

# MIGROS TÜRK T.A.Ş.

## corporate governance principles compliance report 2005

### Statement of Compliance with Corporate Governance Principles

Migros Türk T.A.Ş. adheres, as a matter of principle, to the “Corporate Governance Principles” that were adopted by the Capital Markets Board of Turkey (CMB) resolution 35/835 dated 4 July 2003 and publicly announced for the first time in July 2003. Migros is aware of the benefits that the execution of these principles will have for our Company, its stakeholders, and ultimately our country. The practical deficiencies are reviewed with a view to continuous improvement, and works are under way to weed out these shortcomings in order for our Company to be a model one in such issues.

### PART I: SHAREHOLDERS

#### Investor Relations-Investor Relations Unit

As a matter of policy, our Company attaches a great importance to investor relations. A unit that responds to the shareholders’ requests for information about the Company has been set up and works under the responsibility of the assistant general manager for financial affairs. This unit manages processes related to Company general meetings, share capital increases, and dividend payments. It also answers all shareholder questions about capital increases and dividend payments and handles all procedures related to such matters.

A structure has been set up that makes it possible for Migros shareholders who have not used the new share coupons or dividend coupons on the shares of stock they own and thus have not yet exercised their bonus stock options and/or claimed their dividend entitlements to perform these transactions quickly and securely.

This unit also responds to requests for information about the Company. Migros shareholders and brokerage analysts issuing Company reports are kept informed using as many channels of communication as possible such as direct contacts, conferences, meetings, the internet, telephone, information bulletins, etc. In addition to preparing the Company annual report, the unit also coordinates Company activities and operations related to corporate governance. It identifies points that need to be improved and supports the Company’s senior management in keeping up with the philosophy of continuous development so that Migros can be a model company in such matters.

All shareholders requesting information about our Company can submit it by sending e-mail to the unit’s [investor\\_relations@migros.com.tr](mailto:investor_relations@migros.com.tr) account.

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A total of 86 Migros shareholders who had not yet exercised their bonus stock options in due time or claimed their dividend entitlements did so subsequently at the Company’s headquarters. Numerous individuals requesting information about current-year transactions were responded to and they were forwarded to Koçbank branches to exercise their rights.

Shareholders who hold printed stock certificates and have not already received the bonus shares of stock issued by the Company in previous years and/or exercised their dividend rights should apply directly to Company head office if the new share coupons on their certificates are numbered 11 or below.

If the 11th coupon on their certificates has been used but the 12th and 13th have not, shareholders may exchange these certificates and receive their bonus shares of stock at Koç Yatırım's (Koç Invest) Istanbul- Harbiye branch or at any branch of Koçbank. Dividends from 2000 and later years may also be collected by presenting dividend coupons to Koç Yatırım's Istanbul-Harbiye branch or any branch of Koçbank.

Additionally, the Central Registry Agency (CRA) started on 28 November 2005 to carry out the bookentry recording of the shares of stock for companies whose shares are traded on the stock exchange and to oversee these records. Within this context, shareholders who hold printed stock certificates need to call at Koçbank branches and have their certificates registered and have them received the tradeable stock status. Our Company will in no way print physical shares in the ensuing capital increases.

## Shareholders' Exercise of Their Right to Obtain Information

### Disclosure

The Investor Relations Unit responds to all information requests about the Company. During the reporting period, shareholders requested information about the current year's dividends in terms of their amount and the manner and place of their payment, attendance in the general meeting, and how to exercise their rights arising from the Company's capital increase. Announcements about such matters are made in the newspapers as well as through the Migros corporate website. Over the course of the year, shareholders also requested information about the number of stores as at the end of the reporting periods, the floor space of the stores, the number of stores scheduled to open during the year, year-end sales targets, etc. The Investor Relations Unit keeps Migros shareholders and brokerage analysts informed using as many channels of communication as possible such as direct contacts, conferences, meetings, the internet, telephone, information bulletins, etc. In addition to its annual report, the Company also endeavors to provide all investors with an equal opportunity to be informed about the Company through its quarterly investor bulletin in which the most recent financial results have started to be interpreted and published. General information about the Company is also provided in these bulletins which, like the Company's annual report are accessible by the shareholders from the corporate website.

### Auditing

According to the Company's articles of association, three statutory auditors are to be elected "from among shareholders and/or from outside the Company for up to three-year terms" by the general meeting of shareholders. In practice, Migros' statutory auditors are elected by the general meeting for each year.

In addition and as required by Capital Market External Independent Audit Regulations published by CMB every year, a firm is also appointed to be the Company's independent auditor. For 2005, the general meeting approved the firm of Başaran Nas Serbest Muhasebeci Mali Müşavirlik AŞ as the Company's independent auditor. This firm had been selected by the Board of Directors, which recommended it to the general meeting.

In addition, the Migros Board of Directors has formed a two-person auditing committee. Uğur Çatbaş and Oktay İrsıdar were chosen to be the members of this committee to serve until the general meeting at which the Company's 2005 results were to be discussed.

### Information about General Meetings

The ordinary general meeting for the year 2005 where the activities and accounts of Migros Türk Ticaret Anonim Şirketi for the year 2004 were examined was held at Divan Hotel at the address of Cumhuriyet Caddesi No. 2, Elmadağ, Şişli-Istanbul at 11:30 on 08 April 2005 under the supervision of Nurgün Örs, a trade ministry commissioner appointed for that duty by letter 17863 dated 07 May 2005.

As per the law and the Company's articles of association, invitations concerning the general meeting and its agenda, were made and published in the issue 6266 dated 23 March 2005 of Turkish Trade Registry Gazette and in the 22 March 2005 national edition of the daily Milliyet. The date and location of the general meeting were also announced to shareholders via the Company's corporate website.

To prevent traffic congestion in shareholders' registrations, the announcement also said that shareholders who intended to take part in the meeting or send a proxy to represent them at the meeting where the agenda would be deliberated and decided upon should obtain their meeting passes at least two days before the meeting date. In practice all requests for passes were honored even on the eve of the meeting. Shareholders who made their request on the meeting date were admitted to the meeting as observers. Passes continued to be handed out until the time at which the meeting was scheduled to start. Shareholders who wished to have themselves represented at the meeting by a proxy were instructed to have their power of attorney prepared according to the form provided by the Company and to have them duly notarized as specified in CMB communiqué IV: 8 published in the 9 March 1996 issue of Official Gazette.

Our Company's 2004 balance sheet, income statement, Board of Directors' annual report, statutory auditors' report, independent auditors' report, and dividend payment proposal were made available to shareholders for their examination at the Company's headquarters from 23 March 2005.

According to the general meeting's attendance roster, a total of 86,900,164,425 shares out of 137,700,000,000 shares for the Company's total capital of TRY 137,700,000 were represented at the meeting of which 70,307,365,050 shares corresponding to TRY 70,307,365.05 were present in person and 16,592,799,375 shares corresponding to TRY 16,592,799.375 were present in proxy. A number of media representatives also attended the meeting. During the meeting the presiding officer gave the floor to shareholders wishing to address the meeting and express their views and opinions about the Company and its activities. Migros general meetings are open to all of the Company's stakeholders.

The general meeting's minutes and attendance roster were reported to the Istanbul Stock Exchange the same day immediately after the meeting. In addition, the minutes of the general meeting were published in the issue 6288 of the Turkish Trade Registry Gazette dated 22 April 2005 and also faxed to shareholders who requested it. Copies of the minutes and attendance rosters for the most recent five years' general meetings are available for shareholders to examine on the Company's corporate website.

#### Voting Rights and Minority Rights

As stipulated in our articles of association, none of our Company's shares incorporate privileged voting rights. Every shareholder exercises one vote for each share of stock he holds at general meetings and all votes are equal. There are no shareholders with which there are cross shareholding interests.

#### Dividend Payment Policy and Timing

There are no privileged rights concerning anyone's participation in the Company's profits. Dividends are paid within the legally prescribed periods of time.

Migros has been successfully reporting a net profit every year since it was first quoted on the stock market in 1991. Similarly our Company has uninterruptedly paid a dividend over the last fifteen years in different percentages of its capital depending on the net profit. Paying a dividend is a matter that Migros has always regarded as important from the standpoint of its shareholders' interests and in this direction is guided our dividend payment policy. The crucial balance between our Company's growth strategies and its dividend payment policy is managed with the utmost care.

Dividends that correspond at least to 20% of the attributable profit computed taking into account the Company's long-term strategies, investment, financing plans and profitability and in accordance with the CMB communiqués can be distributed in cash or in the form of bonus shares of stock.

According to CMB communiqués XI: 25 and IV: 27, when calculating attributable profit; a subsidiary, or a joint venture or an affiliate's profit is not to be taken into account in the parent company's consolidated financial statements where they might be included, unless these participations made such a resolution for profit attribution in their individual general meetings.

#### Transferring Shares

The Company's articles of association contain no provisions restricting the transfer of shareholding interests. The Board of Directors is authorized to issue shares of stock that are worth more than their nominal value and to impose limitations on existing shareholders' rights to acquire new shares.

## PART II: PUBLIC DISCLOSURE AND TRANSPARENCY

### Company Disclosure Policy

The Company's public disclosures are made in an accurate and timely manner with respect to the issues governed by CMB communiqué VIII: 39 concerning principles of public disclosure about special circumstances. In addition, public disclosures are also made on important issues that might affect the decisions of shareholders as well as stakeholders.

Whenever questions are directed to the Company by shareholders, the Investor Relations Unit makes every effort to respond to them accurately, completely, and mindful of the principle of equality in line with the Company's public disclosure policy.

Migros' public disclosure policy requires it to share any and all information upon demand unless such information is in the nature of a business secret or would engender a competitive advantage for thirdparty individuals or entities at the expense of Migros were it to be divulged.

### Special Circumstance Announcements

During 2005, our Company made a total of 78 special circumstance announcements (not including announcements about Migros made by Takasbank (Clearing House), Central Registry Agency and other publicly held companies) within the framework of CMB communiqué VIII: 39 concerning principles of public disclosure about special circumstances. In cases where ISE requested additional explanation relating to the news that appeared in the press, these requests were urgently fulfilled by our Company.

### Corporate Internet Site and Its Content

Customers' needs are always in the forefront of Migros' attention. While distinguishing itself in the sector through the investments in technology, Migros also offers these technological advantages for the use of its customers. The Company launched its website at [www.migros.com.tr](http://www.migros.com.tr) for its shareholders and customers in 1997. In the reporting period, the corporate website was upgraded in line with the increasing requirements. The new design structured in line with the expectations feature "About Migros", "Customer Relations", "Migros Club", "Campaigns "Our Stores", "Migros Brands", "Investor Relations", "Press Room", and "Human Resources" sections and sub-sections as well as many more issues including those stipulated in article 1.11.5 of section II of CMB's Corporate Governance Principles.

### Disclosure of Majority Controlling Physical Shareholders

The shareholding structure of Migros Türk T.A.Ş. is presented below.

Migros Türk T.A.Ş.

Paid-in Capital (TRY thousand)

<u>Shareholder</u>	<u>Share (%)</u>	<u>Amount</u>
Koç Holding A.Ş.	51.06%	70,307
Publicly Held	48.94%	67,393
Total	100%	137,700

There are no shares with any privileged rights.

### Public Disclosure of Those Who May Have Access to Insider Information

The names of the members of our Company's Board of Directors, of statutory auditors and of those in senior management as well as any changes that took place in senior management during the year are presented in our annual report.

Rahmi M. Koç	Chairman
K. Ömer Bozer	Vice Chairman
Cengiz Solakoğlu	Board Member
Nüsret Arsel	Board Member
Uğur Çatbaş	Board Member
F. Bülend Özyaydınlı	Board Member
Y. Ali Koç	Board Member
Oktay Irsıdar	Board Member
H. Hasan Yılmaz	Board Member

Ali Yavuz	Statutory Auditor
Ahmet Sönmez	Statutory Auditor
Serkan Özyurt	Statutory Auditor

Aziz Bulgu	General Manager
Ender Alkaya	Assistant General Manager
A. Fuat Yanar	Assistant General Manager
Erkin Yılmaz	Assistant General Manager
Ihsan Usel	Assistant General Manager
Demir Aytaç	Assistant General Manager

## **PART III: STAKEHOLDERS**

### **Keeping Stakeholders Informed**

Migros' corporate governance practices guarantee the rights to which stakeholders are entitled by laws and regulations and under contractual obligations.

The Company's employees, shareholders, and subsidiaries and the third-party individuals and entities with which the Company has business relationships may submit suggestions or report violations on such issues directly to the Company's management. Such direct submissions and reports are evaluated and a feedback is given to those concerned.

Migros publishes the names of the Company's department heads and their contact information on its corporate website thus making it possible for stakeholders to directly contact the manager who is in charge of a particular issue and direct their questions etc on any issue to the appropriate person first-hand. The objective of this structure and model is to permit communication between the Company and its stakeholders to be more transparent and more effective.

Stakeholders are kept informed on matters related to the Company that are of interest to them. Potential investors who are considering buying our Company's stock may request information by directly contacting our Investor Relations Unit. The Migros Investor Relations Unit responds to their questions about the Company by e-mail or telephone or in face-to-face meetings.

The aspects of Migros' business ethics principles concerning employees are presented under the heading "Rules of ethics". Other principles are presented below.

### **Migros' Responsibilities Towards Other Companies**

1. Migros complies with the requirements of law in all its activities.
2. No unjustified gain may be secured from any individual or organization for any reason whatsoever. Migros makes all its goods and services procurement decisions in line with established and publicly disclosed criteria.
3. It is important for Migros that its business partners refrain from tarnishing the image and reputation of Migros in their own business activities and that they give importance to Migros' proven business values.
4. Migros checks to ensure that the services it obtains on a continuous basis from other organizations are provided in compliance with the requirements of law and it takes necessary action accordingly.
5. Migros does not divulge confidential information it receives from a company that serves it to third parties without that company's permission.

### **Migros' Responsibilities Towards the Community**

1. Migros makes every effort to uphold the standards that its customers expect of it.
2. Migros seeks to fulfill all of its tax and other obligations in full and on time and to be an example to the community on such matters.
3. Migros does not make humiliating, derisory, or offensive statements concerning other companies, organizations, products, or individuals.
4. Migros takes care in all its activities to avoid causing harm to the natural and historical legacy and to behave in accordance with customs, mores, and traditions and it complies with all the requirements of law on such matters.
5. Migros defends its business ethics in its sector and strives for calcification, furtherance, and acceptance of these principles.

### The Responsibilities of Employees Towards the Company

1. Migros employees strictly reject any offers of material or moral benefits from third parties made to influence their conduct of activities falling within the areas of their individual responsibility.
2. Migros employees inform their immediate superior whenever entering into a one-on-one business relationship with any company in which a close relative works, has a partnership interest, or is the owner, and they take action with his knowledge.
3. Migros employees exhibit maximum attention and care when fulfilling the duties given to them and they make every effort so that the work they do can be of higher quality, faster, and more economical.
4. Migros employees refrain from any act or behavior that would damage the Company's image and reputation. During working hours they remain within the modes of dress and behavior that have already been established by Company management or are generally accepted.
5. Migros employees are neither indifferent nor unresponsive when confronted by any situation that is contrary to the Company's interests and they notify the appropriate Company units instead.
6. Migros employees avoid waste and use all of the Company's fixtures, tools, and equipment for the purposes for which they are intended. They do not make use of anything the Company provides them to do their jobs for their own private benefit.
7. Migros employees do not divulge outside the Company any confidential or private information that they become aware of as a consequence of their position or the work that they do. Without the written approval of the Company's management they do not give interviews or make statements of any kind to any media organization.

### The Responsibilities of Employees towards Employees

1. Migros employees do not divulge private information concerning other Company employees that they come into as a consequence of their jobs except where it is a requirement of their jobs.

### In General

The Migros Committee on Business Ethics set up within the Company is responsible for dealing with and clarifying any issues that are not dealt with by the principles set forth above.

### Stakeholder Participation in Management

Article 7 of "The Company's responsibilities towards its employees" section of Migros Principles of Business Ethics says: In matters that are related to employees, Migros seeks to include their opinions as much as possible in any decisions that are concerned with the Company's future.

In line with this, Migros' management exhibits all due care on this matter. Migros employees for their part have the means to forward their suggestions and demands to the Company's senior management and directors.

### Human Resources Policy

The Migros Human Resources Department aims to develop systems that will ensure the constant improvement, motivation, and management of human resources that will create competitive advantages in the execution of the Company's strategies and to implement them in line with the Company's corporate principles.

As our founder, the late Vehbi Koç, once said so rhetorically, "Our most important capital is our people. The quality of our products and services begins with the quality of our employees. Attracting the best and most competent people and employing them in our Company, taking maximum advantage of our people's abilities, strengths, and creativity, increasing their individual productivity, giving them opportunities to progress, and creating a working environment in which cooperation and solidarity flourish is the way we have chosen to ensure that our Company will survive generation after generation."

### Our Principles

#### • The Strategic Importance of Human Resources

Human resources management at Migros focuses on the importance given to people by recognizing their strategic value and creates awareness that human resources must be treated as a unique element. Human resources strategies are structured so as to create a reliable, go-getter, and proactive organizational structure so that Migros is able to maintain its sectoral leadership in a competitive environment. Employees are treated as a strategic resource out of the belief that their experience and creativity will be the driving force in adapting to changing competitive conditions and to rapidly accommodating ourselves to newly-penetrated markets and establishing our leadership in them.

- **Superior Business Ethics and Honesty**

In all our dealings with our employees, it is our fundamental principle to act fairly, in good faith, and understanding and to abide by the law and the rules of ethics.

- **Workplace Safety**

Migros is committed to fulfilling all of its obligations towards its employees within the framework of laws and regulations.

To enable employees to perform their jobs safely at Migros Türk T.A.Ş., the Company complies not only with all of the requirements of the labor law and related laws, regulations, and administrative provisions but also with the sector standards concerning ergonomics and the improvement of the working environment. In the case of civil defense activities, which are of such great importance in our country, theoretical and practical training is also provided in cooperation with the public authorities concerned.

- **Equality of Opportunity**

In its Turkish and foreign subsidiaries, Migros provides service through employees who have tremendous diversity in terms of language, religion, race, and nationality. All human resource related decisions from recruitment and placement to compensation are governed by job position profiles that are defined in detail. The human resource evaluation systems that Migros has set up enable it to monitor and assess the competencies, skills, and performances of its employees objectively within a framework of common principles to which all are subject. On the basis of evaluation results, the Migros Integrated Human Resources System makes it possible to achieve equality of opportunity in the training, progression, career development, and compensation of its employees.

- **Human Resources and Industrial Relations**

The management of human resources processes and of employee relations in line with established human resources policies and principles is under the responsibility of the Assistant General Manager for Human Resources and Industrial Relations at our Company and is clearly defined and committed to in the Company regulations and business ethics principles.

- **Participation and Transparency**

Managers and employees are inseparable elements of human resources practices at Migros. Employees are kept informed about their roles and responsibilities in human resources practices and provided with guidance as to how those responsibilities are to be fulfilled.

Human resources policies and processes are continuously shared with employees by means of all of the Company's communication resources (corporate intranet, e-mail, e-learning, and meetings). Employees have access to all evaluations that have been made about themselves, can obtain information and training on practices, and can view their individual results.

- **Competitiveness**

Migros plans and manages the professional development of its employees not only to keep them competitive within the Company but also on all professional platforms so as to enable them to create positive value for the economy, environment, and community of which they are part.

- **Commitment to Common Values**

Values shared in common make up the foundation of our corporate culture. These values are:

- Giving priority to customer satisfaction
- Being progressive and dynamic
- Honesty and trustworthiness
- Respect for the law and for individual rights
- Sensitivity towards society and the environment
- Ability for team working

Actions of the employees against the Company's common values are sanctioned appropriately and impartially through warning systems and a Discipline Committee procedure.

Conducting relations with employees at Migros is the primary function of the Company's Industrial Relations Department. Consisting of a team of nine (9) people, the objectives of this department are to ensure that all laws and regulations are fully complied with by the Company, to oversee the rights of the employees arising from laws and contracts, and to manage employee rights in such a way as to maintain labor peace and fulfill all legal obligations.

## Relations with Customers and Suppliers

Underlying Migros' over fifty years of leadership of its sector is a dynamic corporate culture infused with experience and the ability to early move under changing conditions. A thorough familiarity with both customer and market, an ability to keep abreast of developments and act proactively, and serving as a vanguard of change are important elements of Migros' innovative style and the reasons why many firsts in the sector, such as consumer rights as early as the 1960s and 1970s, began to take hold in the sector only after being introduced by Migros. In 1998 Migros introduced another first in the Turkish retail business in the form of its Migros Club system, which is designed to enable the Company to become better acquainted with its customers and provide them with better and more differentiated service. Analysis of customer data makes it possible to approach customers not as an anonymous crowd but rather as individuals. In addition to its modern supermarkets, Migros also enhances the ability of customers to reach it through alternative platforms tailored according to their needs such as the discount outlets introduced in 1995 and the Migros virtual market introduced in 1997.

The well-entrenched innovation element of in Migros' corporate culture and technological investments designed to support it are what enable us to achieve differentiation in our customer relations.

In the 1990s, Migros was the first to introduce the barcode system and electronic cash registers that have reduced customer waiting times at the checkouts and Company operating costs so dramatically in the sector. The same pioneering spirit led the Company to set up its B2B system for its suppliers. By reducing operating and logistical costs while providing savings and gains for all sides, this system creates benefits for all our stakeholders, and especially for our customers.

For the purpose of identifying customer expectations in advance and acting proactively to self-improve, Migros has been conducting a customer satisfaction survey since 1994 in which 6,500 people are polled. Data from these surveys are analyzed to determine existing levels of customer satisfaction and to develop models to spot future trends in customers' expectations. In addition, occasional surveys conducted from stands inside stores on specific issues give customers a chance to make themselves heard and express their expectations. The feedback from these activities helps us understand their expectations not just about the present but about the future as well and to review and revise our own objectives.

Migros Club data are analyzed and the results are used to assess customer relations management practices. Our mystery customer program is designed to develop employees' customer relations skills while also providing information that can be used to develop new customer relations management practices. Mystery customer surveys are a unique Migros quality-based performance tool that employs scientific methods to measure and benchmark the quality of service provided at points of sale within the framework of our corporate culture and Company rules, from the standpoint of physical standards and customer relations, and in line with customers' views and evaluations.

Some of the more important of the other activities that are carried out to achieve customer satisfaction are summarized below.

- In August 2005, Migros was entitled to ISO 9001- 2000 Quality Management System certification as an outcome of integrating its process analysis and process-based documentation that had been in place for many years and the Quality Management System established in accordance with quality culture with ISO 9001:2000 standard.
- Migros is meticulously selecting every supplier from which it procures goods. The Company's suppliers are audited at regular intervals by the Food Science and Technology Research Institute of the Scientific and Technical Research Council of Turkey, which also periodically conducts quality control analyses. Migros private label products are also subjected to the same quality control process as well.
- Every new product that is put up for sale on store shelves by Migros goes through a preliminary quality control process.
- Before supplier-originated products enter Migros warehouses, food engineers subject them to sensory, chemical, physical, and microbiological quality control tests. Goods that do not satisfy quality control conditions are rejected.
- Products in Migros stores, warehouses and on the shelves are regularly checked by veterinarians to ensure food safety.
- Personnel employed in all Migros stores attend training programs to make them aware of hygiene and food safety-related issues.
- During the promotional actions, products are offered for sale at discount prices for two-week periods, whereby Migros guarantees that the goods will not run out of stock.
- All customer suggestions, inquiries and complaints are addressed and responded to as quickly as possible by the store itself or by head office as appropriate. Customers can forward their complaints quickly and easily to the Company through store managers, via a toll-free customer line, and by means of e-mail directed to management at every level.

## Social Responsibility

Migros' responsibilities towards the community are spelled out in Migros Rules of Ethics as follows:

1. Migros makes every effort to uphold the standards that its customers expect from it.
2. Migros seeks to fulfill all of its tax and other obligations in full and on time and to be an example to the community on such matters.
3. Migros does not make humiliating, derisory, or offensive statements concerning other companies, organizations, products, or individuals.
4. Migros takes care in all its activities to avoid causing harm to the natural and historical legacy and to behave in accordance with customs, mores, and traditions and it complies with all the requirements of law on such matters.
5. Migros defends its business ethics in its sector and strives for calcification, furtherance, and acceptance of these principles.

Migros is aware that companies as well as the state, non-governmental organizations, and national and international standards are responsible for the sustainable development of a contemporary way of life both in Turkey and globally in the other countries in which it operates, for improving standards of living, and for efficiently using limited resources.

The corporate culture that our Company has developed over more than half a century, the importance given to public health and hygiene, the sensitivity shown towards identifying and satisfying the needs of society, the organization of and participation in exemplary educational, cultural, sports, and social activities that are essential for social development, and a strong environmental awareness are what make up Migros' identity as "an honest retailer".

As a requirement of its social awareness, Migros acts in compliance with laws, moral standards, and human rights in all the services that it offers to consumers; fulfills the responsibilities incumbent upon it to combat the unregistered economy; and contributes to employment by defending employees' rights. The Company also shares its sense of social responsibility with all its stakeholders—employees, suppliers, subsidiaries, investors, and customers—as well as with the public at large and gives importance to supporting and encouraging pioneering valuecreating practices on behalf of economic and social growth and development.

Migros' actions are guided by the awareness that a good reputation can be lost in a single moment. It gives importance to ethics and honesty in everything it does. It knows that trust cannot be bought; that it is a bond that grows and develops slowly and over a long period of time between a company and its customers and not through quick-fix concepts or by mouthing slogans. Since 1954, Migros has been safeguarding the health and rights of its customers. Many innovative practices introduced by Migros to encourage good shopping habits and foster consumer awareness subsequently became standards in the sector and some have even been embodied in the law.

As its point of departure, taking the philosophy that quality is a search for perfection, Migros seeks to achieve the highest possible level of customer satisfaction by means of control mechanisms that it has set up to monitor quality at every stage from procuring the goods that are sold on the shelves to their consumption by customers.

Specific details of the Company's activities under the heading of social responsibility are presented in the relevant sections of the annual report.

## PART IV: THE BOARD OF DIRECTORS

### Structure and Formation of the Board of Directors; Non-Executive Board Members

The Migros board of directors consists of nine members who are elected by the general assembly of shareholders. Its members are:

Rahmi M. Koç  
K. Ömer Bozer  
Cengiz Solakoğlu  
Dr. Nüsret Arsel  
Uğur Çatbaş  
F. Bülend Özaydınlı  
Y. Ali Koç  
Oktay Irsıdar  
H. Hasan Yılmaz

In the allocation of duties that the members of the board have made among themselves, Rahmi M. Koç serves as the chairman and K. Ömer Bozer serves as the vice chairman. Currently the only executive director is K. Ömer Bozer.

### Qualifications of Board Members

All of the members of the Company's Board of Directors are in full compliance with the qualifications stipulated in articles 3.1.1, 3.1.2, and 3.1.5 of section IV of CMB's Corporate Governance Principles. At the same time, they are also professionals whose knowledge, experience, and educational backgrounds are exemplary both in our sector and in the business world.

### Mission, Vision, and Strategic Goals of the Company

Our Company's vision is to be as close to the consumer as possible by serving in different formats in modern retailing through a strategy that involves having an extensive reach in Turkey and its neighboring countries as well as always keeping ahead of consumer expectations.

Our Company's mission is to strengthen its leading position in the Turkish retailing sector and to become a strong regional retail chain that is regarded as a role model in the sector by ranking first or second in other countries in which it operates.

In line with its mission, Migros Türk TAŞ structures its strategies so as to achieve sustainable quality and earn respect as a sectoral leader by means of an approach to customer satisfaction that raises the standards of retailing in the countries in which it is active.

The Company's senior management develops strategies to achieve this mission in light of the vision as defined by the Board of Directors. To this end, our basic strategy is to provide our customers with high quality service that is modern, dependable, economical, and in keeping with our traditional Koç values. Targets are set in order to measure the degree to which these strategies are realized and these targets are made known to all organizational units and supported by business plans. A Corporate Performance Management System that has been set up makes it possible to monitor and evaluate these targets and business results so that both targets and strategies can be reviewed and revised whenever circumstances make that necessary.

Yearly, quarterly, and monthly reporting structures have been created to enable the Board of Directors to carry out such basic administrative functions as planning, organizing, and oversight.

Board members are kept informed of the progression and direction of the Company's business by means of annual meetings at which the updated current long term five-year plan is presented and reviewed, annual budget and review meetings, and quarterly meetings at which the most recent quarter's results are presented and the board's feedback is obtained. In addition, detailed monthly progress reports are prepared and submitted to the board. In these ways, the board members are able to monitor the Company's efforts to achieve its objectives and immediately intervene and provide guidance when necessary.

### Risk Management and Internal Control Mechanisms

Migros' internal control system consists of two separate internal control modules: financial control and operational control. Also incorporated into the system are all of the Company's risk management control mechanisms. The main features of the Migros internal control system are summarized below.

The Migros financial control module is designed to make it possible for decision-makers to effectively manage and control the programs, activities, functions, and units for which they are responsible by providing reliable information about the system of which they are a part in ways that are independent, systematic, and quantifiable.

By means of this system, decision makers are able to:

- Perform financial controls
- Observe customer-focused processes
- Assess whether or not resources are being used effectively and economically
- Spot transactions that are not effective or economical
- Identify practices and activities that are inconsistent with the Company's aims and objectives.

In addition to revealing the existence of problems, the system also allows users to determine a range of possible solutions.

The Migros operational control module is designed to oversee the effectiveness of operational processes and practices as they are taking place within the Company. The most important step in this oversight process is taken at the level of individual store operations and indeed this module might also be called a “store performance monitoring system” inasmuch as it seeks to achieve the following special aims apart from those of the financial control module.

- Ensure that the customer shopping experience is central to all business strategies.
- Reveal both the relationship between the Company’s vision, mission, and philosophy on the one hand and the service being delivered on the other as well as any discrepancies between them.
- Achieve continuous improvements in service quality and customer satisfaction.
- Analyze employee behavior within the framework of the customer service cycle.
- Determine the added value that is created by improvements in service quality at every stage of business processes.

The Migros internal control system also incorporates the systematic reviews that the internal control unit of its principal shareholder, Koç Holding AŞ, makes at regular intervals during the year. These reviews also provide an opportunity for Migros to review its own internal control processes and make improvements in them.

In 2005, a new Internal Audit Department was set up that will be responsible for continuously developing Migros’ risk management and internal control mechanisms in parallel with the Company’s changing needs and for organizing all activities so that reporting can be made to the Audit Committee and the Board of Directors.

### Authorities and Responsibilities of Company Board Members and Executives

The duties and authorities of board members directors are clearly spelled out in the Company’s articles of association, which can be accessed on the Migros corporate website at [www.migros.com.tr](http://www.migros.com.tr).

The Migros Board of Directors is authorized to decide on all matters affecting the Company with the exception of those for which responsibility cannot be delegated by the general assembly of shareholders as per the Turkish Commercial Code and the Company’s articles of association.

### Operating Principles of the Board of Directors

During 2005, the Board of Directors passed 36 resolutions on a variety of matters. At least six (6) directors attended all of the meetings that were held. Pre and post-meeting activities are organized by a secretariat responsible for such matters. At board meetings, views are freely expressed and if there are dissenting votes against any decision, the reasons for dissent are entered into the meeting’s minutes. There were no dissenting opinions entered into the minutes of any board meetings held in 2005. Questions that are raised by board members at meetings are also entered into the record along with any responses made to them.

Each member of the Migros Board of Directors controls one vote. No members have preferential voting rights or the right to veto board decisions.

### Prohibition on Doing Business or Competing With the Company

Migros has a leasehold relationship in two stores with its chairman Rahmi Koç and with board member Ali Koç. During the reporting period, board members were involved in no other business transactions with the Company and none were involved in any competition with the Company.

### Rules of Ethics

Migros’ principles of business ethics are grouped under the following five headings:

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

Our Company’s responsibilities towards its employees are summarized in the main outline below. Information about the other categories of our business ethics principles is presented in other sections of this corporate governance compliance report.

Our Company regards its employees as one of the greatest assets it possesses in today’s difficult market conditions. Our two greatest competitive advantages are our business experience and the qualities that our employees have and are continuously improving upon.

### Migros' Responsibilities Towards its Employees

1. Migros completely fulfills all of its legal obligations towards all of its employees. In situations where the requirements of law are not sufficiently clear, Migros consults those who have specialized knowledge on the matter.
2. Migros is mindful of the rights of its employees within the framework of its rules of business ethics in situations where the rule of law provides for less.
3. In all hirings, promotions, and appointments, the only criteria to be taken into account are the qualifications for the position: Migros creates equality of opportunity among its employees.
4. Migros is not involved in the personal affairs or private lives of its employees and holds all of the private information it has about its employees in strict confidence.
5. Migros provides training opportunities for its employees to improve themselves professionally and personally.
6. In all of its dealings with its employees, Migros does not discriminate in any way on the basis of sex, age, ethnic origin, or creed.
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 Company's future.
8. Migros provides healthy and safe working conditions as dictated by the requirements of law and of the Company's business and it seeks to improve them to the utmost it can.
9. Migros holds in strict confidentiality and does not divulge any private information (such as medical records, shopping habits, economic circumstances etc) about its employees that it may come into possession of in any way whatsoever.

### Numbers, Structures, and Independence of Committees within the Board of Directors

A two-person Audit Committee has been formed within the Migros Board of Directors. The individuals chosen to be members of this committee during the reporting period are Uğur Çatbaş and Oktay Irsıdar and they will hold these positions until the general meeting at which the Company's 2005 results are to be discussed. The Audit Committee convenes four times a year.

### Financial Rights Provided to the Board of Directors

At the general assembly convened on 08 April 2005 to discuss Migros Türk T.A.Ş.'s results in 2004, shareholders voted to pay the chairman and members of the Board of Directors a gross salary of TRY 1,100) a month each.