amounts calculated based on CMB Financial Reporting Standards.

¹⁸⁸ It was determined that there is no need to set aside first order legal reserves as the first order legal reserves reached 20% of capital in accordance with Turkish Commercial Code. Additionally, it was decided that there is no need to set aside second order legal reserves since no dividend was distributed in the current period.

Capital adjustment differences have no other use other than being transferred to share capital.

Dividend requirements applicable to listed companies regulated by CMB are as follows:

In accordance with the CMB Decision No. 02/51 and dated 27 January 2010, concerning allocation basis of profit from operations of 2009, minimum profit distribution will not be applied for the year 2013. According to the Board's decision and Communiqué No. IV-27 issued by the CMB regarding the allocation basis of profit of publicly owned companies, the distribution of the relevant amount may be realised as cash or as bonus shares (by adding the cash dividend to capital) or partly as cash and bonus shares; and in the event that the first dividend amount to be specified is less than 5% of the paid-up capital, the relevant amount can be retained within the Company.

In addition, according to the aforementioned Board decision, the entities which are required to prepare consolidated financial statements can provide the necessary amount from their statutory reserves; the distributable profit can be calculated based on the net income declared at the publicly announced consolidated financial statements in the accordance with Communiqué: II No:14.1.

Accordingly, if the amount of dividend distributions calculated in accordance with the net distributable profit requirements of the CMB does not exceed the statutory net distributable profit, the total amount of distributable profit shall be distributed. If it exceeds the statutory net distributable profit, the total amount of the statutory net distributable profit shall be distributed. It is stated that dividend distributions should not be made if there is a loss in either the consolidated financial statements prepared in accordance with CMB regulations or in the statutory financial statements.

Dividend paid

The Group did not distribute any dividend in 2016 from 2015 profits (2015: The Group did not distribute any dividend in 2015 from 2014 profits).

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Resources Subject to Dividend Distributions

In accordance with the Board Decision dated 9 January 2009, the total amount of net income after the deduction of accumulated losses at statutory records and reserves that can be subject to dividend distribution shall be disclosed in the notes to the financial statements which will be prepared and publicly announced in accordance with Communiqué II No:14.1. The concerning amount for Migros Ticaret A.Ş. is TRL 755.052. TRL 144.657 portion out of total amount will comprise the inflation effects of statutory equity items that are subject to taxation. The Company has no reserve that can be subject to dividend distribution in accordance with financial statements prepared in accordance with the accounting principles of TFRS. Decision of the dividend payment is determined by shareholders in General Assembly Meeting.

	2016	2015
Share capital	178.030	178.030
Balancing account for merger capital	27.312	27.312
Share premium	678.233	678.233
Actuarial gain loss	(9.180)	(8.350)
Cumulative translation differences	23.512	4.720
Restricted reserves	439.138	504.766
Other capital reserves	(365)	(365)
Retained earnings	(803.376)	(498.540)
Net loss	(292.969)	(370.464)
Attributable to equity holders of Group	240.335	515.342

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Merger of enterprises subject to common control

In accordance with the decision adopted during Migros Türk's general assembly held on 28 April 2009, Migros Türk has decided to merge with Moonlight through a takeover of its assets and liabilities as a whole within the framework of Capital Markets Board ("CMB") requirements, Turkish Commercial Code, Law No. 451, and other related articles and Corporate Tax Law No. 19-20. As a result of the mentioned merger, it has been decided to increase Moonlight's capital from TRL 174.323.340 to TRL 178.030.000 (Amounts expressed in Turkish Lira) and also in accordance with the merger agreement approved during the General Assembly, merger ratio of 0,97918 and share exchange ratio of 1,00 has been identified. As a result of the merger, registered shares amounting to TRL 3.706.660 (Amounts expressed in Turkish Lira) issued by Moonlight have been distributed to the shareholders of Migros Türk other than Moonlight in exchange for their Migros Türk shares.

On 30 April 2009 Istanbul Trade Registry Office has announced the registry of Migros Türk's general assembly held on 28 April 2009 and merger agreement on 06 May 2009 dated and 7305 numbered Trade Registry Gazette. As a result of the merger, Moonlight's trade name has been changed as Migros Ticaret A.Ş.

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NOTE 26 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a) Balances with related parties

Due from related parties	2016	2015
Anadolu Isuzu Otomotiv Sanayi ve Tic. A.Ş.	301	399
Çelik Motor Ticaret A.Ş.	153	-
Anadolu Motor Üretim ve Pazarlama A.Ş.	89	75
Other	57	22
	600	496
Due to related parties	2016	2015
Anadolu Efes Pazarlama ve Dağıtım Ticaret A.Ş.	86.990	65.908
Coca Cola Satış ve Dağıtım A.Ş.	43.799	37.889
Ana Gıda İhtiyaç Maddeleri San. ve Tic. A.Ş.	30.337	31.504
AEH Sigorta Acenteliği A.Ş.	5.458	4.465
Adel Kalemcilik Ticaret ve San. A.Ş.	5.303	4.376
AEH Anadolu Etap Penkon Gıda ve Tarım Ürünleri San. ve Tic. A.Ş.	3.279	1.756
Other	4	201
	175.170	146.099
Bank borrowings from related parties	2016	2015
Alternatifbank A.Ş. (*)	-	31.722
	-	31.722
Cash and due from related parties	2016	2015
Alternatifbank A.Ş. (*)	-	9.563
	-	9.563

(*) Since Anadolu Endüstri Holding A.Ş. ("AEH") has transferred all of its shares to third party as of 19 December 2016, therefore Alternatifbank has not qualified as related party after transaction date.

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b) Transactions with related parties

On 15 July 2015 Moonlight Capital S.A. sold 80,50% of the shares of MH Perakendecilik ve Ticaret A.Ş. which holds 50% of Migros Ticaret A.Ş. shares to Anadolu Endüstri Holding A.Ş. (“AEH”). After the transaction, AEH companies are defined as related party and transactions has been disclosed since 1 July 2015.

Inventory purchases	2016	2015
Anadolu Efes Paz. ve Dağıtım Ticaret A.Ş.	251.157	112.331
Coca Cola Satış ve Dağıtım A.Ş.	151.049	72.802
Ana Gıda İhtiyaç Maddeleri San. ve Tic. A.Ş.	98.737	38.060
AEH Anadolu Etap Penkon Gıda ve Tarım Ürünleri San. ve Tic. A.Ş.	17.972	3.735
Adel Kalemcilik Ticaret ve San. A.Ş.	3.938	3.679
Natura Gıda San. ve Tic. A.Ş.	-	823
	522.853	231.430
Other transactions	2016	2015
Rent revenue	624	1.337
Rent expenses	(2.975)	(1.167)
Other income	361	345
Other expenses	(80)	(16)
Other transactions, net	(2.070)	499
Interest income from related parties	2016	2015
Alternatifbank A.Ş. ^(*)	10.005	3.107
Other	-	1
	10.005	3.108
Interest paid to related parties	2016	2015
Alternatifbank A.Ş. ^(*)	1.748	750
	1.748	750

^(*) Since Anadolu Endüstri Holding A.Ş. (“AEH”) has transferred all of its shares to third party as of 19 December 2016, therefore Alternatifbank has not qualified as related party after transaction date.

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c) Key management compensation

The Group has determined key management personnel as chairman, members of Board of Directors, general manager and vice general managers.

Total compensation provided to key management personnel by Group for the period ended 31 December 2016 and 2015 is as follows:

	2016	2015
Short term benefits	16.168	14.284
	16.168	14.284

Key management compensation paid or payable consists of benefits, salaries, premiums, individual pension premiums, vehicle rents and SSI and employer shares.

NOTE 27 - EARNINGS/(LOSSES) PER SHARE

	2016	2015
Net loss attributable to shareholders	(291.091)	(370.464)
Weighted average number of shares with Kr1 face value each('000)	17.803.000	17.803.000
Loss per share	(1,65)	(2,08)

There is no difference between basic and diluted earnings per share for any of the periods.

NOTE 28 - FINANCIAL RISK MANAGEMENT

Financial risk management

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize their potential adverse effects on the financial performance of the Group.

Individual subsidiaries manage their risk under policies approved by their Boards of Directors.

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Interest rate risk

The Group management invests its interest bearing assets on short term investments with the principle of balancing the maturity of the assets and liabilities that are sensitive to the interest rate changes.

The weighted average effective interest rate of the Group's financial liabilities that are sensitive to interest is 5,25%. (2015: 5,25%. As of 31 December 2016, if interest rates on TRL, USD and Euro denominated borrowings had been 100 base point higher/lower with all other variables held constant, pre-tax profit for the year would have been TRL 2.464 (2015: TRL 2.350) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Interest rate positions of the Group at 31 December 2016 and 2015 are as follows:

	2016	2015
Financial instruments with fixed interest rate		
Time deposits	435.380	296.460
Financial liabilities	397.572	287.574
Financial instruments with floating interest rate		
Financial liabilities	2.565.964	2.305.572

Liquidity and funding risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

The funding risk of the current and future debt requirements is managed through the continuous availability of qualified lenders. As of 31 December 2016, the Group's financial debt with a maturity longer than 1 year is TRL 2.623.011 (2015: TRL 2.380.236) (Note 15).

The maturity analysis of the Group's financial liabilities as of 31 December 2016 is as follows:

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Financial liabilities (non-derivative):

	<u>Carrying value</u>	<u>Contractual cash outflows</u>	<u>Up to 3 months</u>	<u>3 months - 12 months</u>	<u>1 years - 5 years</u>	<u>Over 5 years</u>
Financial payables	2.963.536	3.689.059	4.101	354.475	2.183.930	1.146.553
Trade payables	2.663.659	2.691.051	2.194.567	496.484	-	-
Other payables	141.278	141.278	141.278	-	-	-
	<u>5.768.473</u>	<u>6.521.388</u>	<u>2.339.946</u>	<u>850.959</u>	<u>2.183.930</u>	<u>1.146.553</u>

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Derivative instruments:

	<u>Carrying value</u>	<u>Contractual cash outflows</u>	<u>Up to 3 months</u>	<u>3 months - 12 months</u>	<u>1 years - 5 years</u>	<u>Over 5 years</u>
Derivative cash inflows	620	-	-	-	-	-
Derivative cash outflows	-	-	-	-	-	-
	<u>620</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The maturity analysis of the Group's financial liabilities as of 31 December 2015 is as follows:

Financial liabilities (non-derivative):

	<u>Carrying value</u>	<u>Contractual cash outflows</u>	<u>Up to 3 months</u>	<u>3 months - 12 months</u>	<u>1 years - 5 years</u>	<u>Over 5 years</u>
Financial payables	2.593.146	3.364.874	-	215.525	1.332.488	1.816.861
Trade payables	2.227.804	2.252.149	1.813.321	438.828	-	-
Other payables	88.091	88.091	88.091	-	-	-
	<u>4.909.041</u>	<u>5.705.114</u>	<u>1.901.412</u>	<u>654.353</u>	<u>1.332.488</u>	<u>1.816.861</u>

Derivative instruments:

	<u>Carrying value</u>	<u>Contractual cash outflows</u>	<u>Up to 3 months</u>	<u>3 months - 12 months</u>	<u>1 years - 5 years</u>	<u>Over 5 years</u>
Derivative cash inflows	422	-	-	-	-	-
Derivative cash outflows	-	-	-	-	-	-
	<u>422</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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Credit risk

The Group is exposed to credit risk due to its sales other than retail sales. Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. These risks are monitored by credit ratings and by limiting the aggregate risk from any individual counterparty. The credit risk is generally highly diversified due to the large number of entities comprising the customer base.

The risk details of credits and receivables as of 31 December 2016 and 2015 are as follows. Amounts showing the maximum credit risk exposed as of the balance sheet date are disclosed by disregarding guarantees on hand and other factors that increase the credit quality.

	31 December 2016			
	Related party	Trade receivables Other	Other receivables Other	Deposits in bank
Maximum risk exposed credit risk as of reporting date (A+B+C)	600	57.838	10.538	545.383
Secured portion of maximum credit risk by guarantees	28	9.261	-	-
A. Net book value of financial assets either are not due or not impaired secured portion by guarantees	600 28	54.785 7.113	10.538 -	545.383 -
B. Financial assets with renegotiated conditions secured portion by guarantees	- -	- -	- -	- -
C. Net book value of the expired or not impaired financial assets secured portion with guarantees	- -	1.085 180	- -	- -
D. Impaired assets net book value over due (gross book value) impairment (-) secured portion of the net value by guarantees etc.	- - - -	1.968 36.966 (34.998) 1.968	- - - -	- - - -

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	31 December 2015			
	Related party	Trade receivables Other	Other receivables Other	Deposits in bank
Maximum risk exposed credit risk as of reporting date (A+B+C)	496	49.349	7.959	357.612
Secured portion of maximum credit risk by guarantees	36	8.670	-	-
¹⁹⁶ A. Net book value of financial assets either are not due or not impaired secured portion by guarantees	496 36	46.955 6.822	7.959 -	357.612 -
B. Financial assets with renegotiated conditions secured portion by guarantees	- -	- -	- -	- -
C. Net book value of the expired or not impaired financial assets secured portion with guarantees	- -	703 157	- -	- -
D. Impaired assets net book value over due (gross book value) impairment (-) secured portion of the net value by guarantees etc.	- - - -	1.691 32.748 (31.057) 1.691	- - - -	- - - -

As of today there are no uncollected, overdue, and renegotiated bank deposits nor credit card receivables present at the Group portfolio, thus the Group is in the opinion that there are no credit risks regarding these assets. The Group's past experience in collecting their receivables was taken into account while determining the provisions. Thus, the group does not consider of any further trade receivables risk other than the provision for possible collection losses.

a) Credit quality of financial assets

	2016	2015
Group 1	961	466
Group 2	64.467	54.824
Group 3	495	120
	65.923	55.410

Group 1 - New customers (Less than 3 months)

Group 2 - Existing customers with no defaults in the past (more than 3 months)

Group 3 - Existing customers with some defaults in the past of which were fully recovered

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b) Aging of the receivables which are overdue but not impaired

	2016	2015
0-1 months	581	504
1-3 months	462	107
3-12 months	41	31
1-5 year	1	61
	1.85	703

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c) Geographical concentration of the trade and other receivables

	2016	2015
Turkey	64.992	47.562
Other	3.984	10.242
	68.976	57.804

Net debt ratio as of 31 December 2016 and 2015 is as follows;

	2016	2015
Total liabilities	6.096.249	5.244.731
Less: Cash and cash equivalents	(1.155.942)	(839.424)
Deferred tax liabilities	(65.200)	(70.510)
Net debt	4.875.107	4.334.797
Equity attributable to holders of parent	240.335	515.342
Equity + net debt	5.125.778	4.850.139
	95,30%	89,37%

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NOTE 29 - EXCHANGE RATE RISK AND FOREIGN CURRENCY POSITION

Foreign currency risk

The Group is exposed to foreign exchange risk primarily arising from the borrowings denominated in foreign currencies. Aforementioned foreign exchange risk is monitored and limited with derivative instruments. At 31 December 2016, if Euro had appreciated against TRL by 10% and all other variables had remained constant, the loss for the period before tax as a result of foreign exchange rate difference arising out of assets and liabilities denominated in Euro would have been higher in the amount of TRL 238.137 (31 December 2015: 214.206 higher).

198 FOREIGN CURRENCY POSITION

	31 December 2016				31 December 2015			
	Total TRL equivalent	USD	Euro	Other TRL equivalent	Total TRL equivalent	USD	Euro	Other TRL equivalent
Trade receivables	765	217	-	-	622	214	-	-
Monetary financial assets	200.705	3.669	50.520	369	183.363	5.433	52.636	308
Other	2.246	638	-	-	2.339	804	-	3
Current assets	203.716	4.524	50.520	369	186.324	6.451	52.636	311
Total assets	203.716	4.524	50.520	369	186.324	6.451	52.636	311
Trade payables	6.394	1.817	-	-	5.390	1.427	278	359
Financial liabilities	197.873	-	53.336	-	171.177	-	53.870	-
Non-monetary other liabilities	-	-	-	-	6.332	2.178	-	-
Current liabilities	204.267	1.817	53.336	-	182.899	3.605	54.148	359
Financial liabilities	2.368.091	-	638.317	-	2.134.789	-	671.824	-
Non-monetary other liabilities	2.828	-	762	-	2.463	-	775	-
Non-current liabilities	2.370.919	-	639.079	-	2.137.252	-	672.599	-
Total liabilities	2.575.186	1.817	692.415	-	2.320.151	3.605	726.747	359

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FOREIGN CURRENCY POSITION

	31 December 2016				31 December 2015			
	Total TRL equivalent	USD	Euro	Other TRL equivalent	Total TRL equivalent	USD	Euro	Other TRL equivalent
Net asset/(liability) position of off-balance sheet derivatives (A-B)	-	-	-	-	-	-	-	-
A. Total amount of off-balance sheet derivative financial assets	-	-	-	-	-	-	-	-
B. Total amount of off-balance sheet derivative financial liabilities	-	-	-	-	-	-	-	-
Net foreign currency asset/ (liability) position	(2.371.470)	2.707	(641.895)	369	(2.133.827)	2.846	(674.111)	(47)
Net foreign currency asset/ (liability) position of monetary items	(2.370.888)	2.070	(641.133)	369	(2.127.371)	4.221	(673.336)	(50)
Fair value hedge funds of foreign currency	602	-	-	-	-	-	-	-
Hedge amount of foreign currency assets	-	-	-	-	-	-	-	-
Hedge amount of foreign currency liabilities	22.259	-	6.000	-	-	-	-	-
Export	-	-	-	-	-	-	-	-
Import	70.988	24.054	-	-	81.886	30.118	-	-

Foreign currency sensitivity analysis as of 31 December 2016 and 2015 is as follows:

2016

	Gain/Loss	
	Foreign exchange appreciation	Foreign exchange depreciation
10% change in Euro exchange rate		
Euro net asset/liability	(238.137)	238.137
Portion secured from Euro risk	-	-
Euro net effect	(238.137)	238.137

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2015

	Gain/Loss	
	Foreign exchange appreciation	Foreign exchange depreciation
10% change in Euro exchange rate		
Euro net asset/liability	(214.206)	214.206
Portion secured from Euro risk	-	-
Euro net effect	(214.206)	214.206

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NOTE 30 - FINANCIAL INSTRUMENTS

Fair value estimation

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

Effective 1 January 2009, the Group adopted the amendment to TFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

In the balance sheet, derivative instrument is the only item that is recognized at fair value. The fair value of derivative instrument is determined by using valuation technique, which can be regarded as Level 2. Apart from that, for disclosure purposes, the borrowings carried at the amortized cost at the balance sheet are presented with their values in Note 15. The fair value of borrowings for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate (Euribor) that is available to the Group for similar financial instruments that can be classified as level 2. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to the short-term nature of trade receivables and payables.

NOTE 31 - SUBSEQUENT EVENTS

As explained in Note 1, the application made to the Competition Authority in order to receive necessary legal permission of Kipa share transaction in accordance with the share purchase agreement dated 10 June 2016 was approved on 9 February 2017. Subsequently, the Group has taken over the control of Kipa's management on 1 March 2017 and the financial statements of Kipa will be subject to full consolidation in the consolidated financial statements of Migros as of 31 March 2017. Following the adjustments based on the estimated annual closing balance sheet of Kipa (28 February 2017) the total purchase price of shares was determined as TRL 199.012 and paid to the Seller on the transfer date (1 March 2017). This amount will be subject to a final price adjustment in accordance with the definitive audited annual closing balance sheet of Kipa as of 28 February 2017.

The Group obtained short term loan amounting to TRL 140.000 with 14,8% interest rate from Türkiye Garanti Bankası A.Ş., Türkiye İş Bankası A.Ş ve Akbank T.A.Ş on 22 February 2017 by drawing down on the existing lines in the facility agreement dated 30 April 2015.

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