
**Migros Ticaret A.Ş.** Annual Report 2012

MiGROS

# General Assembly Meeting Agenda

Migros Ticaret A.Ş.

25 September 2013, 11:00 a.m.,

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 meeting,
2. Reading, deliberating, and voting on the statutory auditors' report and on a summary of the independent auditor's report submitted by the independent auditors DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ (a member of Deloitte Touche Tohmatsu International), both concerning the company's 2012 activities and accounts,
3. Reading, deliberating, and voting on the financial statements for 2012,
4. Reading, deliberating, and voting on the Board of Directors' report and the annual report, both concerning the company's 2012 activities and accounts,
5. Individually releasing each of the members of the company's board of directors of their fiduciary responsibilities for the company's activities in 2012,
6. Individually releasing each of the members of the company's statutory auditors of their fiduciary responsibilities for the company's activities in 2012,
7. Approving, amending and approving, or rejecting the Board of Directors' proposal concerning distribution of 2012 profits and the date of their distribution,
8. As required by Capital Markets Board regulations and by Corporate Governance Principles, providing information about the company's dividend payment policy in 2013 and the years that follow,
9. Subject to the approval of the Capital Markets Board and the Ministry of Customs and Commerce and in the forms which have been approved, approving, amending and approving, or rejecting the Board of Directors' proposals concerning the following changes in the company's articles of association: amendment of the existing texts article 3 named "Purpose of Scope", article 5 named "Headquarters and Branches", article 7 named "Share Capital", article 8 named "Share Certificates", article 9 named "Issuance of shares", article 10 named "Issuance of Securities", article 11 named "General Assembly Meetings", article 11/A named "Submitting the minutes and its Annexes to the Ministry and the Capital Markets Board and the Announcement of the Minutes and its Annexes", article 12 named "Voting", article 13 named "Chairman's Panel", article named 14 "Meeting and Resolution Quorums", article 15 named "Commissar", article 16 named "Board of Directors", article 16/A named "Committees", article 17 named "Term of Office and Duties of the Board of Directors", article 18 named "Meeting of the Board of Directors", article 19 named " Meeting and Resolution Quorum of the Board of Directors", article 20 named "Binding and Representing the Company", article 21 named "Remuneration of the Directors", article 23/A named "Financial Statements and Independent Audit", by changing the Article number as 22, article 25 named "Announcements" by changing the article number as 23, article 26 named "Amendments to the Articles of Association", by changing the Article number as 24, article 28 named "Distribution of Profit", by changing the Article number as 26, article 29 named "Date of Dividend Distribution", by changing the Article number as 27, article 30 named "Reserves", by changing the Article number as 28 and article 32 named "Legal Provisions", by changing the Article number as 30, of Articles of Association;

   removing article 22 named "Auditors", article 23 named "Duties of the Auditors", article 24 named "Remuneration of Auditors", and article 33 named "Articles of Association to be delivered to the ministry" of Articles of Association;

   changing the articles number, by without any changes in the current contents, of article 27 named "Annual Accounts" with article 25, article 31 named "Dissolution and Liquidation of the Company" with article 29, article 34 named "The Competent Court" with article 31, and article 35 named "Compliance with Corporate Governance Principles" with article 32,
10. As required by Capital Markets Board regulations and Corporate Governance Principles, providing information about and voting on the company's director and senior manager remuneration policy as well as payments which have been made pursuant to that policy,
11. Determining any financial compensation to be paid to the board of directors such as the gross monthly fees, attendance fees and bonuses,
12. Approving, amending and approving, or rejecting the Board of Directors' "General Assembly Internal Guidelines" setting forth rules to govern principles and procedures pertaining to company's general meetings,
13. As required by Capital Markets Board regulations and Corporate Governance Principles, providing information about the company's disclosure policy,
14. Providing information about the socially beneficial donations and assistance granted by the company to foundations and associations in 2012; determining an upper limit on donations and assistance to be granted in 2013 as required by Capital Markets Board regulations and the Articles of Association of the Company,
15. Voting on the Board of Directors' selection, upon the recommendation of the Audit Committee, of the company's independent auditors as required by Communique on capital market independent auditing standards published by the Capital Markets Board and by the Turkish Commercial Code,
16. As required by Capital Markets Board regulations, providing information about collateral, pledges, and mortgages granted by the company in favor of third parties in 2012,
17. Under articles 395 and 396 of the Turkish Commercial Code and the regulations of the Capital Markets Board, authorizing; shareholders with management control, members of Board of Directors who are also shareholder, senior executives and their spouses and relatives related by blood and affinity up to the third degree, to enter into transaction with the Company or its subsidiaries; and also informing the shareholders regarding the transactions made with the related parties including these people in 2012 pursuant to the Corporate Governance Principles,
18. Petitions.

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# Corporate Profile

Originally established in Turkey in 1954 as a collaboration of the Swiss-based Migros Cooperatives Society and the İstanbul municipality, Migros's primary mission was to supply economically-priced groceries and household supplies to consumers in İstanbul under wholesome conditions. The first store was opened in Balık Pazarı of Istanbul Beyoğlu district. In 1975 the Koç Group acquired a majority stake in the company, following which there was a steady increase in both number of its stores and its brand value for more than a decade. In 1991, Migros went public.

In 2005 Migros further bolstered its leadership of Turkey's food retailing sector with its acquisition of Tansaş, another national chain. With the synergies thus created, the company began serving customers through a diversified range of brands and formats.

Following a Koç Group strategic decision to pull out of grocery retailing, in February 2008 Koç Holding signed an agreement to sell its 50.83% stake in Migros to Moonlight Perakendecilik. Transfer of the shares took place on May 30th of the same year. On 30 April 2009, Moonlight Perakendecilik (now known as Migros Ticaret A.Ş.) and Migros Türk T.A.Ş. were merged into a single company which has since been operating under the name "Migros Ticaret" and whose principal shareholder is MH Perakendecilik ve Ticaret A.Ş.

As of end-2012 Migros was operating through a total of 882 national and international locations. With a national presence in all seven of Turkey's geographical regions taking the form of 261 "M", 191 "MM", 66 "MMM", 18 "5M", and 78 MigrosJet Migros-branded stores and of 219 "Tansaş" and 17 "Macrocenter" stores, its international footprint consisted of 25 Ramstores in Kazakhstan and another 7 in Macedonia.

The services that Migros provides to its customers at its stores are further expanded with order placement and delivery options that are made available through such alternatives as internet, call centers, kiosks, catalogues, and mobile shoppings.

The pioneer of organized retailing in Turkey, Migros today offers spacious stores in a wide range of formats and locations whose vast selection of stationery, glass and kitchenware, appliance, book, clothing, and other items along with groceries and other necessities give it the ability to satisfy nearly all of 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 Migros gives to information technology and the investments which it undertakes always keep it at the forefront of the retailing sector.

Exceeding customer expectations while keeping a close watch on customer wishes since the day it was founded, Migros is known for its innovation and progress in retailing.

# Vision- Mission- Strategies

**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 strengthen its leading position in the Turkish retailing sector and to be a strong, regional retail chain which is pointed to as a model and which ranks either first or second in every national market in which it is active.

**Strategies**
In line with its mission, Migros devises and manages its strategies so as to achieve sustainable quality, reputation, and sectoral leadership through a customer satisfaction approach which raises the standards of organized retailing in the countries in which it is active.

Migros's most fundamental strategy is to keep its customers supplied with a modern, a reliable, an economical, and a high-quality service.

# Our Formats


## MİGROS

**MİGROS Where shopping is a pleasure**
The pioneer of the retailing sector in Turkey and with its stores in 67of Turkey's provinces located in seven regions of the country today, Migros is still the address that people prefer for a pleasurable, innovative, and superior-quality shopping experience. Strengthening the qualities that distinguish it from its competitors while further expanding its range of reasonably-priced choices, Migros reaches out to new audiences. With its philosophy of constant innovation, Migros continues to attract customers with new ideas and a service approach that recognizes their individuality.

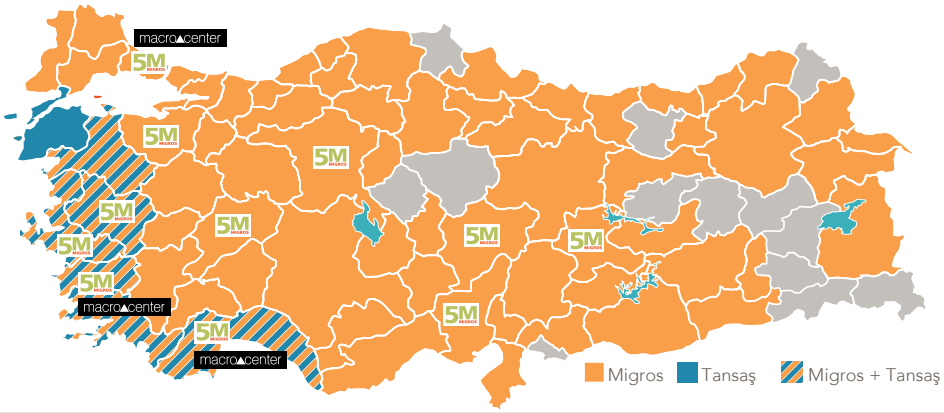

## Tansaş

**TANSAŞ My Super Market!**
Eminently accessible to customers thanks to its commitment to freshness, discount prices, friendly service, and lively atmosphere, the very best in neighborhood service is summed up in the "My Super Market Tansaş" slogan. Tansaş is always one step ahead of the pack with its "Mind-Boggling Consumer Rights".


## macro▲center

**MACROCENTER Exclusively For You**
The leading name in gourmet brilliance, Macrocenter's superior service standards and product choices put it in a class of its own. With an outstanding assortment of the best local offerings from all over Turkey as well as delicious temptations from around the world, Macrocenter continues to be the touchstone of excellence in customer service and satisfaction. Stores in Antalya and Bodrum are taking the distinguished Macrocenter service approach to locations outside İstanbul as well.

**In Turkey...**



## 5M Hyper Discount

With the broad appeal that comes of hyper-discounts offered along with an untrammeled shopping experience, 5M hypermarkets have proven to be very popular with customers. 5M is Turkey's chain of hyper-discount stores whose vast selection of textiles, home furnishings, glass- and kitchenware, electronics, and appliances is unmatched.


## MIGROS VIRTUAL MARKET One-Stop Shopping

Too busy to get out and go shopping? With just a few clicks at Migros Virtual Market you can make your choices and have everything delivered right to your door. Migros Virtual Market is the premier internet address for online grocery and electronic shopping and much more. Migros Virtual Market makes same-day deliveries to your door in 17 cities: Adana, Afyon, Ankara, Antalya, Bursa, Denizli, Edirne, Eskişehir, İstanbul, İzmir, İzmit, Kayseri, Malatya, Manisa, Mersin, Muğla, and Samsun.


## RAMSTORE Taking pleasurable shopping around the world

The leading retailer in Turkey, Migros currently serves customers through Ramstores at 32 locations outside Turkey, including two shopping centers–one in Kazakhstan and one in Macedonia. It plans both to extend its reach in existing markets and to venture into new ones as well.


## Abroad...

# Key Highlights

**Total Assets**

5.6
TL billion

Total assets increased by 2.6% and reached TL 5.6 billion.

**Shareholders' Equity**

1.3
TL billion

Shareholders' equity rose by 5.6% to TL 1.3 billion in 2012.

**Pretax Profit**

128.9
TL million

A pretax profit of TL 128.9 million was booked in 2012.

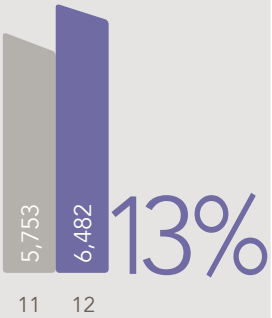
**Net Sales**

6.5
TL billion

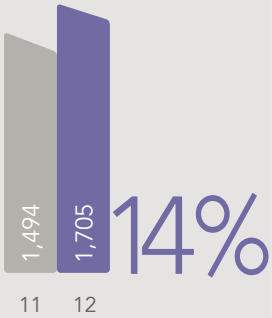
Net sales increased by 12.7% year-on in 2012 and reached TL 6.5 billion in value.


The total number of stores increased by 18% to 882 in 2012.

**Net Sales**
(TL million)




**Gross Profit**
(TL million)

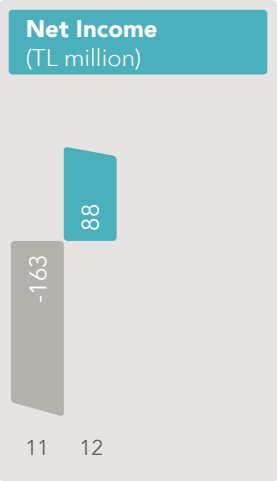


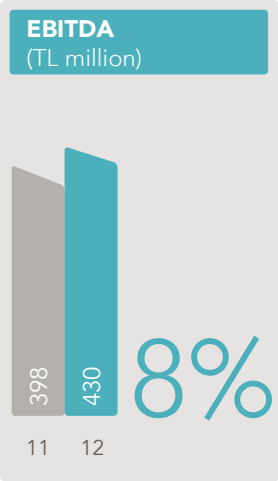


Total net sales area increased by 7% to 852,000 m$^2$ in 2012.

| Summary Consolidated Balance Sheet | | | |
|---|---|---|---|
| (TL thousand) | 2012 | 2011 | Change (%) |
| Assets | | | |
| Current Assets | 1,908,550 | 1,788,260 | 6.7 |
| Non-Current Assets | 3,715,795 | 3,692,704 | 0.6 |
| Total Assets | 5,624,345 | 5,480,964 | 2.6 |
| | | | |
| Liabilities | | | |
| Short-term Liabilities | 1,875,140 | 1,578,694 | 18.8 |
| Long-term Liabilities | 2,487,129 | 2,706,563 | -8.1 |
| Non-controlling Interests | 522 | 476 | 9.7 |
| Parent Company Shareholders' Equity | 1,262,076 | 1,195,707 | 5.6 |
| Total Liabilities and Equity | 5,624,345 | 5,480,964 | 2.6 |

| Summary Consolidated Statement of Income | | | |
|---|---|---|---|
| (TL thousand) | 2012 | 2011 | Change (%) |
| Net Sales | 6,482,402 | 5,753,112 | 12.7 |
| Cost of Sales | -4,777,067 | -4,258,622 | 12.2 |
| Gross Profit | 1,705,335 | 1,494,490 | 14.1 |
| Operating Expenses | -1,435,662 | -1,241,823 | 15.6 |
| Other Operating Income/Expenses | -21,750 | -20,255 | 7.4 |
| Operating Profit | 247,923 | 232,412 | 6.7 |
| Financial Income/Expenses (net) | -119,013 | -548,270 | -78.3 |
| Income/Expense Before Tax | 128,910 | -315,858 | 140.8 |
| Taxes | -40,774 | -53,356 | -23.6 |
| Income after tax from discontinued operations | - | 206,044 | - |
| Net Income | 88,136 | -163,170 | 154.0 |
| | | | |
| **EBITDA** | **430,103** | **398,080** | **8.0** |

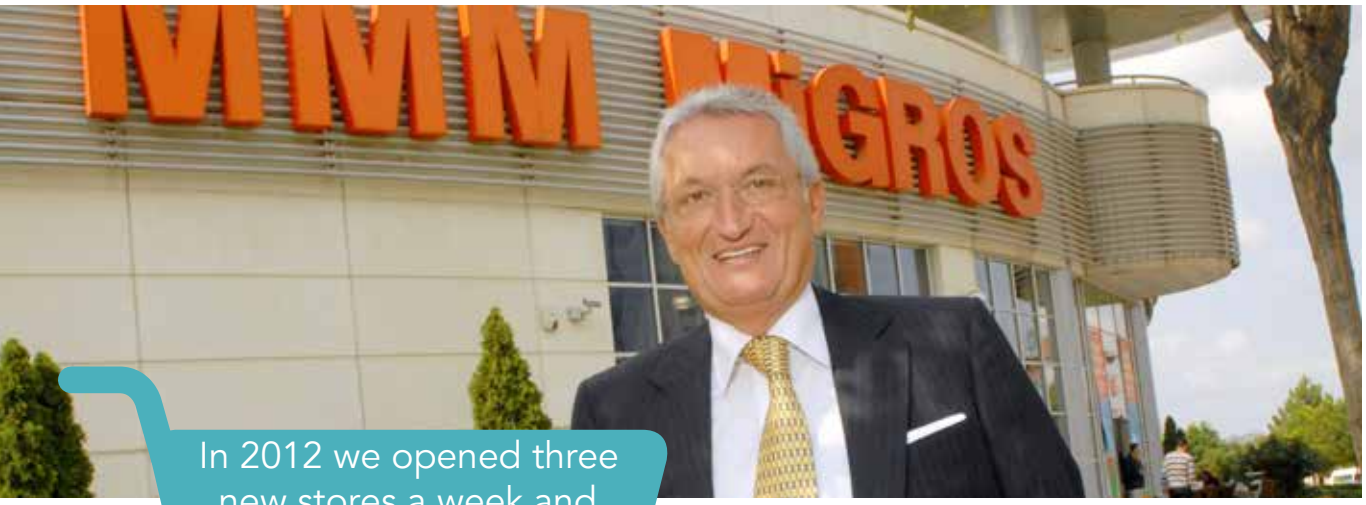




An average of four new employees joined the Migros family every business hour during 2012.

# Chairman's Message




In 2012 we opened three new stores a week and added another 166 new venues to our portfolio.

**F. Bülend Özaydınlı**
Chairman

Honored Shareholders,

Welcome to the annual general meeting at which we will be discussing our company's 2012 results. It gives me pleasure once again to be among you here today.

## Economic and Sectoral Review

Having grown by rates of 9.2% and 8.8% respectively in 2010 and 2011, our country's economy experienced a much slower rate of growth in 2012. Both the central bank and the government embarked upon a series of measures at the beginning of the year aimed at better coping with the structural problems–such as a high current account deficit–engendered by rapid growth. Through these measures, which may be regarded as an effort to bring the economy to a "soft landing", the process of economic growth was well managed despite a host of externally-imposed constraints. The upshot is that the Turkish economy grew by just 2.2% or so in 2012, a figure a bit lower than expectations. Some of the precautions taken to achieve more stable growth involved steps aimed at dampening consumer demand. Looking at the growth dynamics of our own sector–food retailing–we see that domestic consumption by both resident and non-resident households increased by just 0.6% (on a real basis) last year; when similarly expressed in real terms, both wholesaling and retailing also grew by just 0.1% year-on. In other words, the growth manifested both by our own sector and by consumer demand was weaker even than that of the economy as a whole. Looking at inflation we see that consumer price inflation, which was about 10.45% in 2011, was more restrained last year and fell to 6.2%. One must regard it as a good thing that inflation has returned to the single-digit range and should be so relatively modest by comparison. Another pleasing recent development was the announcement by credit rating agencies that they had boosted Turkey's credit rating.

## Strategies and Operational Performance

When we assess Migros's position in light of sectoral developments, I can say that in 2012 we concentrated even more strongly on the strategies which we have formulated over the years. We are focusing on our supermarket operations and we are pursuing growth mainly by opening new venues. Along the same lines, we are witness to a continued growth in shopping malls in Turkey and we are supporting our own organic growth by opening Migros-specific hypermarkets at such locations. We have a presence in the food-retailing sector in the form of three strong brands: Migros, Tansaş, and Macrocenter. We see two main trends which will be shaping the dynamics of shopping in the future. One of these is concerned with consumer preferences: more and more people want stores that are nearby but, at the same time, they also want to find both the products they want and the service they expect at those stores. The other trend is related to rising income levels among consumers in Turkey. Many customers nowadays are quite aware of the levels of service and the high-quality products that are available in developed countries' markets and naturally they want to see the same levels of product quality and choice in Turkey as well. Thus we are gearing up our Migros


Year-on-year our consolidated net sales increased by 12.7% and reached TL 6,482 million in value in 2012.

and Tansaş brands as well as our Macrocenter and MigrosJet formats to better respond to both of these trends. Introduced two years ago, the MigrosJet format is a small-sized outlet with just 150-200 $m^2$ of area and a limited selection of 3,100 products that include fresh produce. The MigrosJet format is designed both to provide customers with a quick and convenient shopping experience and to position Migros closer to those customers. To achieve this, MigrosJet stores are being sited on main thoroughfares and connecting streets where pedestrian traffic is heavy. In keeping with its underlying format, Macrocenter will continue to serve the upper-income segment of shoppers who are looking both for high-quality products and value for money. We see this format as having a promising future and we are positioning ourselves to reap its benefits by having a presence in the right locations. The MigrosJet and Macrocenter formats will support our company's overall growth. Another point that I especially want to emphasize here however is that medium- and large-sized supermarket operations remain our core business activity and, as was true in the past, they will continue to be the engines of our growth. In particular, the new Migros- and Tansaş-label products that we developed in 2012 as high-quality yet affordable alternatives are also nourishing our growth by attracting new footfalls into these venues.

In last year's report I told you that, after the divestiture of our discount retailing operations, we had begun to pursue growth by opening an average of two new stores every week. In 2012 we accelerated this pace by half to an average of three new stores a week and added another 166 new venues to our portfolio last year. As of end-2012, the total number of our stores (including our operations in Macedonia and Kazakhstan) reached 882. In the course of the year, we spent a total of TL 160 million on investments.

Year-on-year our consolidated net sales increased by 12.7% and reached TL 6,482 million in value in 2012. Our gross profit was similarly up by 14.1% and amounted to TL 1,705 million. Our consolidated gross profit margin further improved in 2012 (as it did in 2011) and weighed in at 26.3%. Our consolidated earnings before interest, taxes depreciation, and amortization (EBITDA) were worth TL 430 million, which translates into an EBITDA margin of 6.6%. Our net profit in 2012 amounted to TL 88 million and our net profit margin to 1.4%.

## Expectations for the future

In 2012 Migros was again cited as "Turkey's Most Admired Retail Company"–an accolade which has been bestowed upon us for nine consecutive years. I take this opportunity to extend my appreciation to our customers for this honor and my thanks to our employees for making it possible. In 2014 we will all be celebrating the 60th year of Migros's founding. I believe that we have been correctly reading the opportunities thrown up by our sector and we will continue to position ourselves accordingly. Recognizing that the supermarket format will remain the cornerstone of the food retailing industry, we will continue to undertake investments in that business line. Migros intends to pursue growth in the period ahead by opening more new stores and, in that process, to continue creating more employment opportunities for the national economy. And as ever, as we proceed along this path, there are two things that we know we can always count on: our customers' confidence in us is one and the strength and dedication of our employees is the other.

Thank you for the consideration and confidence you have shown by attending this session of our general assembly. I extend my respects to you all.

F. Bülend Özaydınlı
Chairman of the Board of Directors

| Board of Directors | |
|---|---|
| Fevzi Bülend Özaydınlı | Chairman |
| Nicholas Stathopoulos | Member |
| Stefano Ferraresi | Member |
| Ömer Özgür Tort | Member and General Manager |
| Giovanni Maria Cavallini | Member |
| Glen Allen Osmond | Member |
| J. Cornelio Adriano de Jonge | Independent Member |
| Tayfun Bayazıt | Independent Member |
| Hakkı Hasan Yılmaz | Independent Member |

| Statutory Auditors | |
|---|---|
| Mustafa Bilgutay Yaşar | Statutory Auditor |
| Yüksel Toparlak | Statutory Auditor |
| Recep Bıyık | Statutory Auditor |

| Senior Management and Directors | |
|---|---|
| Ömer Özgür Tort | General Manager |
| Ahmet Fuat Yanar | Assistant General Manager (Migros, 5M and Macrocenter 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 (Tansaş Operations) |
| Tarık Karlıdağ | Director (Construction) |
| Mustafa Murat Bartın | Director (IT and Business Development) |

| Audit Committee | |
|---|---|
| Tayfun Bayazıt | Committee Chairman |
| Hakkı Hasan Yılmaz | Committee Member |

| Corporate Governance Committee | |
|---|---|
| Hakkı Hasan Yılmaz | Committee Chairman |
| Nicholas Stathopoulos | Committee Member |
| Affan Nomak | Committee Member |

| Early Detection of Risk Committee | |
|---|---|
| J. Cornelio Adriano de Jonge | Committee Chairman |
| Tayfun Bayazıt | Committee Member |
| Stefano Ferraresi | Committee Member |
| Erkin Yılmaz | Committee Member |

## Board of Directors

The Migros Board of Directors consisted of nine members in 2012: Fevzi Bülent Özaydınlı (Chairman), Nicholas Stathopoulos, Stefano Ferraresi, Ömer Özgür Tort, Giovanni Maria Cavallini, Glen Allen Osmond, Jacob Cornelio Adriano de Jonge, Tayfun Bayazıt, and Hakkı Hasan Yılmaz.

At the company's annual general meeting held on 28 June 2012, Fevzi Bülend Özaydınlı, Nicholas Stathopoulos, Stefano Ferraresi, Ömer Özgür Tort, Giovanni Maria Cavallini and Glen Allen Osmond were elected to seats on the Board of Directors as board members while Jacob Cornelio Adriano de Jonge, Tayfun Bayazıt and Hakkı Hasan Yılmaz were elected to serve as independent members. At the same meeting, shareholders voted to pay independent members a fee of TL 16,000 (gross) for each board meeting they attend and not to pay monthly salaries to other board members.

The Migros 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 and 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 meeting at which they are elected. A board member whose term of office expires may be reelected. Shareholders assembled in a general meeting may dismiss any board member whenever such action is deemed to be necessary.

Under article 4.3.4 of "CMB Communique IV:56 concerning the determination and application of corporate governance principles" (CMB IV:56), the number of independent board members may not be less than one-third of the board's total membership. When determining the number of independent members, fractions must be treated as whole numbers but in any case may the number of independent members on a board be fewer than two. In compliance with this article of the communique, three of the members of the Migros Board of Directors are independent members.

In compliance with both this communique and the newly-passed Turkish Commercial Code, an Early Detection of Risk Committee has been created within the board while structural and membership-related changes were made in two previously-existing board committees (Audit Committee and Corporate Governance Committee) to bring them into compliance with the same communique. It was decided that the duties of a nominating committee and of a remuneration committee would be performed by the Corporate Governance Committee.

As a result of these changes, all of the members of the Audit Committee are to be elected from among the board's independent members, who are also the only candidates allowed to head the other committees. No executive board member or general manager may serve on these committees.

At a meeting of the Migros Board of Directors held on 9 October 2012:

- It was decided that the Audit Committee should consist of two independent members. Hakkı Hasan Yılmaz and Tayfun Bayazıt were elected to fill these seats with Tayfun Bayazıt being chosen to serve as a committee chairman.
- Hakkı Hasan Yılmaz, Nicholas Stathopoulos and Affan Nomak were elected to seats on the Corporate Governance Committee with Hakkı Hasan Yılmaz being chosen to serve as a committee chairman.
- Tayfun Bayazıt, Jacob Cornelio Adriano de Jonge, Stefano Ferraresi and Erkin Yılmaz were elected to seats on the Early Detection of Risk Committee with Jacob Cornelio Adriano de Jonge being chosen to serve as a committee chairman.

## Senior Management and Directors

Senior management: Ömer Özgür Tort (General Manager); Ahmet Fuat Yanar, Erkin Yılmaz, Demir Aytaç, Cem Lütfi Rodoslu, and Hakan Şevki Tuncer (Assistant General Managers)
Directors: Tarık Karlıdağ and Mustafa Murat Bartın

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

## Statutory Auditors and Independent Auditors

All matters pertaining to the duties, obligations, and responsibilities of the statutory auditors as well as to auditing in general are governed by the Turkish Commercial Code.

The provisions of article 334 of the same code are reserved. Under article 22 of the articles of association, statutory auditors are elected by the general assembly to serve terms of not more than three years.

At the company's annual general meeting held on 28 June 2012, Mustafa Bilgutay Yaşar, Yüksel Toparlak, and Recep Bıyık were elected to serve as statutory auditors. At the same meeting, shareholders voted to pay statutory auditors a monthly salary of TL 550 (gross).

Article 400 ("Auditors") of the Turkish Commercial Code reads:

An auditor may be any individual who is licensed pursuant to the Certified Public Accountancy and Chartered Accountancy Act (Statute 3568 dated 1 June 1989) to perform independent audits as a chartered accountant or as a certified public accountant and who has been authorized to do so by the Public Oversight, Accounting, and Auditing Standards Authority and/or by a joint-stock company whose shareholders consist of such individuals.

The company's statutory auditors for 2013 and the years that follow will be elected in accordance with the requirements of this article of the law.

## Audit Committee

Tayfun Bayazıt and Hakkı Hasan Yılmaz were elected members of the Audit Committee as statutorily mandated by Capital Markets Board Communique X:22 and by the CMB's communique 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 2012, the Audit Committee informed the Board of Directors of its opinion that the consolidated financial statements prepared in accordance with CMB-published accounting standards pursuant to "CMB Communique XI:29 concerning financial reporting principles" accurately reflected the company's true financial condition and the actual results of its operations on 31 December 2012.

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

## Changes in the Articles of Association

At a meeting of the Migros Board of Directors held on 5 June 2012, the board voted to send proposed changes in the company's articles of association (amendments to Article 3 "Object and scope", Article 11 "General assembly meetings", Article 16 "Board of Directors", Article 18 "Board of Directors meetings", Article 21 "Remuneration of board members", and Article 32 "Governing law"; additions of Article 16/A "Committees" and of Article 35 "Compliance with corporate governance principles") to the Capital Markets Board and to the Ministry of Customs and Trade for those agencies' authorization and to submit the changes for shareholders' approval at the first general meeting held after such authorization had been obtained.

Authorizations for the proposed changes in the company's articles of association were received from the Capital Markets Board (letter B.02.6.S PK.0.13.00-110.03.02-1641-6611 dated 20 June 2012) and from the Ministry of Customs and Trade (General Directorate of Domestic Trade letter B.2 1.0.İTG.0.03.00.01/431.02-59209-622354-4820-4660 dated 22 June 2012). Pursuant to these preliminary authorizations, the changes in the articles of association proposed by the Board of Directors were accepted by shareholders at the company's annual general meeting held on 28 June 2012 and were registered on 12 July 2012.

The new versions of Article 3 "Object and scope", Article 11 "General assembly meetings", Article 16 "Board of Directors", Article 18 "Board of Directors meetings", Article 21 "Remuneration of board members", Article 32 "Governing law", Article 16/A "Committees", and Article 35 "Compliance with corporate governance principles" are presented below.

### Article 3: Object and Scope

The company goal is to provide food and other necessities and products to consumers under suitable

conditions. For this purpose, the company's principal business activities shall consist of performing, in the most economical way possible: services such as collecting, loading, shipping, discharging, sorting, packaging, marketing, and storing products whenever the costs of such services are added to the cost of products at any stage of their movement between producers and consumers; and similarly: preventing such products from spoiling and losing value, acting as an exemplary consumer marketing concern, and operating in retailing markets.

With respect to the matters indicated above, the company may also:

a) Engage in all manner of administrative, financial, and commercial activities needed to realize its object and scope;
b) In Turkey and in other countries and acting in its capacity both as a retailer and as a wholesaler: buy, sell, import, export, produce, and contract the production of any and all manner of foods, including but not limited to fresh fruits and vegetables, as well as necessities for the home and any and all manner of industrial, agricultural, and commercial products and services;
c) Establish, operate, and manage shopping malls; establish warehouses; open stores; establish and operate fuel sale and service stations both in association with such facilities and independently of them; operate mobile sales vehicles; act as a commission-broker in various business lines; contract to do business and let business out on contract; grant agencies and dealerships;
d) Including but not limited to goods sold in bulk: standardize merchandisable goods according to their types and varieties and offer them for sale at low prices and under clean conditions in accordance with the rules of hygiene and commercial requirements;
e) In Turkey and in other countries: establish and operate facilities that produce, purchase, sell, transport, prepare, package, and conserve foods and necessities; create specific partnerships and subsidiaries to do business in these areas or in other areas deemed to be beneficial to the company and take part in ventures and companies as may already be engaged in such businesses;
f) Facilitate the procurement of raw and auxiliary materials needed by producers and manufacturers who supply goods to the company; import such of these materials as may be required or have them produced locally; provide producers with agricultural and technical assistance; when necessary, pay producers advances against guarantees and on condition that these sums shall be subsequently deducted from the payments made for their goods;
g) Benefit from investment incentives and engage in any and all manner of other dispositions and activities as may assist and facilitate the realization of the company's object and scope;
h) Buy, sell, import, export all manner of vehicles and other requisites and the spare parts thereof– including but not limited to machinery, equipment, motor vehicles and seagoing vessels–as may be pertinent to the company's object and scope; and similarly: establish, rent, let out, buy, and sell facilities and installations; for the same purposes and on condition that it shall not act as a broker: acquire shares in companies that are to be set up or have already been set up in Turkey or in other countries; subject to the restrictions of the final clause of article 15 of the Capital Markets Law: acquire interests in existing and newly-formed companies and provide such companies with any and all manner of financial assistance; to achieve any of the foregoing aims: make borrowings and take possession of shares in such companies;
i) On condition that public disclosures to inform investors about the occurrence of special circumstances shall be made as required by the Capital Markets Board: acquire and establish such immovable properties and specific real rights as may be pertinent to or may assist or facilitate the realization of the company's object and scope; engage in any and all manner of legal dispositions applicable to such immovable properties and specific real rights, including but not limited to establishing limited real rights in favor of third parties, assigning leases, borrowing money and obtaining credit against mortgages or some other guarantee or without collateral, guaranteeing the debts of third parties, posting any form of real or personal guarantees, establishing and relinquishing, whether on behalf of the company or of third parties, one or several mortgages, one or several pledges, and similar real rights over all or any part of any assets which the company currently owns or may in future own;
j) Insofar as they are beneficial to activities pertinent to the company's object and scope: acquire patents, franchises, licenses, concessions, trademarks, models, designs, technical drawings, trade names, know-how, copyrights, special manufacturing and production techniques, engineering and consultancy services, and all other similar intangible rights; engage in all manner of dispositions of the same, including but not limited to registering and canceling them and entering into agreements with Turkish or foreign natural or legal persons pertaining to any and all manner of intellectual properties;
k) On condition that it shall not act as a broker or as a portfolio manager: issue, buy, sell, and engage in any and all manner of legal dispositions of bonds and similar securities of whatever nature; and similarly and on condition of not acting as a broker: buy and sell the shares, bonds, and other securities issued by publicly- or privately-owned corporate entities;
l) As may be applicable to the businesses set forth above: engage in marketing, economy-related, technical consultancy, and feasibility studies;
m) As may be pertinent to the company's object and scope or may assist or facilitate its realization thereof: acquire stakes in corporate entities, enter into partnerships with Turkish and foreign private individuals; and similarly and on condition of not acting as a broker: buy, sell, and engage in any and all manner of legal dispositions of shares and

shareholding interests belonging to publicly- or privately-owned corporate entities;

n) Enter into service contracts with local and foreign technical and artistic experts and groups necessary to the establishment of facilities and obtain work permits for them;
o) As may be pertinent to the company's object and scope: grant, acquire, assign, lease, and establish, in Turkey and in other countries, representative, general distributorship, consultancy, brokering, distributing, agency, and dealership rights;
p) As may be pertinent to the company's object and scope: engage in any and all manner of training/ educational activities, cooperate with and take part in the activities of organizations concerned with such matters;
q) As may be needed to realize its object and scope: benefit from any and all manner of measures related to technology and business rationalization; and similarly: cooperate with private individuals and publicly- or privately-owned corporate entities active in such areas;
r) Subject to the stipulations of the Capital Markets Board: provide assistance and make charitable donations to socially beneficial foundations, associations, universities, and similar organizations as well as to public incorporations.

The company may not grant any of the guarantees, pledges, or mortgages falling within the scope of subparagraph (i) above or of article 4 herein below unless they are in its own favor or in favor of a company whose results are consolidated with its own; it may grant such rights in favor of a third party provided only that it is for the conduct of its ordinary business as a company. The provisions of article 35 ("Compliance with corporate governance principles") herein below are reserved.

If it should be desired to engage in businesses other than those indicated above which may in future appear to be beneficial and necessary for the company, the matter shall, upon a proposal by the Board of Directors, be submitted to a general meeting for shareholders' approval and the company may engage in whatever businesses it may wish after such approval has been obtained. However as this is in the nature of an amendment to these articles of incorporation, it shall be necessary for the company to obtain the permission of the Capital Markets Board and of the Ministry of Commerce in order to implement such a decision.

### Article 11: General Assembly Meetings

The general assembly of shareholders shall convene in ordinary and extraordinary sessions.

Ordinary meetings shall be conducted at least once a year and within three months of the end of the previous fiscal year at the company's headquarters or in some other place where the company has a branch as may be determined by the Board of Directors.

Invitations to general meetings are subject to the provisions of articles 355, 365, 366, and 368 of the Turkish Commercial Code.

Written invitations shall not be sent out to those who own shares which were originally issued as registered stock but which are now being traded on a stock exchange. Furthermore general meeting announcements shall be made at least three weeks in advance of the meeting date by means of the methods required by law as well as by all other forms of communication, including electronic communication, insofar as the company's means permit.

Invitations to ordinary general meetings shall be made by the Board of Directors or by such other persons as the Turkish Commercial Code authorizes to summon general meetings. Meeting agendas shall be determined in accordance with the provisions of the Turkish Commercial Code and of these articles of association.

Extraordinary general meetings may be summoned at any time with three weeks' notice upon the invitation of the Board of Directors or upon the invitation of such other persons as the Turkish Commercial Code authorizes to summon extraordinary general meetings.

Announcements concerning general meetings published on the company's corporate website shall include the matters provided for in article 1.3.2 of the Capital Markets Board's corporate governance principles as well as such other notifications and explanations as may be required by laws and regulations.

### Article 16: Board of Directors

The company's business and administration shall be conducted by a board of directors consisting of 9 (nine) members chosen by the general assembly from among shareholders in accordance with the provisions of the Turkish Commercial Code.

In situations where a shareholder is a corporate entity, one or more individuals representing the incorporation may be elected to a seat on the board however every seat is entitled to only one vote. If a seat on the board is vacated, the Board of Directors shall elect someone to fill the vacancy temporarily and this member shall be submitted for approval the next time a general meeting is held.

The board's membership shall consist of executive and non-executive board members. Non-executive members are individuals who have no administrative duties at the company other than their position as a board member and who are not involved in any of the company's day-to-day business or ordinary affairs.

Among the non-executive members, there must be independent members who have the ability to act impartially in the conduct of their duties as stipulated in capital market laws and regulations.

The number of non-executive and independent members on the board, their qualifications, and rules pertaining to their election etc shall be subject to capital market laws and regulations including, but not limited to, Capital Markets Board corporate governance principles.

If a seat on the Board of Directors is vacated for such reasons as death, resignation, or disqualification, the vacancy shall be filled by someone elected by the board subject to the provisions of Turkish Commercial Code article 315 and this election shall be submitted for approval once a general meeting is convened. A member elected in this way shall complete the term of office of the one he replaced.

Matters pertaining to the duties, rights, obligations, and responsibilities of the Board of Directors, to the election of its chairman and his deputies, to board members' remuneration, posting of bonds, and to other issues shall be governed by the applicable provisions of the Turkish Commercial Code.

Article 16/A: Committees
The Board of Directors may set up committees to monitor the progress of business, to prepare reports for submission to itself, to implement its decisions, and to perform internal audits. Board members may be members of such committees.

The committees which the board may set up for this purpose include, but are not limited to, "audit committees", "nominating committees", "early detection of risk and management committees", "corporate governance committees", and "remuneration committees".

The manner in which the committees formed pursuant to this article are to be set up, the qualifications, duties, authorities, and areas of responsibility of their members, and the financial benefits which are to be provided to those who serve on such committees shall all be determined by the Board of Directors in accordance with the Turkish Commercial Code and with applicable capital market laws, regulations, and administrative provisions.

Article 18: Board of Directors Meetings
The Board of Directors shall convene as required by the company's business and affairs. Invitations to meetings, which state the meeting date, time, place, and agenda, shall be sent out three days before in advance of the meeting date at the latest and may be sent by means of fax, letter, or email.

Board meetings are held at the company's headquarters however they may be convened in other places both in Turkey and elsewhere.

The board shall have convened with the presence of at least six of its members. Decisions shall be taken by a majority vote of those present.

Article 21: Remuneration of Board Members
The general assembly of shareholders shall determine how the chairman and members of the Board of Directors are to be remunerated.

In the remuneration of independent members, no form of payment may be used that involves stock options or is based on the company's performance.

Rules set forth in capital market laws and regulations shall be complied with in the remuneration of board members and senior executives.

Article 32: Governing Law
Matters not dealt with in these articles of association shall be governed by the applicable provisions of the Turkish Commercial Code and of capital market legislation.

For the purposes of these articles of association, the phrase "capital market legislation" means the Capital Markets Act (Statute 2499), communiques and all other regulations and administrative provisions issued whether by the Capital Markets Board or by other agencies pursuant to that law, policy decisions taken by the Capital Markets Board, and corporate governance principles with which the company must comply.

Article 35: Compliance with Corporate Governance Principles
Corporate governance principles which are deemed to be mandatory by the Capital Markets Board shall be complied with. No transaction or Board of Directors decision that is contrary to such mandatory corporate governance principles shall be valid and such transactions and decisions shall be considered to be violations of these articles of association. Principles set forth in capital market legislation, including but not limited to Capital Markets Board directives concerning corporate governance, shall be complied with in transactions deemed to be of a substantial nature from the standpoint of the implementation of corporate governance principles, in any and all manner of transactions involving the company's dealings with related parties, and in transactions involving the company's granting guarantees, surety, collateral, pledges and mortgages whether on its own behalf or on behalf of any third party.

Without the prior approval of the general assembly of shareholders, no controlling shareholder, board member, or senior executive neither any spouse or relative (whether by blood nor marriage unto the second degree) of any of these may compete against or engage in any transaction with the company or with any of its subsidiaries or affiliates when such a transaction might be deemed to involve a conflict of interest. Information about such dealings must be provided at general meetings.

## Capital

The company's capital is TL 178,030,000. The names of shareholders who hold more than 10% of the company's paid-in capital with information about their shareholding interests is provided below.

| Migros Ticaret A.Ş. | | |
|---|---|---|
| | Stake (%) | Value (TL) |
| MH Perakendecilik ve Tic. A.Ş. | 80.51 | 143,323,336 |
| Others | 19.49 | 34,706,664 |
| **Total** | **100.00** | **178,030,000** |

## Changes in Paid-in Capital during the Reporting Period

No changes took place in the company's paid-in capital during the reporting period.

## Migros's Position in the Sector and Investments in 2012

Migros Ticaret A.Ş. operates in the foods and consumer products sector. The company is both a retailer who sells such products directly to consumers and a wholesaler who sells them for retail consumption. The company also operates shopping malls in Turkey and in other countries through its foreign subsidiaries.

As of end-2012, the company had 882 stores consisting of 261 M, 191 MM, 66 MMM, 78 MigrosJet, 18 5M, 127 Mini, 67 Midi, 25 Maxi, and 17 Macrocenter stores located in seven of Turkey's geographical regions and, through its international subsidiaries, 25 Ramstores in Kazakhstan and 7 Ramstores in Macedonia.

During 2012, Migros opened 64 Migros (50 M, 10 MM, and 4 MMM), 42 MigrosJet, 50 Tansaş (41 Mini and 9 Midi), 2 5M, and 3 Macrocenter stores in Turkey. Abroad it also opened 3 Ramstores in Kazakhstan and 2 Ramstores in Macedonia last year. On this basis therefore, 166 new Migros store investments went into service in 2012.

## Financial Standing, Dividend Distribution Proposal, Conclusion

### Financial Standing

Migros's operational results have been compiled in accordance with CMB Financial Reporting Standards, which are themselves based on IAS/IFRS.

In 2011 Migros booked consolidated sales worth the equivalent of TL 5,753 million; these increased by 12.7% in 2012 and reached TL 6,482 million in value. This performance means that Migros successfully achieved its goal of registering low-range double-digit growth last year. Consolidated gross profit was up by 14.1% and amounted to TL 1,705 million. In order both to strengthen its competitive position in the sector and to boost its market share, Migros continued to invest in prices–particularly in the private label and fresh foods groups–all year long. The company's consolidated gross profit margin improved from 25.7% in 2010 and 26% in 2011 to 26.3% in 2012. Migros's consolidated operating profit, which was TL 232 million in 2011, increased by 6.7% and reached TL 248 million in 2012, a year in which the company's consolidated operating profit margin weighed in at 3.8%.

In 2011 Migros booked an earnings before interest taxes depreciation and amortization (EBITDA) figure of TL 398 million. In the twelve months to end-2012, this increased by 8% and reached TL 430 million, a figure that corresponds to 6.6% of sales.

In 2011 Migros booked TL 177 million as financial income; in 2012 this figure was TL 178 million. During the same twelve-month period, the company's financing expenses fell by 59% to TL 297 million in 2012. Dividend and interest income, which was TL 35 million in 2011, rose to TL 37 million, and foreign exchange gains rose to TL 96 million last year. Because a significant portion of the company's debt is denominated in euros and the Turkish lira appreciated against that currency in 2012, the net value of Migros's exchange rate gains at the time of their year-end evaluation was TL 79 million.

In 2011 Migros announced a pretax loss of TL 316 million and a net loss of TL 163 million; in 2012 the company booked a pretax profit of TL 129 million and a net profit of TL 88 million.

In 2012, total liabilities corresponded to 78% of total liabilities and equity (2011: 78%). 34% of the company's total assets consisted of current assets in 2012 with non-current assets making up the remaining 66%. In 2011 these figures were 33% and 67% respectively.

### Dividend Distribution Proposal & Conclusion

Within the framework of (1) principles set forth in Capital Markets Board (SPK) Communique IV:27 concerning the distribution of profits by companies whose shares are traded on Borsa İstanbul, (2) of the relevant provisions of our company's articles of association, and (3) of our company's publicly disclosed dividend distribution policy, our consolidated financial statements for 2012 which have been prepared in accordance with CMB regulations show a net current profit in the amount of TL 88,136,409. A recommendation has been made to the shareholders' meeting that this net profit not be paid out as dividends but that it rather be retained in the company as extraordinary reserves. Because the amount is below the threshold prescribed by law, setting aside a first-order legal reserve is not mandatory.

In order both to further strengthen our company's balance sheet structure and to better manage our future-year cash flow requirements, no dividend distribution is recommended for this year. Instead, we envisage using the year's profits in order in the period ahead (1) to address the company's needs for working capital and (2) to finance new investments which the company will be undertaking.

Esteemed shareholders,

This concludes our report of our company's 2012 activities and results.

We hereby submit for your consideration and approval our company's consolidated balance sheet and income statement dated 31 December 2012.

Very truly yours,

The Board of Directors

# Statutory Auditors' Report

To the General Assembly of
Migros Ticaret A.Ş.

Our audit results for the 2012 fiscal year of the Company are presented below for your perusal:

1. The Company had a successful period regarding its operations carried out within the framework of the Capital Markets Law and applicable legislation.

2. The required books and records were kept in accordance with the Turkish Commercial Code and applicable legislation and all documentary evidence was properly maintained.

3. In our opinion, the consolidated financial statements attached, which were prepared in accordance with the applicable legislation and accounting principles issued by the CMB, for the period ending 31 December 2012, correctly represent the financial status of the Company as at the date and the operating results for the fiscal period.

4. Management decisions are recorded in the book of resolutions, which is kept in compliance with the procedures.

Consequently, we hereby present for your perusal the operations of the Company summarized in the Annual Report of the Board of Directors, the consolidated financial statements issued in accordance with the Capital Markets Law together with the approval of the proposal of the Board of Directors regarding the distribution of profit and the discharge of the Board of Directors.

İstanbul, 03 April 2013

Sincerely,

Mustafa Bilgutay Yaşar

Yüksel Toparlak

Recep Bıyık

# Economic Review

It is thought that the world economy grew by around 3.2% in 2012. A substantial part of this expansion was the result of an average 5.1% rate of growth achieved among the world's developing countries last year.

At the beginning of 2012, it appeared that the worldwide contraction in economic activity owing to the lingering effects of the global economic crisis would affect Turkey as well. Measures taken by both the Central Bank of Turkey (CBT ) and the government however enabled the Turkish economy to achieve a "soft landing" instead. The Turkish economy grew strongly in the aftermath of the global financial crisis of 2008-2009 and registered growth rates of 9.2% in 2010 and 8.8% in 2011. In 2012 the Turkish economy ended up with a year-on growth rate of 2.2%. The slowdown of economic activity in 2012 made it possible to rein in the high current account deficit brought on by the rapid growth of 2010 and 2011. While Turkey's exports contributed favorably to net growth last year, domestic consumption remained relatively weak as compared with the previous year.

Domestic consumption outlays by both resident and non-resident households were up by 8% year-on as measured in current prices. When considered in terms of constant prices however, it appears that such outlays barely changed at all. Wholesaling and retailing expenditures followed a similar course in 2012: on a constant-price basis, the growth was a negligible 0.1%

Inflation, which rampant economic growth pushed to the 10.45% level in 2011, was reined in to 6.16% as CBT took action in fulfillment of its "primary objective to achieve and maintain price stability". That was still above the bank's stated 5% target however and was largely the result of rises in natural gas and electricity prices. However much CBT's target may have been missed, single-digit inflation is more than welcome in a country that suffered from enormously high rates of inflation for decades.

Having been reduced to 11.4% and 9.8% by strong economic growth in 2010 and 2011 respectively, unemployment in 2012 was still around 10.1%.

The long-awaited upgrading of Turkey's credit rating finally arrived in the last quarter of the year when Fitch Ratings boosted the country's long-term foreign-currency rating from "BB" to "BBB-/stable" and thus restored Turkey to the "investment grade" level for the first time in decades. S&P, another credit rating agency, boosted Turkey's rating from "BB-" to "BB+", putting it just a notch below "investment grade". This rise was subsequently followed by a second "investment grade" rating from Moody's. The fact that two of the world's most respected credit rating agencies have assigned investment grade ratings to Turkey is likely to significantly increase capital flows into the country and to have a favorable impact on the national economy in the medium and long terms not only by fueling portfolio investment but also by encouraging direct investment in the real economy. The implications and benefits of lower unemployment and higher household disposable income should be positive for the retailing sector.

On 1 July 2012, a new commercial code went into effect in Turkey. The new law introduces changes that are likely to reshape many aspects of the country's business and commerce landscapes. A new Capital Markets Law that goes into effect at the beginning of 2013 can also be expected to contribute significantly to the growth and development of Turkey's capital markets as well. We welcome all of these changes in the legal framework because we believe that they will make companies more institutional and competitive while also contributing to the economic and social development of our country.

Fulfilling its sustainable growth targets year after year through its leadership vision, Migros keeps abreast of and successfully pioneers innovations in every business line in which it is active.

## a leader in every business line


Süt
EN AZ %3
SÜT YAĞI
İÇERİR.
Doğal
Doğal
Migros
UHT Yağlı Süt
1000ml

Migros gave special attention to accelerating the pace of its supermarket investments in Turkey in 2012.

## Migros Investments in 2012

Migros serves customers in a variety of formats: Migros, Tansaş, Macrocenter, Ramstore, 5M, Virtual Market, and wholesale outlets.

In its Turkish operations last year, Migros opened 64 Migros (50 M, 10 MM, and 4 MMM), 50 Tansaş (41 Mini and 9 Midi), 42 MigrosJet, and 3 Macrocenter stores in the supermarket format and 2 5M stores in the hypermarket format; in its international operations, Migros opened 3 Ramstores in Kazakhstan and 2 Ramstores in Macedonia. In all, a total of 166 new stores were added to the company's portfolio in 2012. The company had originally planned to open 100 supermarkets and 2 hypermarkets in 2012. As a result of the accelerated pace of openings before midyear, these targets were revised to 150 supermarkets and 2 hypermarkets. In the event, the company's actual performance exceeded even the revised target with the opening of a total of 166 stores in Turkey and abroad.

As of end-2012, Migros was serving consumers at a total of 882 locations: 261 M, 191 MM, 66 MMM, 78 MigrosJet, 18 5M, 127 Mini, 67 Midi, 25 Maxi, and 17 Macrocenter stores located in seven of Turkey's geographical regions and, through its international subsidiaries, 25 Ramstores in Kazakhstan and 7 Ramstores in Macedonia. As of the same date, Migros was operating supermarkets in 67 of Turkey's provinces along with hypermarkets in 10. In Macedonia, the opening of a new store in the city of Struga increased to three the number of Ramstores in that country, where the company also has operations in Tetovo and Skopje.

Migros operates 4 shopping malls in Turkey and one each in Kazakhstan and Macedonia. The combined total (domestic and international) sales area amounted to 851,680 $m^2$ in 2012, with rise of 6.8%.

Tansaş, a much-beloved regional brand, completed its transformation process in 2011 and continued to do well in 2012. The addition of new stores opened in seven provinces significantly increased the brand's visibility and reach. Migros also boosted its own presence throughout the country by speeding up its openings of M Migros and MigrosJet format stores. Concentrating on its small-retailing MigrosJet, Mini Tansaş, and M Migros formats makes it possible for Migros to give customers more convenient access to its supermarket-level product diversity and service quality in locations where space is at a premium. In



In the twelve months to end-2012, the total number of stores increased by 137.

2011 opened its first Macrocenter format store outside İstanbul in Antalya. The results of this venture were so successful that in 2012 the company opened a Macrocenter in Bodrum. This addition brought to three the number of provinces in which Migros is serving customers with the Macrocenter format.

In 2012 Migros increased the number of its 5M stores to 18 by opening 2 new stores in this format in 2 different provinces. Because they have so much more sales area and thus can accommodate a greater variety of merchandise options than is possible in a supermarket, hypermarkets appeal to customers by providing them with a more convenient and enjoyable shopping experience. The company plans to open at least one and possibly two new hypermarkets in 2013.

To sum up, the company is strongly positioned in its home market with three highly-visible and well-known brands capable of addressing and satisfying a broad spectrum of consumer expectations: Migros, the leading name in supermarket retailing in Turkey offering a wide range of formats of its own; Tansaş, a potent and popular regional force; and Macrocenter, a high-end specialist that appeals to up-market tastes.The company's principal business activity is supermarket operation and management while its "5M" format of hypermarkets distinguishes itself from others in its sector by virtue of the hyper-economical and hyper-enjoyable shopping experiences which they offer. In its international operations, Migros continues to grow profitably with the Ramstore format used by its subsidiaries in Kazakhstan and Macedonia.

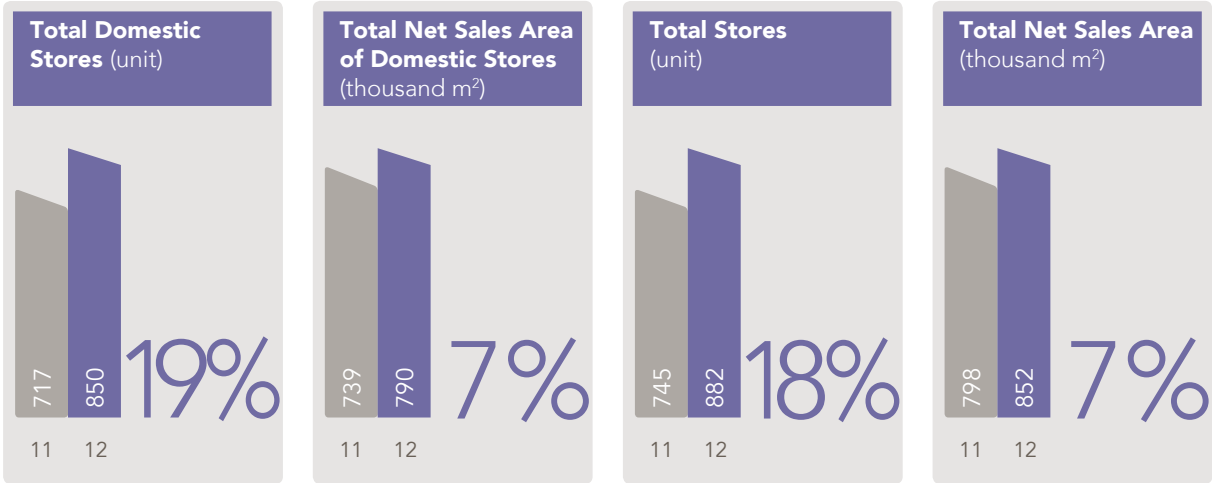
| Store Format | 2011 | 2012 |
|---|---|---|
| Supermarket | 701 | 832 |
| Hypermarket | 16 | 18 |
| **Total Domestic** | **717** | **850** |
| International | 28 | 32 |
| **Total** | **745** | **882** |

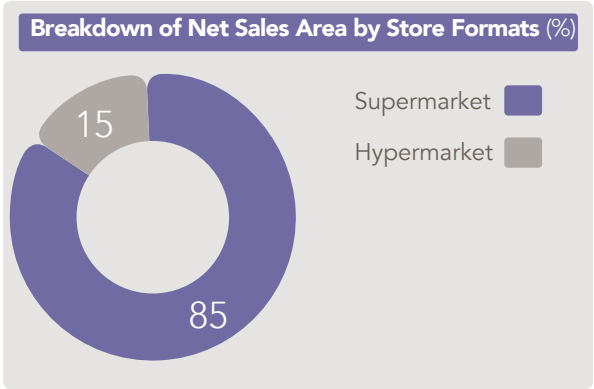
| Net Sales Area (thousand m²) | 2011 | 2012 |
|---|---|---|
| Supermarket | 639 | 684 |
| Hypermarket | 99 | 107 |
| **Total Domestic** | **739** | **790** |
| International | 59 | 61 |
| **Total** | **798** | **852** |

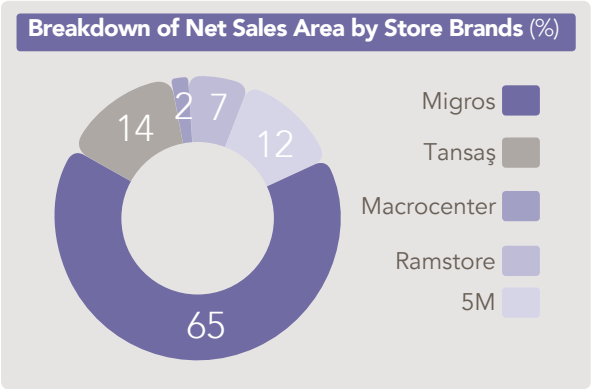
| International Operations | 2011 | 2012 |
|---|---|---|
| Macedonia | 5 | 7 |
| Kazakhstan | 23 | 25 |
| **Total** | **28** | **32** |


Money Club, Turkey's biggest customer loyalty program, continued to make shopping more profitable for its member customers.

**more profitable**





Migros's international operations registered a 12.3% rate of year-on growth in their total sales.

## International Operations

Conducted through its subsidiaries based in Kazakhstan and Macedonia, Migros's international operations continued to contribute to the company's consolidated sales and profitability in 2012. Despite the lingering effects of the global financial crisis all over the world but especially in Europe, Migros's international operations registered a 12.3% rate of year-on growth in their total sales.

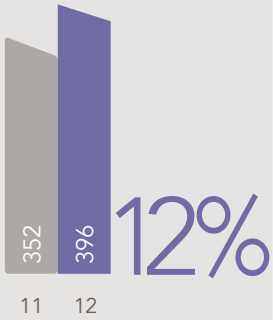
Organized food retailing is still in its early formative stages in both Kazakhstan and Macedonia and macroeconomic indicators in both countries hold out huge promise for long-lasting, sustainable growth.

In 2012 Ramstore Kazakhstan opened three new stores (one each in April, August, and September) with a total sales area of 1,915 m². These additions brought the total number of stores to 25 and the total sales area to 52,395 m² in the country. Last year Ramstore Kazakhstan served 16.9 million customers.

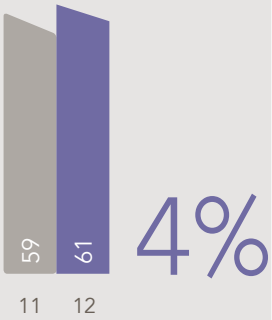
Ramstore Macedonia opened two new stores (one each in Tetovo and Struga) with a total sales area of 1,554 m². These additions increased the company's total sales area to 8,996 m² and the number of its stores to seven. Last year Ramstore Macedonia served 2.5 million customers.

As of end-2012, Migros's international operations had 32 stores with a combined sales area of 61,391 m². Last year they booked sales worth TL 395.7 million in value, earnings before interest taxes depreciation and amortization (EBITDA) amounting to TL 33.1 million, and an EBITDA margin corresponding to 8.4% of total sales.

**Total Sales of International Operations**
(TL million)




**Total Net Sales Area of International Operations**
(thousand m²)



Focusing on shopping experience satisfaction, Migros provides its customers with outstanding service along with special deals, offers, and options capable of appealing to every household budget

## outstanding service approach


In 2012 the number of Migros customers using Money Club cards reached 8 million.

## Money Club and CRM

Money Club is Turkey's biggest customer loyalty program. In 2012 it continued to make shopping more enjoyable and profitable for its members by providing them with unique advantages, personalized offers, and creative campaigns. The number of Migros customers using Money Club cards reached 8 million last year.

"Bebemoney" is a program which Money Club specially developed for the parents of infants. Bebemoney allows parents to use points they earn on purchases of baby products to obtain more such products free of charge. Participation in the program increased by 60% year-on in 2012 with the number of members reaching about 129,000.

Money Club frequently organizes activities for the children of its members. Last year in collaboration with Fox TV, characters from the Ice Age series of films staged appearances at Migros stores. Specially-made 3D Ice Age cards were handed out to Money Club members who made designated minimum purchases. Accompanying these cards were albums for children which were designed to hold the cards that they collected and also included a variety of entertaining games. Migros was also the host sponsor of the Disney Live Mickey's Music Festival, which made its first tour of Turkey in 2012. Money Club members were given discounts on festival tickets. Members who satisfied minimum-purchase requirements were given pairs of tickets free of charge.

In the last quarter of 2012 Money Club conducted a roadshow that was especially designed to appeal to women. The program, which toured the provinces of Bursa, Gaziantep, and İzmir last year, included a lineup of celebrities and experts who met with groups of women and chatted about clues of more pleasant life .

Having moved quickly into Facebook in 2011 and established a presence for itself there, Money Club launched a number of creative activities that integrated social media into its stores. Money Club's Facebook fans were provided with points and discounts on selected products thereby linking the virtual and physical environments. The success of Money Club's ground-breaking use of Facebook was shown by a 252% year-on rise in the number of its fans, which


A cardless shopping application that Money Club has been working on for quite some time was launched in 2012.

reached 227,000. The effectiveness of Money Club's fan communication was also acknowledged by its receipt of a "Socially Devoted" certificates from Socialbakers.

Distinguishing itself from other loyalty programs not just in its sector but throughout Turkey, Money Club organized a variety of campaigns in 2012 that made effective use of its abilities as a creative and technology-adept pioneer in the development and deployment of individually personalized customer applications. One of these was its innovative offer of a 50% discount to customers on products that they purchase frequently. In parallel with this campaign, the technical infrastructure of the customer kiosks in all Migros supermarkets and 5M hypermarkets was reviewed. Page layouts in particular were redesigned to make them easier for customers to use. Relaunched as "Happiness Machines", the kiosks are now at the service of Money Club members.

Under the heading of personalized applications, every year Money Club sends out letters addressed to designated customers that include discount coupons selected according to their personal shopping habits. In 2012 these were sent out in booklet form for the first time. Each booklet was individually personalized with the member's name while its cover design, the content of its pages, and the coupons included were all chosen so as to reflect individual shopping habits and preferences. Feedback indicates that these personalized booklets are very popular among customers.

Money Club performs detailed analyses of each customer's purchases and uses this information as an input for campaigns in which personalized spending targets are set and rewards are given for meeting them. In 2012 Money Club added a new dimension to this program. Taking advantage of Migros's particular strengths in fresh produce, dairy, and meats, Money Club's target campaign focused exclusively on those product groups. Members who make all of their purchases of these products from Migros-group stores benefit from Money Club discounts on all of their shopping.

Money Club keeps a close watch on new developments and trends in technology-based shopping. A cardless shopping application that it has been working on for quite some time was launched in 2012 on the iPad and iPhone platforms. With the introduction of this new convenience, customers who register their Money Club memberships cards can use their iPad or iPhone to obtain passcodes that can be used instead of the card itself and still take advantage of all of the general and personalized benefits their membership entitles them to.

The Migros Call Center communicated with half a million customers in 2012.


## Customer Services Hotline 444 10 44

The Migros Call Center communicated with half a million customers in 2012.

Providing service that exceeds expectations is what informs the perspectives and goals of Migros's customer focus. Because Migros gives the utmost importance to customer feedback when shaping company strategies, it regards fast, effective communication as being essential.

Accessible toll-free from everywhere in Turkey, Migros's call center on 444 10 44 responds to Migros, Tansaş, 5M, Macrocenter, MigrosJet, and Migros Virtual Market feedback received at locations based in İstanbul and Samsun. The success and effectiveness of the call center's operations is shown by the fact that 94% of incoming calls are resolved within 48 hours of their receipt.

Reports based on detailed analyses of customer feedback provide the basis for further improvements that will contribute to Migros's growth and development while also helping the company spot for new opportunities.

Migros will continue to view customers' opinions through the lens of its corporate objectives as it constantly enhances its service approach.


**Only At Migros**

The "Only At Migros" program was expanded to include every category while new products were also added to the mix.

## Product Management

Migros is a retailing chain that has been bringing Turkish consumers and world-beating innovations together for decades.

During Migros's "Anadolu" ("Anatolia") themed campaign in 2012, the signature specialties of many of Turkey's localities graced the shelves of the chain's stores. So successful was this campaign that it inspired Migros to undertake others. "İnanılmaz Olaylar" ("That's Incredible") introduced consumers to an assortment of astonishing products that they were unlikely ever to have seen before while the "Mutluluk" ("Happiness") campaign, conducted late in the year and coordinated with the celebration of Migros's 58th anniversary, showed off a range of products specially prepared for the occasion by Migros's suppliers.

Migros's traditional and highly successful themed catalogues, its weekend discounts, and its "Gördüğünüze İnanın" ("Seeing Is Believing") campaigns continued during the year. Category-specific discounts offered on special occasions such as Valentine's Day, International Women's Day, Children's Day, and World Animal Day have also become a much-in-demand tradition among Migros customers.

The "Sadece Migros'ta" ("Only At Migros") program introduced in 2012 was expanded to include every category while new products were also added to the mix. By offering products that can be found "Only At Migros", this program has been successfully attracting new customers to Migros's stores. The "Konuşturan Ürünler" ("Hot Topics") program also boosted product diversity in 2012.

Migros's policy of selling fresh produce all year long continued and was expanded. Fruits and vegetables available only in season are now being imported and offered to customers year-round. A side benefit of the introduction of regional specialties was that it has given Migros opportunities to expand its supplier delivery channels and offer customers an even greater variety of products. In some cases, Migros imports goods itself in order to satisfy customer demand.

Promotional activities during the year focused on price competition as part of Migros's ongoing efforts to provide customers with the best value at the lowest price.

Superior quality plus affordability are making Migros's private-label products and the selection of products made exclusively for Migros some of the most sought-after items in its stores.

## superior quality plus affordability


Migros Kalitesiyle...
Migros Bulgur
Pilavlık

Migros serves customers with close to a thousand stock-keeping unit private-label products in more than 200 categories.

## Private Labels

The company positions its private-label (store-brand) products in three main categories: "M-Selection", "M-Life", and separately-labeled "Migros"- and "Tansaş"-branded goods.

- "M-Selection" designates super-premium products that have features not found even in the leading brands in their respective categories.
- "M-Life" designates products specially designed for customers concerned about health-related issues and is used for both organic and diabetic products.
- "Migros"- and "Tansaş"-branded products consist mainly of basic necessities such as sugar, rice, oils, and the like that are the foundation of every home pantry. Products with these labels are chosen to conform to the highest Migros standards of quality while offering superior value-for-price.

The benefits of the new strategic approach to the management of private-label products that was introduced in 2011 began to make themselves felt in 2012. In line with this strategy, efforts were made all year long to further improve the quality of private-label products. In some cases this involved changing suppliers; in many others, improvements in product content and packaging were made in light of feedback received from customers.

As part of the same strategy, the shelf prices of Migros- and Tansaş-branded products (which had been substantially reduced in the last quarter of 2011) continued to be managed so as to ensure that they remained best value-for-price of comparable-quality goods currently on the market. One outcome of this approach was that there was a noticeable rise in customers' demand for Migros- and Tansaş-branded necessities. So much so in fact that the company's turnover on private-label products grew faster than did its total turnover.

Migros continued to conduct its Consumer Panel Program in order to quantify consumer satisfaction with its private-label products. The Migros Quality Management System, which allows the company to maintain strict control over product and supplier quality, ensured the sustainable superior quality of private-label products all year long.

As of end-2012, Migros was serving customers with close to a thousand stock-keeping unit (SKU) private-label products in more than 200 categories. In addition to its three "M-Selection", "M-Life" and "Migros"- and "Tansaş"-branded products, Migros also offers customers a broad selection of private-label product options in other categories under names such as "Viva", "Q-Max", "Home Basix", and "Touch Me".


**333**

During 2012, the company inspected the production operations of 333 suppliers.

## Quality Management

Where product wholesomeness is concerned, Migros is always guided by the highest internationally recognized standards. The company's goal is to ensure that all products are kept and displayed under the most healthful conditions so as to be worthy of its customers' unconditional trust. In line with this goal, every product is kept under careful control at every stage from its initial purchase until it reaches the final consumer.

The more than 3,000 food products put on sale at Migros stores for the first time in 2012 were checked against the requirements of Turkish Food Codex regulations and communiques to ensure that only compliant products were offered to customers. More than 8,000 new products in various non-food categories were also checked to be sure they were up to code before going on sale.

The customer feedbacks received concerning product quality were dealt with by the Migros Product Safety Unit, which investigated the issues, reported its findings to the appropriate company units, and informed the customers about what action had been or would be taken. In situations where product issues stemmed from suppliers, the suppliers were also informed and corrective/preventive action was taken as necessary.

Since 2008, Migros has been regularly inspecting the production premises of all of the suppliers whose products it sells. During 2012, the company inspected the production operations of 333 suppliers and checked them for compliance with quality and food safety management systems. Migros also inspected the suppliers and of the bags used for its fresh produce as well as the suppliers who provide it with its store-brand detergent, paper, and cosmetic products. Corrective/preventive action was initiated whenever the results of such inspections were unacceptable with follow-up inspections being performed subsequently. Agreements with suppliers who failed to pass follow-up inspections were terminated.

To verify that all food products put on Migros-owned store shelves satisfy Turkish Food Codex and other regulatory requirements, samples are regularly taken and analyzed. During 2012, 3,477 food products were analyzed for compliance with 20,027 parameters while 667 non-food items were analyzed for compliance with 3,582 parameters.

Detailed comparisons were made of the results of comparable own-label and outside-label product analyses and improvements were made in the specifications of store-brand goods where appropriate.


Store quality specialists performed 2,258 verification inspections at all of the company's formats last year.


Store quality specialists performed 2,258 verification inspections at all of the company's formats last year. Follow-up inspections were conducted in cases where stores' ratings were found to be below-average. Independent inspections were also carried out at 704 stores, during which 14,543 samples (water, ice, residues, equipment, employee hand swabs, etc) were collected and analyzed.

Quality management system and food safety training was provided to a total of 1,538 employees during 2012. In addition to training carried out by store quality specialists, 427 management personnel all over Turkey took part in a supplementary training program that dealt with a variety of store-related issues such as quality management systems, hygiene, and customer service quality.

Internal inspections were carried out at 688 locations in 2012. During these visits, stores and distribution centers (including fresh produce storage facilities and wholesale warehouses) were checked for compliance with operating and other procedures.

Turkish Standards Institution (TSE) examinations were carried out prior to the renewal of the company's ISO 9001:2008 Quality Management System and ISO 22000-2005 Food Safety Management System certifications. The audits found nothing amiss and both certificates were duly renewed.

Migros authored yet another first in the retailing and logistical services sectors with the introduction of temperature-sensitive tags on 295 of the vehicles used in the shipment of fresh foods. These tags make it possible to immediately spot any changes in temperature taking place during transit or while vehicles are waiting at storage facilities so that action may be taken immediately to prevent from spoilage.

Every incoming shipment of suppliers' products is inspected upon its arrival at a Migros distribution center. During 2012, 65,118 products were analyzed and checked by quality specialists for compliance with laboratory specifications.

In addition to inspections of goods upon arrival, quality specialists on duty at distribution centers also performed detailed analyses on 1,281 private-label products during 2012. All of Migros's quality-control laboratories are checked every year by an accredited independent laboratory. The purpose of such inspections is to obtain an objective opinion about the effectiveness of the Migros quality management system and the validity and reliability of its quality specialists' analyses.

Last year 404 training programs were conducted at distribution centers by specialist teams, during which 5,754 personnel received training on issues related to the conduct of distribution processes and on ways to improve their success.



In 2012 Migros worked directly with 69 GAP-certified suppliers.

## Good Agricultural Practices

Blue and white collar workers employed at regional fresh produce units were provided with essential on Good Agricultural Practices (GAP) training in 2012. As part of their on-the-job training, those in charge of the fresh produce sections of stores were also taken on field trips to places were GAP principles and procedures are followed and they were shown why GAP compliance was important.

GAP served as the subject of an episode of "Çocuklar Duymasın" ("Keep it from the Kids"), a popular sitcom. Visuals featuring the show's cast members were used to foster consumer awareness about GAP.

Migros once again sponsored and supported Turkey's leading agricultural fairs and GAP festivals such as the Second Alanya Good Agricultural Festival, the Tarser Agricultural Inputs Exhibition, and the Halser İstanbul Fresh Fruits and Vegetables Expo.

Migros collaborated with the İstanbul Bayrampaşa Wholesale Produce Market Directorate on GAP-related issues. The company also took part in a workshop, conducted by the Organic and Good Agricultural Practices Office, at which it provided information about GAP and its implications for retailing.

Migros delivered two GAP-related presentations to specialists in the field during 2012: "Crop Farming and Food Safety" at the 3rd Food Safety Congress and "Retailing Perspective on Good Agricultural Practices" during the "Agriculture and Voluntary Certification" session of the Third International Conformity Assessment Symposium (ICAS 2012) organized as part of the Strengthening the Quality Infrastructure of Turkey (SQIT) Project.

According to official figures published by the Food, Agriculture and Livestock Ministry, 280 firms in Turkey qualified for GAP certification in 2012. Last year Migros worked directly with 69 of them. In other words, nearly a quarter of all of the GAP-certified suppliers in Turkey act as the sources of the agricultural production that Migros sells.

Effective use is made of the "Migros Traceability Portal" that the company has launched. Located at https://b2b.migros.com.tr, this portal provides firms in possession of GAP certification with convenient online access to the company.

Since the day it was founded, Migros has always adhered to practical, proactive strategies while focusing on maximizing productivity as it responds to the world's changing dynamics.


## practical, proactive strategies


The first issue of Migroskod, Turkey's first digital catalogue, was launched in 2012.

## Migros Virtual Market

www.sanalmarket.com.tr

Serving online customers in Turkey since 1997, the Migros Virtual Market (MVM) offers all of the products and services available in a Migros store to customers at all hours of the day and every day of the week at the same prices and advantages.

The introduction of smart phone and tablet computer applications in addition to its internet and telephone connections further increased the service channel connectivity and accessibility of the online market. MVM continued to grow rapidly in 2012. Conducting its distribution operations year-round through 66 stores, the number of MVM's distribution points rises to 74 during the summer season with the addition of Turkey's most popular resort areas. Last year MVM was visited an average of 400,000 times a month.

Migros's Mobil Market application, the first of its kind in Turkey, was launched in 2010. The number of orders placed through this channel has since increased steadily and it accounted for 13% of the total number in 2012. By reading product barcodes with their mobile phone cameras, Migros Mobile Market users can order whatever items they want. Migros Mobile Market users have access to all Migros store products and campaigns at exactly the same prices and with exactly the same advantages from the convenience of their own phones.

The Migros Mobile Market application for the Android platform, which was launched in 2012, not only reads barcodes but, in another first in Turkey, also is equipped with a voice search feature that allows users to find products and brands they're looking for just by saying them out loud. Because the Migros Mobile Market application is also fully compatible with Migros Virtual Market, not only can users put together orders by reading barcodes but they can also use the search function to locate items on shelves and even create new orders from old ones. In the month following its launch, Migros Mobile Market was the most downloaded application at the Appstore.


# Mobile Market

The "2011-2012 Retailing Technology Application of the Year" award by the Turkish Shopping Centers and Retailers Association

Migros Mobile Market was cited as the "Retailing Technology Application of the Year" in the 2011-2012 series of awards conducted by the Turkish Shopping Centers and Retailers Association (AMPD).

To further increase the visibility of the Migros Mobile Market, in December 2011 Migros introduced another first in Turkey with the staging of "Virtual Migros Aisles" on İstanbul's Bağdat high street and at shopping centers. During this marketing and promotional event, the barcode reading capabilities of the application were demonstrated.

The first issue of Migroskod, Turkey's first digital catalogue, was launched in 2012. By reading the catalogue's barcodes with their mobile phone, customers can put together "shopping baskets" containing whatever items they want in the convenience of their home or from wherever they may be. Migroskod was one of the biggest eye-catching developments in Turkish retailing in 2012.

In 2012 MVM continued to make active use of both Facebook and Twitter while also adding Google + to its lineup of customer accessibility platforms. Through these social media channels, Migros customers are able to keep up with ongoing campaigns and innovations while also taking advantage of special campaigns as well. Migros Virtual Market pages have been created on other social media platforms such as YouTube and Vimeo and these are also attracting attention and encouraging user participation.

Another innovation introduced in 2012 was 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. Customers clicking at www.migroselektronik.com enjoy the convenience of online shopping and fast delivery while also taking advantage of Migros's best-quality and best-price reputation.

Macrocenter, Migros's chain of shops whose superior service standards and products appeal to upmarket customers, went online with the introduction of its "Macroonline" service a few years ago and is also accessible on its "Macrophone" telephone order line. Both channels continued to provide personalized service to customers in selected districts of İstanbul.


The "My Office" app that Migros introduced in 2012 proved to be a success in the international arena as well.


## Information Technologies

Because allowing customers to have a unique and an enjoyable shopping experience is an important goal for Migros, the company continued to accelerate its efforts to improve the effectiveness of its business processes in 2012.

The "My Office" app that Migros introduced in 2012 proved to be a success not just in Turkey but in the international arena as well. The first app of its kind in the world's food retailing industry, My Office installs on tablet computers and allows users to display and share essential information immediately. With My Office, store managers have quick access to all store functions with just a single touch. This allows them to see and compare store-related information and to take action as needed.

With a tablet computer running My Office, managers can keep track of sales, stock levels, and movements of products in warehouses and on shelves in real time and generate reports immediately. In this way they can spot operational problems as soon as they pop up and take quick and effective action to deal with them.

Incorporating a brand-new, hands-on approach to management, the My Office app makes it possible for a store to be run entirely from within the store's premises and not just from a distant office.

By allowing store managers to communicate directly with store personnel and customers, My Office not only saves time but also once again underscores Migros's closeness to its customers and its unique service approach.

The My Office app has already boosted products' shelf availability by 3%. By reducing hard-copy reports by 40%, it has also contributed significantly to operational efficiency.

In house IT infrastructure of the company has been improved. Software for systems used in the conduct of store operations was rewritten to incorporate new technologies and processes. The CRM and Marketing departments' customer- and product-specific online campaign systems were further developed. The Financial Data Warehousing Project was continued and improved to make for generating reports easier and faster. Checkout systems in the company's stores outside Turkey were replaced and expanded with the addition of promotional capabilities that allow more customers to be reached through more campaigns.


**18 thousand**

At end-2012, the Migros family consisted of 17,862 people.

## Human Resources and Training

One of Migros's most important strategic objectives is to have human resources which it has itself trained to be 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 "Create employees who will create competitive advantages". The importance which Migros gives to professional and personal development through ongoing training helps keep the company one step ahead of everyone else in what is a highly competitive sector.

At end-2012, the Migros family consisted of 17,862 people of whom 16,347 were employed in Turkey and 1,515 outside the country. With the inclusion of seasonal hires, the average number of personnel works out to about 16,864 a month. Last year Migros received a total of 25,830 job applications, which corresponds to an average of 123 a day. A total of 7,600 people were newly hired, which corresponds to about four new people joining the Migros family during each business hour last year.

In 2012 more active use was made of the in-house recruitment system that became a part of the company's hiring processes in 2011.

In the 2012 PERYÖN People Management Awards, Migros was a "Performance Management" and "Selection and Placement" finalist in the "Most Successful Human Resource Practices" category. Migros also received the "Most Successful Human Resource Practices" citation in the "2012 Retailing Sun Awards" for its "Store Career Paths" program. This program lays out a roadmap that is to be followed in an employee's career progression. For example someone who begins working as a part-time employee may become a floor manager after just a year and a store manager or regional sales manager after just three years at the company.

While the average number of female personnel employed by companies throughout Turkey is 30.3% according to TSI Household Labor Force Statistics, 39% of Migros's employees are women. In 2012 Migros ranked first in İzmir in both the "Company Providing The Most Employment" and the "Company With The Most Female Employees Covered By Social Security" categories.

While Migros is a youthful, energetic family whose members' average age is 29, 50% of its employees have been working for the company for more than eight and a half years.

**22 thousand**

"Hotline Forum" responded to more than 22,000 calls in 2012.

Employee satisfaction is an area to which Migros gives the utmost importance. A "Working Life Assessment Survey" is conducted every year in order to measure and further improve the level of employee job satisfaction. According to this survey, employees' job satisfaction levels have been increasing consistently year after year. Employee feedback about possible improvements in working conditions is posted and tracked on the company's "Have Your Say" platform. 2012's "Working Life Assessment Survey" was conducted by an independent research agency. One outcome of this collaboration was that all 13,500 employees who had been targeted were reached and a 100% response rate was achieved. According to the 2012's survey's findings, the employee satisfaction level at Migros increased by 2% or 1.2 basis points year-on.

Based on feedback from these surveys, many innovations were introduced in the company's human resources practices in 2012. One outcome of such improvements is that there has been a 31% reduction in store management staff turnover. During the year, a number of programs as well as meetings on a variety of subjects and wellness and nutrition seminars were conducted as ways of increasing employee satisfaction and improving working life.

"Hotline Forum", whose aim is to increase employee satisfaction and to address personnel-related problems in the quickest way possible, responded to more than 22,000 calls in 2012. The average number of calls dealt with was 1,800 a month.

Migros's human resources evaluation systems are specifically designed to be fair, consistent, and transparent. To achieve this, the company makes use of both the most advanced technology and the most effective methods.

The objectives of the Migros Performance Management System are to:

- Make sure that the company's strategies and goals are known and shared by employees
- Manage and evaluate employee performance objectively and within the framework of communally-recognized principles
- Provide guidance for career development and backup, compensation package, and personal development policies
- 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 expected.

Nearly 4,000 performance evaluations are made about in the conduct of administrative unit and store personnel performance management processes in a year.

A semiannually conducted store personnel performance management process evaluates the performance of close to 13,000 employees from the standpoints of such criteria as personal competencies and professional skills and the impact which these have

## Migros Reward System

In 2012 thousands of ideas and suggestions about workplace improvements, projects, new store locations, and so on were put forward in the Migros Reward System.

on their sales- and service-focused job performance. The results of these evaluations are used as input both for career-path roadmapping and for identifying training and development requirements.

"360° Competency-Based Performance" reviews are also carried out in order to identify headquarters and store management personnel's strengths as well as their weaknesses and to formulate development plans accordingly. During the reporting period, individual competency evaluations were performed on 1,014 employees, including personnel in the company's Kazakhstan and Macedonia operations. The findings of these evaluations are being used as input for Migros's short-, medium-, and long-term strategic human resources planning processes. A total of 1,915 employees were also discussed at strategic human resources meetings. Competency evaluation results were used as the basis for the employee progression agreements that were newly introduced in 2012.

The store bonus system was another of the processes in which improvements were made in 2012. The "This Is Our Store" bonus system, which imposes no limits on bonuses but instead makes it possible for everyone to earn more by expanding the pool, went into effect in the first quarter of the year. This new system, which rewards a store's overall effectiveness in maximizing sales while reducing overhead costs, has proved very popular among personnel.

In addition to acknowledging employees' superior performance, the Migros Reward System also encourages employee practices that contribute towards greater teamwork, employee creative ideas, and employee efforts which have been instrumental in the company's success over the years. The Migros Reward System recognizes and rewards performance in seven main categories. From among the thousands of ideas and suggestions about workplace improvements, projects, new store locations, and so on that were put forward last year, 1,646 employees received rewards.

In addition to their reputation for knowledgeable experience resulting from leading the way forward through, innate, and sound practices, the members of the Migros family also shape the course of the sector with a youthful, dynamic, and enterprising spirit which is always on the lookout for new ideas and which rapidly improves itself. Migros employees have always ranked among the best of a sector that is constantly growing and developing and they have made it a principle to take a "retail engineering" approach as they rapidly plan and carry out even the minutest details of their jobs.

Other efforts that have been initiated to strengthen communication, cooperation, and solidarity among employees also continue without letup. Last year the fourth in the series of Migros Sports Festivals was held in which employees from all over Turkey took part. During the course of the festival's events, 967 employees competed with one another in football, basketball, volleyball, tennis, table tennis, and chess. Awards and recognitions were handed out to 102 successful contestants.


Migros employees were provided with an average of 12.98 days of training in 2012.


Migros supports programs which contribute towards its employees' development. The company's progression plans and career-management processes are implemented at all personnel levels in all store formats. One such program is the Migros Retailing Academy (MRA), whose aims are to develop human resources in line with the company's corporate priorities and with individual and sectoral needs so as to achieve Migros's strategic objectives.

All of the developmental opportunities that exist anywhere in Migros are brought together in MRA, which has been structured so as to create an environment which makes continuous development an element of Migros's 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.

MPA consists of six divisions:

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

MRA's curriculum consists of 228 classroom courses, 105 distance education programs, and a recommended-reading list of 160 magazine articles and 75 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 personal level by creating opportunities to exchange knowledge and experience that goes beyond formal training.

Migros employees were provided with an average of 12.98 days of training in 2012.

The Migros Retailing Program developed in collaboration with Anadolu University 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 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 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.



The number of Migros distribution centers has been increasing in the last three years and reached 21 in 2012.

## Distribution Centers and Logistics Management

Substantial improvements have been achieved in distribution center operations and logistics management in recent years through greater attention being given to projects that focus on productivity and growth. Service quality at distribution centers has increased significantly, newly-emerging needs in the supply chain are being dealt with more effectively, and economizing has made processes more cost-effective. 2012 was a particularly noteworthy year from the standpoint of improvements in distribution center effectiveness and efficiency: although input costs were higher than they were in 2011, Migros's distribution center and logistics costs remained essentially unchanged.

Owing to Turkey's varied geography and population densities, distribution center and logistics processes play a crucial role not just in service quality but also in costs. The number of Migros distribution centers has been increasing over the last three years. As of March 2013 the number, including the fruit & vegetable and the meat storage facilities from which the fresh produce groups are distributed, reached 21. This increase in distribution center numbers gives the company greater regional accessibility but also results in significant savings by reducing round-trip travel distances. Logistical efficiency was enhanced by dynamically analyzing shipment routes and frequencies and optimizing them.

Under a system that was introduced in 2010, fresh foods are now being distributed centrally to all territories through Migros distribution centers. These products move through an unbroken cold chain at every stage of shipment so as to ensure that they reach the consumer in the highest possible quality and safety.

One of the most important advantages that Migros has in distribution center and logistics management is its ability to develop and deploy the software it needs and uses for the conduct of its own operations. This allows the company to act quickly and nimbly whenever making improvements in its operational processes.

Information about the exact positions, onboard temperatures, etc of vehicles during shipment is fully integrated into Migros's information systems in real time. Individual stores can see where trucks are on touch-screen maps, what their routes are, and when the vehicles will be arriving. This allows them to efficiently plan their stock and manpower needs and results in significant savings.

# Financial Results and Review

In 2012, Migros's consolidated sales increased by 12.7% and amounted to TL 6,482 million in value.

Over the last two years, Migros has been focusing its attentions on supermarket operations, its core business activity. In 2011 the company opened 71 supermarkets and 5 hypermarkets in Turkey and one store abroad, bringing the total number for the year to 77. In 2012 Migros further accelerated its store opening program with the addition of 166 new locations consisting of 159 supermarkets and 2 hypermarkets in Turkey and 5 stores in other countries. The company completed 2012 with a total of 851,680 $m^2$ of sales area in 882 stores: this corresponds to a year-on rise of 6.8%.

In 2011 Migros booked consolidated sales of TL 5,753 million; this increased by 12.7% in 2012 and reached TL 6,482 million in value. This means that Migros successfully achieved its goal of registering double-digit growth last year. Consolidated gross profit was up by 14.1% and amounted to TL 1,705 million. In order to increase market share and support its sales performance, Migros continued to invest in prices–particularly in private label and fresh foods groups–all year long. As has been the case now for many years, Migros's prices again rose less than the rate of consumer price inflation in Turkey. Despite this, the company's consolidated gross profit margin has improved steadily over the last three years from 25.7% in 2010 to 26.0% in 2011 and to 26.3% in 2012. Migros's consolidated operating profit, which was TL 232 million in 2011, increased by 6.7% and reached TL 248 million in 2012, a year in which its consolidated operating profit margin weighed in at 3.8%.

In 2012 Migros booked an EBITDA of TL 430 million. This was 8% higher than the previous year's TL 398 million and also corresponded to 6.6% of sales.

In 2011 Migros booked TL 177 million as financial income; in 2012 this figure was TL 178 million. During the same twelve-month period, the company's financing costs plummeted by 59% from TL 725 million in 2011 to TL 297 million in 2012. Dividend and interest income, which was TL 35 million in 2011, rose to TL 37 million last year. In 2012 Migros grossed currency-translation gains worth TL 97 million.The company's debt is denominated in euros. Because the Turkish lira appreciated against that currency in 2012, the net value of its exchange rate gains at the time of their year-end evaluation was TL 79 million.

In 2011 Migros announced a pretax loss of TL 316 million and a net loss of TL 163 million; in 2012 the company booked a pretax profit of TL 129 million and a net profit of TL 88 million.

The company's cash and cash equivalent items amounted to just over TL 1 billion, about where they were in 2011.

6.1% of the company's consolidated sales are generated by its foreign operations. Domestic sales, which were worth about TL 5,401 million in 2011, increased by 12.7% in 2012 and reached TL 6,087 million.


Migros booked an EBITDA of TL 430 million. This was 8% higher than previous year and also corresponded to 6.6% of sales.

The gross profit margin on the company's domestic sales in 2011 was 26.1%; in 2012 it was 26.4%. The gross profit on sales in 2012 increased by 14.0% year-on and reached TL 1,607 million. The company's domestic EBITDA went from TL 370 million in 2011 to TL 397 million in 2012. Last year Migros's domestic EBITDA margin was 6.5%.

Ramstore Kazakhstan, a wholly-own subsidiary of Migros, opened three new stores in 2012, a year in which that company began to reap the benefits of the rapid growth it registered in 2011. Ramstore Macedonia opened two new stores in 2012, thereby bringing the number of its locations in the country to seven as well as the ownership of one shopping mall.

Sales generated by Migros's international operations grew by around 12% in 2012. Foreign sales, which amounted to TL 352 million in 2011, reached TL 396 million in 2012. The company's gross profit on its international operations increased by 26.8% and reached TL 85 million in 2011; in 2012, the rise was 16.0% and the year-end figure stood at TL 99 million, which corresponds to about a 25.0% gross profit margin. International EBITDA, which makes up 7.7% of consolidated EBITDA, increased by 16.0% year-on and reached TL 33 million, which translates as an international operations EBITDA margin of 8.4%.

**Consolidated Results**

| Summary (TL thousand) | 2012 | % | 2011 | % | Change (%) |
|---|---|---|---|---|---|
| Sales | 6,482,402 | 100.0 | 5,753,112 | 100.0 | 12.7 |
| Gross Profit | 1,705,335 | 26.3 | 1,494,490 | 26.0 | 14.1 |
| Operating Income | 247,923 | 3.8 | 232,412 | 4.0 | 6.7 |
| EBITDA | 430,103 | 6.6 | 398,080 | 6.9 | 8.0 |
| Income Before Taxes | 128,910 | 2.0 | -315,858 | -5.5 | -140.8 |
| Net Income | 88,136 | 1.4 | -163,170 | -2.8 | -154.0 |

**Domestic Operations**

| Summary (TL thousand) | 2012 | % | 2011 | % | Change (%) |
|---|---|---|---|---|---|
| Sales | 6,086,720 | 100.0 | 5,400,669 | 100.0 | 12.7 |
| Gross Profit | 1,606,509 | 26.4 | 1,409,360 | 26.1 | 14.0 |
| EBITDA | 396,972 | 6.5 | 369,519 | 6.8 | 7.4 |

**International Operations**

| Summary (TL thousand) | 2012 | % | 2011 | % | Change (%) |
|---|---|---|---|---|---|
| Sales | 395,682 | 100.0 | 352,443 | 100.0 | 12.3 |
| Gross Profit | 98,826 | 25.0 | 85,130 | 24.2 | 16.1 |
| EBITDA | 33,131 | 8.4 | 28,561 | 8.1 | 16.0 |

In 2012 Migros won the "Most-liked retailer in Turkey" award for the 9th year in a row.

For 58 years Migros has been adding value to modern retailing through sustainably innovative practices. While focusing on productivity in parallel with its own growth policies, Migros continues to create added value for all of society.

Seeking to make shopping a more enjoyable experience, Migros's approach to retailing is to provide a venue that satisfies as many of people's needs as possible. Because it strongly believes that its customers have a right to make their own choices, Migros constantly expands and diversifies the selection of trusted and superior-quality product options with which its stocks its shelves.

One of the most important issues in retailing is to distinguish oneself as an outstanding service provider in customers' eyes. Migros's approach to customer service sets it apart from the rest of its sector because all of its business practices and rules are designed to maximize and sustain customer satisfaction.

Migros strives to undertake and carry out social responsibility projects that create strong emotional bonds with its customers. Independent sectoral research and surveys have repeatedly shown that Migros is a retailer who enjoys the highest level of customer loyalty.

A fundamental tenet of Migros's approach to social responsibility is that every project which it undertakes must address and resolve some essential social need or at the very least it should point the way towards such a solution. Fostering a sense of responsibility and sustainability among the public at large by marshalling the efforts of socially beneficial foundations, associations, and NGOs as well as of its own business partners, employees, and customers is a matter to which Migros gives great importance.

In 2012 Migros won the "Most-Liked Retailer In Turkey" for the 9th year in a row. One reason why the company so consistently receives this accolade is that it has always involved itself in many different social-service projects and activities in its capacity and sense of responsibility as Turkey's leading retailer. Migros continues to undertake sustainable projects that concern themselves with real issues impacting its community's future.

While offering its customers advantageous prices that help support their household budgets, Migros also provides them with a superior shopping environment, outstanding service, and innovative practices and ideas.


## customer loyalty

Independent sectoral research and surveys have repeatedly shown that Migros is a retailer who enjoys the highest level of customer loyalty.

It has always been a Migros rule to train its own managers itself. The company's career-path and progression planning policies and practices fully support its employees' efforts to turn their aspirations into a reality. Migros received the "Most Successful Human Resource Practices" in the "2012 Retailing Sun Awards" for its "Shopping For My Dreams: My Future Is In This Basket" program. Besides providing employment directly to a huge family of 18,500 members, Migros also contributes indirectly to overall employment on a much broader scale.

Besides its customers and employees, Migros also collaborates very closely with its suppliers too. This results in the creation of synergies such as special campaigns, innovatively themed and/or seasonal projects, and specially-made products.

As a retailer who contributes to the national economy and to employment, who adheres to ethical business practices, and who acknowledges and fulfills its stakeholder responsibilities, Migros is aware that everything it does has implications for society as a whole. Migros is also aware of its responsibility to shape the vision and future of retailing and it will continue to fulfill that responsibility as well.

### Migros Corporate Social Responsibility Projects

In order to promote civil society awareness and to increase the effectiveness of non-governmental organizations, Migros also supports projects which have been developed by others as well. In 2012 the company donated a total of TL 650,553.69 to socially beneficial foundations and societies.

### THE ENVIRONMENT

Migros has authored and developed many of its own projects with the aims of creating and fostering environmental awareness and of protecting nature with a focus on ensuring that the needs of future generations will be met. The company engages in an ongoing effort to use resources productively and economically.

### Having 390,000 Trees at the Aegean

Responding to the concerns of its Aegean-region customers, Tansaş launched a social responsibility project in collaboration with the Aegean Forest Foundation for the town of Urla in southwestern Turkey in 2006. Starting out initially with 100,000 newly-planted saplings, the project has, with the steady support of customers, reached a total of 390,000 trees planted in ongoing efforts to reforest fire-ravaged areas in Dikili, Torbalı, Selçuk-Şirince, Çeşme, Seferihisar-Doğanbey, and Seferihisar-Kavakdere.



At the "Environment Points" 7.7 million pieces of packaging and other waste were collected in 2012.

**7.7 million**

Every jar of Aegean Forest Foundation olives sold at Tansaş stores is used to pay for planting a new tree in support of these reforestation efforts.

### Joining Hands for Nature

Migros was one of the first major retailers in Turkey to replace plastic shopping bags with more eco-friendly sacks. Migros's efforts to reduce the use of disposable sacks attracted widespread public attention and approval. The reusable carrier bags made from fabric that Migros introduced as a second step in this direction are attracting more and more interest. The average number of shopping bags used by Migros customers fell by 4% in 2012.

### Environment-Savvy Recycling Bins

Migros's environmental approach is also expanding through the increasingly greater use of "smart" recycling bins at the company's stores. Environmentally-aware customers who properly dispose of packaging waste and used batteries (all of which is correctly sorted and binned by means of barcode readers) earn "Environment Points" which they can then use to buy eco-friendly carrier bags, make a donation to the World Wildlife Fund (WWF), or have a tree planted in the Migros Customers Forest. As a result of this program, 7.7 million pieces of packaging and other waste were collected in 2012.

As a member of the Environmental Protection and Packaging Waste Recovery and Recycling Trust (ÇEVKO), Migros provides material resources to undertakings that involve waste recovery and reuse. During 2012 Migros contributed towards ÇEVKO's efforts by collecting 2,227 tons of packaging waste and also by contributing to the organization's budget.

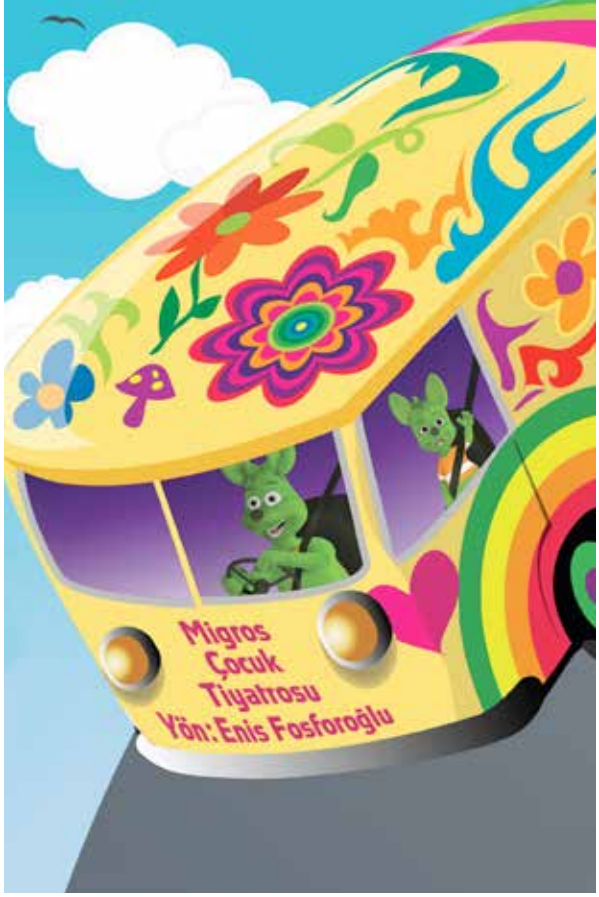
In 2012, 26 tons of waste vegetable oil collected at Migros distribution centers was put to work for the benefit of the national economy by being converted into biodiesel.

In keeping with its environmental awareness, Migros collected 9,564 tons of paper, cardboard, metal, and other packaging waste from the company's stores and back office units and sent it all to recycling centers.

As part of Migros's efforts to protect the environment, 65 tons of electronic scrap were collected last year for recycling/disposal without causing environmental harm.

### Converting Organic Waste into Electricity And Compost

In 2012 Migros formulated and put into effect an "Integrated Waste Management Plan" whose aim is to make the most effective choices in waste recovery, recycling, and disposal. In line with this plan, the company decided the best way to deal with organic waste was to use it to produce biogas (which can then be used to generate heat and electricity) and for composting. From 7,600 tons of organic waste collected from 74 stores in the İstanbul region, 760,000 $m^3$ of biogas and 1,423,520 kW of electricity were produced. From the biomass remaining after





## Hand and hand into tomorrow

Over the years, Migros has given thousands of children a chance to experience theater in 48 provinces

this biogas production, 3,770 tons of good-quality compost and fertilizer usable in gardening and farming were produced. This project is part of Migros's overall sustainable waste management policy, whose ultimate goal is to achieve "Zero Waste":–that is, instead of disposing waste resulting from store operations, everything that can be transformed into differnet sources of energy and make it useful for the energy.

To contribute towards greater environmental awareness among young people and to bring families together and enable them to have a good time while encouraging them to think about the environment, Migros staged events at its Aegean-region stores in which 150 families competed with one another to create entertaining and thought-provoking sculptures from discarded packaging.

### HEALTH

Thanks to widespread public interest in a Migros-supported campaign to recycle plastic container caps in the Aegean region, 80 tons of plastic caps and lids were collected. The proceeds from the sale of this recyclable plastic were used to provide wheelchairs to 320 handicapped people.

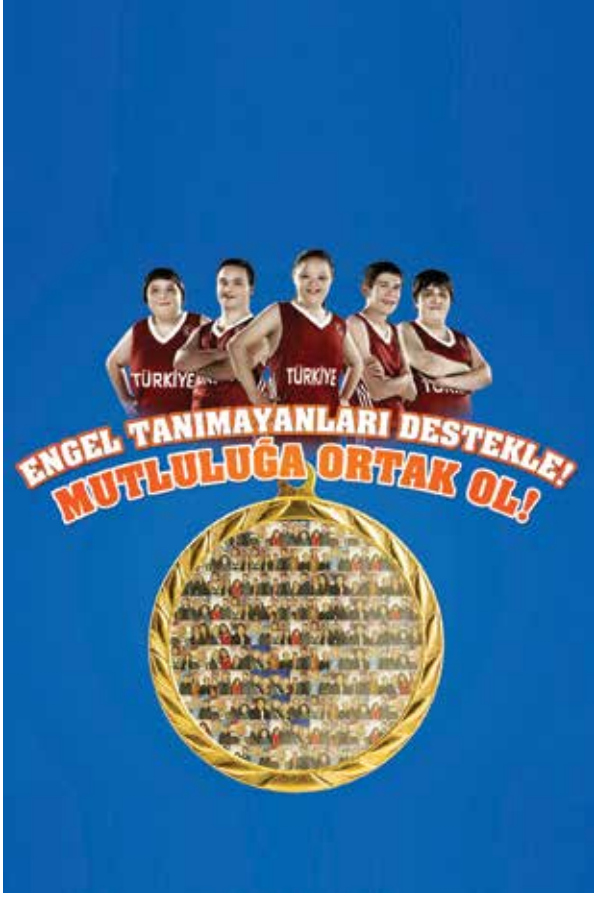
The "Help The Handicapped Shop" program introduced at Tansaş stores in 2011 has proven to be very popular and continues to attract interest and praise. Under this program, store employees are assigned to accompany handicapped customers and to help them while they do their shopping.

"Let Me Carry That For You" is yet another innovation that has been introduced at Tansaş stores. Intended for people aged 65 or older, store personnel accompany elderly shoppers and carry their purchases as they return home. This Tansaş campaign has generated considerable positive feedback from elderly customers and their relatives.

In a Tansaş-sponsored campaign conducted in collaboration with the Ege University School of Dentistry, a mobile dental-checkup project was carried out in a mobile clinic in which clinicians performed free dental checkups and people were provided with information about dental and nutritional hygiene and health and encouraged to visit their dentists regularly. The project reached 850 children, who were given free toothbrushes and toothpaste.

### CULTURE & ART

As embodied in its slogan "Hand And Hand Into Tomorrow", the Migros Children's Theater is Migros's most enduring and popular social responsibility project. Over the years, Migros has taken the theater on tour around the country and given thousands of children a chance to experience theater, very often for the very first time. Migros supports theater out of its belief that it is an effective way to contribute to children's intellectual development and to raise children who are culturally and artistically creative. In 2012, the Migros Children's Theater mounted 86 performances of "Look What Happened" in 11 provinces. Directed by Enis Fosforoğlu, the play is


Over the last two decades, about 800,000 children have attended such performances thanks to Migros's support.

**800 thousand**

entertaining while also conveying messages about peace and love to young audiences.

In addition to the Migros Children's Theater, Migros has been collaborating with the State Theater for 18 years in the staging of plays for children for two weeks every spring as part of Children's Day celebrations. Known as the "April 23rd Theater Festival", these performances have provided thousands of children with opportunities to attend the theater free of charge. The festival's extensive repertoire of plays, which have been specially written to appeal to children and incorporate a variety of messages that are both entertaining and instructive, allows young audiences to experience both the delight of their holiday and the excitement of the theater. Over the last two decades, about 800,000 children have attended such performances thanks to Migros's support.

## SPORT

Ever on the lookout for ways to make active participation in sports a way of people's lives, Migros particularly focuses its attentions on children in order to nourish their inherent love of physical activity early in their lives. In 2008 Migros joined forces with the Educational Volunteers Foundation of Turkey (TEGV) as one way of fulfilling this mission. Under this "Youth Jerseys" project, which is still continuing, Migros fosters a love of sports and a sense of sportsmanship and fair play especially among children in the 11-12 age group, who are encouraged to join together as amateur teams at TEGV playgrounds. The football pitches at some TEGV parks were also renovated by Migros. As a result of this project, 4,030 boys and girls grouped into sixteen-player teams have taken part in programs conducted at 12 parks in 11 provinces while 199 volunteer trainers have taken part in the activities. Every volunteer trainer who completes a full year with the project receives a UEFA "E" trainer's license from the Turkish Football Federation. The "Youth Jerseys" Migros social responsibility project has proven highly successful in reaching children all over Turkey and promoting football as a participation sport among different segments of society. It has been awarded its third Grassroots Charter star under UEFA's "Football For All" program.

Under the "Thanks Mom" campaign, 1,500 mothers chosen at random from among customers who bought Proctor & Gamble products in Migros took part in a special event along with their children. The purpose of this campaign was to contribute towards the strengthening of the Olympic movement's spirit in Turkey and also to thank the mothers of Turkey's Olympic athletes.

Last year the fourth in the series of Migros Sports Festivals was held. The festival was the scene of spirited and exciting confrontations in which about a thousand people from all over the country went head-to-head to make it to the finals. The feelings of perseverance, competitiveness, and unity inspired by the festival



## Migros Sports Festival

The festival was the scene of spirited and exciting confrontations in which about a thousand people from all over the country went head-to-head to make it to the finals.

created synergies among all the participants. The scope of the festival in 2012 included football, basketball, chess, volleyball, table tennis, and tennis. Migros employees from Adana, Ankara, Antalya, and İzmir took part in finals held in İstanbul during which they engaged in sportsmanlike competition against one another in tournaments characterized by all of the excitement, exuberance, and enjoyment of sport.

In İzmir, the third in the series of "Inter-Lycee Bicycle Races" was held last year. In this closely-contended annual meet, in which students from the city's different high schools take part, unfolded in an enjoyable and friendly atmosphere.

Tansaş-supported activities organized under the "Good Health With Tansaş" slogan were open to all of İzmir's inhabitants free of charge six days a week.

In 2012 Tansaş organized an inter-university bowling tournament in which 22 teams and a total of 225 university students from 8 universities took part.

### EDUCATION

Recognizing that young people are the guarantee of our future, Migros continues to support their education by designing and implementing projects which will contribute towards making them beneficial members of society. Migros also supplies material resources in support of similar education-related projects which may be undertaken by non-governmental organizations. In 2012 once again Migros donated part of the income it received on own-brand products that were sold in its stores to the Educational Volunteers Foundation of Turkey (TEGV).

In order to encourage customers to buy gifts for children in celebration of National Sovereignty and Children's Day (April 23rd), Migros undertook a campaign jointly with TEGV in which a 50% price discount was given on the toys, children's books, and school supplies sold at Migros, Tansaş, 5M, and Macrocenter stores.

In order to promote traffic safety awareness, Migros prepared posters with driver-education slogans accompanied by the Migros logo to display on traffic lights. 450 people also took part in driver training using a vehicle simulator.

### SOCIAL WELFARE

During the Kurban Bayramı holiday, customers were given opportunities to send donations to the Foundation for the Training and Protection of Mentally Handicapped Children, through Migros stores and the Migros online market.

In support of the Urgent Need Project Foundation's "Clothes Drive", every Ariel product sold at Migros stores was used to finance the purchase of new clothes to be given away to 10,000 needy children.

## Migros Ticaret A.Ş.

## Corporate Governance Principles Compliance Report

### 1. STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

Order-in-Council 654 published in (duplicate) issue 28081 of Resmi Gazete (the official gazette) dated 11 October 2011 made the following additions to the duties and authorities of the Capital Markets Board (CMB): "determine and announce corporate governance principles in capital markets; in order to contribute towards the improvement of the investment environment, require those public joint stock companies whose shares are traded on an exchange and which are members of groups which it shall specify taking into account the percentage of their publicly traded stock, the number and nature of their investors, the indexes in which they are included, and their trading volumes within a specified period of time to comply, partially or entirely, with corporate governance principles."

In line with the powers vested in the Capital Markets Board by this order-in-council, corporate governance principles were reconstituted as a regulatory communique with some changes being made in the principles taking international developments into account. "Communique concerning the determination and application of corporate governance principles" (IV:56) was also published in duplicate issue 28158 of Resmi Gazete on 30 December 2011. Since its original publication, Communique IV:56 concerning the determination and application of corporate governance principles has been changed four times by the following amending communiques that went into effect as of the respective dates of their publication: IV:57 (Resmi Gazete 28201, 11 February 2012), IV:60 (Resmi Gazete 28335, 26 February 2012), IV:61 (Resmi Gazete 28410, 13 September 2012), and IV:63 (Resmi Gazete 28567, 22 February 2013). The execution of provisions of the communique is carried out by the Capital Markets Board.

Migros Ticaret A.Ş. gives great importance to compliance with the corporate governance principles published by CMB. Migros is aware of the benefits that implementation of these principles will bring to the company, its stakeholders and ultimately to the country. In order to comply with principles specified in communiques and to be an exemplary company in the matter of such compliance, our practices are constantly being reviewed, with improvements being made in them as necessary.

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 set up in 2007 and charged with monitoring corporate governance activities throughout the company and with overseeing the work of the Investor Relations Department. Under "Communique concerning the determination and application of corporate governance principles", it has become mandatory for every company subject to the communique to set up a corporate governance committee of its own and for the head of that committee to be selected from among the company's independent board members. In a board resolution passed on 9 October 2012, Hakkı Hasan Yılmaz, Nicholas Stathopoulos, and Affan Nomak were elected to seats on the corporate governance committee and independent board member Hakkı Hasan Yılmaz 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 stakeholders. 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's corporate governance principles compliance report may also be found in the "Investor Relations" section of its corporate website located at HYPERLINK "http://www.migroskurumsal.com" www.migroskurumsal.com.

**Corporate governance committee compliance activities in 2012**

At the company's annual general meeting on 28 June 2012, amendments for which Capital Markets Board and Ministry of Customs and Trade authorizations had been applied for and received were made in the articles of

association for compliance with "Communique concerning the determination and application of corporate governance principles". The current version of the company's articles may always be found on the company's corporate website at www.migroskurumsal.com.

As required by the communique's stipulation that announcements about general meetings must be made at least three weeks before the meeting date, our company's general meeting was duly announced three weeks in advance of the date on which it was to be convened. A general meeting information sheet containing information about such issues as the company's remuneration policy, charitable donations and assistance policy, and biographies of board members was also publicly disclosed on our corporate website.

As required both by the new trade law and by CMB "Communique concerning the determination and application of corporate governance principles", the Board of Directors has set up a Early Detection of Risk Committee while the structures and memberships of the previously-constituted Audit Committee and Corporate Governance Committee have been changed to bring them into compliance with the same communique.

Our company has become a member of the Investor Relations Association of Turkey in 2012.

## PART I - SHAREHOLDERS

### 2. 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 shares to protect and exercise their rights, including but not limited to, their rights to obtain information and to examine the company's records. The principal duties and responsibilities of the Investor Relations Department are set forth below:

- Conduct matters related to company general assembly meetings;
- Conduct matters related to share capital increases;
- Conduct matters related to dividend payments;
- Represent the company;
- Handle shareholder requests and procedures related to general assembly meetings, share capital increases, and dividend payments;
- Represent the company before such agencies as the Capital Markets Board (CMB), İstanbul Stock Exchange (ISE), the Central Registry Agency (CRA), and ISE Settlement and Custody Bank Inc. and liaise with them;
- Maintain records of Board of Directors and general assembly meetings;
- When necessary, send material event disclosures to the Public Disclosure Platform as required by CMB communique VIII:54;
- 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 communiques;
- Inform senior management of matters and issues with which the company must be in compliance;
- Prepare the company's quarterly and annual reports;
- Support the coordination of the corporate governance-related projects and activities;
- Provide analysts, fund managers, shareholders, and other stakeholders with information about the company.
- Prepare quarterly and yearly presentations in order to inform stakeholders;
- Bring the company's articles of association into 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;
- Have shareholders' paper-form securities dematerialized;

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 Group Manager: Ferit Cem Doğan
Email: cemdo@migros.com.tr
Head of Investor Relations: Dr. Affan Nomak
Email: affann@migros.com.tr

The dematerialization of securities is undertaken by Yapı Kredi Securities. During the reporting period, retroactive action was taken at the company's headquarters concerning 150 Migros Türk T.A.Ş. shareholders and 7 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.

The activities of the Investor Relations Department in 2012 are itemized below.

| | |
|---|---|
| Teleconferences conducted during the year: | 4 |
| Investor presentations conducted to provide investors with information: | 4 |
| Press relations concerning the company's financial results: | 4 |
| Shareholders for whom action related to previous years was taken retroactively by headquarters: | 157 |
| Material event disclosures sent to the Public Disclosure Platform: | 34 |
| Board of Directors resolutions passed: | 21 |
| Domestic and international conferences and roadshows taken part in: | 9 |
| Analysts and fund managers met with during the year: | 333 |

## 3. 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.

In 2012 the Investor Relations Department took part in seven national and international conferences and two roadshows and it conducted meetings with more than 330 brokerage houses and fund managers. 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.

### Auditing

The General Assembly of Migros, also taking into consideration the proposal of the Audit Committee, resolved that "DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş." (a member of Deloitte Touche Tohmatsu International), which was nominated by the Board of Directors, serve as the independent auditor for 2012 fiscal year.

At the meeting of the Board of Directors of Migros, held on 26 March 2013, it was decided according to the proposal by our Audit Committee that DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member of Deloitte Touche Tohmatsu International) be elected as the independent audit company for the 2013 accounting period. This decision will be submitted to the General Assembly for approval, according to the Board's resolution.

A two-member Audit Committee has been formed by the Board of Directors of Migros. Under article 4.5.3 of the CMB's "Communique concerning the determination and application of corporate governance principles", 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 9 October 2012, a resolution was passed to reconstitute the Audit Committee as a two-person body whose members are both independent board members and Hakkı Hasan Yılmaz and Tayfun Bayazıt were elected to fill these seats. As also required by Capital Markets Board regulations, Tayfun Bayazıt was designated as the committee's head.

The articles of association make no provision concerning the appointment of special auditors. No request for the appointment of a special auditor was received during the reporting period.

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

## 4. General Assembly

Attention is given to covering all issues whose discussion is statutorily mandated when determining items for the agendas of general assembly meetings. General meeting announcements are published in Turkish Trade Registry Gazette and on the company's corporate website within the statutorily prescribed periods of time. All shareholders are given convenient access to these announcements. An information sheet containing detailed information about the agenda items which were to be discussed at the general meeting was also publicly disclosed on our corporate website.

General assembly meetings are held at the company's headquarters, whose address is Atatürk Mahallesi Turgut Özal Bulvarı No: 7 34758 Ataşehir/İstanbul. General Assemblies are open to all stakeholders and media representatives.

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

Information about our company's charitable donations and assistance policy was made available to shareholders by means of the general meeting information sheet that was publicly disclosed on our corporate website prior to the general meeting. In addition, shareholders are informed about donations and assistance which the company has given to foundations and associations during the most recent year by the inclusion of a separate item concerning them in the agendas of general assembly meetings.

### Annual Ordinary General Assembly

The Ordinary General Assembly, in which the activities and accounts of Migros Ticaret Anonim Şirketi for the year 2011 are reviewed, was held at Migros Ticaret A.Ş. Head Office Building located at Atatürk Mahallesi Turgut Özal Bulvarı No: 7 34758 Ataşehir/İstanbul on 28 June 2012 at 14:30. Ministry Representative Fatma Yazıcı, appointed by Letter No. 38696 dated 27 June 2012 from the Istanbul Provincial Directorate under the Ministry of Science, Industry and Technology, was present as observer.

The balance sheet, income statement, annual report of the Board of Directors, reports of statutory auditors and independent auditors of the company and the proposal on the distribution of the annual profit for 2011 were made available to shareholders for their examination at the company's headquarters as of 06 June 2012.

Upon the Ministry commissioner's examination of the list of attendees, it was acknowledged that out of 17,803,000,000 shares corresponding to the company's total paid-in capital of TL 178,030,000, a total of 14,355,545,300 shares equaling TL 143,555,453 were represented at the General Assembly.

The general meeting minutes and attendance roster were sent to the İstanbul Stock Exchange immediately after the meeting and were also published on our corporate website at www.migroskurumsal.com under the heading "Information about general meetings". The minutes of the General Assembly and the list of attendees were delivered to the ISE immediately after the conclusion of the General Assembly. In addition, the minutes of the General Assembly were published in the Turkish Trade Registry Gazette on 18 July 2012, Issue 8114 and delivered to shareholders by fax and e-mail upon their request.

No shareholder submitted any proposal for inclusion in the general meeting agenda before the meeting took place.

At the annual general assembly of Migros Ticaret A.Ş. held on 28 June 2012, shareholders voted not to pay out a dividend for 2011 because the year's consolidated financial statements showed a loss for the period.

### 5. Voting Rights and Minority Rights

As stipulated in the Articles of Association of Migros, none of the company's shares enjoy any privileged voting rights. All votes are equal. At the General Assemblies, every shareholder is entitled to one vote for each share of stock he/she holds. There is not any reciprocal shareholding arrangement with any partner. The company avoids engaging in any practice which would complicate shareholders' right to vote.

At the General Assemblies, shareholders can cast their votes either personally or through a proxy they will appoint from among shareholders/non-shareholders. The sample proxy forms, which are required to be issued for shareholders who will not be able to attend the meeting in person, are posted on our corporate website (www.migroskurumsal.com) and published in the Turkish Trade Registry Gazette.

Open voting by raise of hands is employed in General Assemblies when shareholders vote on each agenda item.

### 6. Dividend Distribution Policy and Date

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 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.

In line with the company's long-term strategies, investments and financing plans and profitability, the dividend amount is determined by the Board of Directors and submitted for the approval of the General Assembly, computed in accordance with the communiques published by the CMB and regulations, and can be distributed in cash or in the form of bonus shares of stock, or some combination of the two. This is the company's policy for the next three years. Any changes to this policy will also be shared with the public separately.

### 7. Transfer of Shares

The company's articles of association contains no provisions restricting the transfer of shares. Under the articles of association, the Board of Directors may, with the permission of the general assembly of shareholders, issue shares with a nominally-determined value and also restrict the right of existing shareholders to acquire such shares. The board must exercise this authority however in accordance with the principle of treating all shareholders equally.

## PART II - PUBLIC DISCLOSURE AND TRANSPARENCY

### 8. Corporate Disclosure Policy

The public disclosures of the company are made in an accurate and timely manner pursuant to the Communique VIII:54 published by the CMB on Principles Governing Disclosure of Material Events. In addition, public disclosures are also made on all important matters which might impact the decisions of shareholders as well as other stakeholders. Disclosures are also posted on our corporate website in order to allow shareholders access to publicly disclosed information easily. Publicly-disclosed information (such as investor presentations, press releases, etc) are published on the company's corporate website. Use is made of business data providers as well as of printed and visual media in order to disseminate such information among the public. The company has also devised a public disclosure policy, shared with the public. The company announces its dividend payment policy in annual reports and on its corporate website; it is also presented for the information of the shareholders at the General Assemblies.

The Board of Directors has formulated a "Disclosure Policy", which it keeps up to date by making such changes as are needed. Shareholders are provided with information about this policy at general assembly meetings after which it is published on the company's corporate website. The Investor Relations Department responds to shareholders' questions about the company within the framework of this Disclosure Policy, correctly, completely, and mindfully of the principle of equality.

The public disclosure policy of Migros obliges the company to share any kind of information upon request unless such information is a commercial secret or would provide a competitive advantage to third parties or would adversely affect the company's operations.

### 9. Disclosure of Material Events

During 2012, 34 material event disclosures were submitted to the Public Disclosure Platform. Whenever ISE demanded additional information about such disclosures or about news appearing in the media, the company immediately responded with additional explanations.

Public disclosures are also posted on the corporate website together with their English versions to provide foreign investors with the same information.

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.

The company published its financial statements regularly every quarter during 2012, after which investor presentations were published on the corporate website for the purpose of informing stakeholders.

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.

### 10. Company Website and its Content

Migros launched its corporate website at www.migroskurumsal.com for the use of its shareholders and customers in 1997.

All announcements and other information which might affect the exercise of shareholder rights is made accessible to shareholders and is kept up to date on our corporate website.

The content of the company's corporate website located at www.migroskurumsal.com was enriched during the year. The company also maintains a separate website for each of its store formats and these websites are made accessible to the company's stakeholders. All of the issues stipulated in section II.2.2 of CMB's Communique on Determination and Application of Corporate Governance Principles as well as much additional information is provided on the company's corporate website under the main headings of

- "About Us",
- "Our Brands and Stores",
- "Corporate Social Responsibility",
- "Quality and Product Safety",
- "Investor Relations", and
- "Human Resources"

and their associated subheadings.

The Investor Relations section of our corporate website covers topics such as "Migros Corporate", "Financial Reports", "The Increase of Company Capital and Distribution of Dividends", "Information on General Assemblies", "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 investors.

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

## 11. Disclosure of Ultimate Controlling Individual(s) Shareholder(s)

The shareholding structure of Migros Ticaret A.Ş. is presented below.

| Shareholder | Share (%) | Amount (TL) |
|---|---|---|
| MH Perakendecilik ve Tic. A.Ş. | 80.51 | 143,323,336 |
| Publicly Held | 19.49 | 34,706,664 |
| **Total** | **100.00** | **178,030,000** |

There are no preferential 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 2012 annual report.

Pursuant to CMB Communique VIII:54, the company's chairman and the members of the Board of Directors, General Manager and Assistant General Managers, other persons with significant decision-making authority and responsibilities in the partnership and shareholders directly or indirectly owning more than 5% of the company's shares or parties acting together with such shareholders are required to make material disclosures when they buy or sell Migros shares.

## 12. Public Disclosure of Those Who Have Access to Insider Information

Names of the members of the Board of Directors and statutory 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.

| | |
|---|---|
| Fevzi Bülent Özaydınlı | Chairman |
| Nicholas Stathopoulos | Member of the Board of Directors |
| Stefano Ferraresi | Member of the Board of Directors |
| Ömer Özgür Tort | Member of the Board of Directors / General Manager |
| Giovanni Maria Cavallini | Member of the Board of Directors |
| Glen Allen Osmond | Member of the Board of Directors |
| Jacob Cornelio Adriano de Jonge | Independent Member of the Board of Directors |
| Tayfun Bayazıt | Independent Member of the Board of Directors |
| Hakkı Hasan Yılmaz | Independent Member of the Board of Directors |
| Mustafa Bilgutay Yaşar | Statutory Auditor |
| Yüksel Toparlak | Statutory Auditor |
| Recep Bıyık | Statutory Auditor |
| 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 | Director |
| Mustafa Murat Bartın | Director |

The Board of Directors consisted of 9 members in 2012: Fevzi Bülent Özaydınlı served as the Chairman and Nicholas Stathopoulos, Stefano Ferraresi, Ömer Özgür Tort, Giovanni Maria Cavallini, Glen Allen Osmond, Jacob Cornelio Adriano de Jonge, Tayfun Bayazıt and Hakkı Hasan Yılmaz served as members.

Changes to the Board of Directors and related information are presented in detail in the Board of Directors section of the Annual Report.

## PART III - STAKEHOLDERS

### 13. Informing Stakeholders

The corporate governance practices of Migros guarantee the rights of its stakeholders, also governed by law, regulations and mutual contractual agreements. The employees, shareholders, subsidiaries of and third-party individuals or entities with which the company has business relationships may submit suggestions or report violations on corporate governance issues directly to the executives of the company. Such submissions or reports are evaluated and necessary feedback is provided to the applicants. 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.

The Investor Relations Department 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 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.
5. 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.
6. 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.
7. 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 others outside the company.

**General responsibilities**

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

## 14. 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 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.

## 15. 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

A company internal hotline has been set up to increase employee satisfaction by responding to personnel problems in the fastest way possible. The hotline responded to more than 22,000 calls (an average of 1,800 calls a month) during 2012.

**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. 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 fastchanging 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 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 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.

**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.

### 16. 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 2012 survey, 5,430 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 9001-2000 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. This certification covers retail, wholesale and online sales services as well as design and provision of organizational and logistic support services. In addition, Tansaş and Macrocenter stores were brought within the scope of TS EN ISO 9001-2000 certification which were awarded to the company previously.
- Migros selects each of its suppliers after conducting appropriate due diligence. Suppliers are audited at regular intervals by reputable independent organizations and products are subjected to periodic quality audits. Private label products are also included in the same quality control process.
- Every new product, which is offered for sale at the stores goes through a preliminary quality control process.
- Before the products are admitted to warehouses, "food engineers" subject them to sensory, chemical, physical and microbiological quality control tests. Those products which do not meet the quality standards are rejected.
- Meat products at the stores, warehouses and on the shelves are regularly checked by veterinarians to ensure food safety.

- Personnel employed at all the stores attend training programs on hygiene in order to ensure food safety.
- 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 exceeding customer expectations and making life easier through innovations, Migros introduced the first self-checkout solution "Jet kasa" to its customers in Turkey. "Jet kasa" eliminates the need to wait in line and allows customers to 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.

### 17. Corporate Social Responsibility

Migros defines its responsibilities towards the society in the Migros Code of Conduct:

1. Migros strives to upgrade its service standards in order to meet 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 historical fabric of the society while acting in accordance with customs and traditions of the community and observing the 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 corporate culture Migros has developed for more than half a century, 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 valueadding 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.

Specific details of the activities undertaken by the company in the field of social responsibility are presented in the relevant sections of the Annual Report.

## PART IV - BOARD OF DIRECTORS

### 18. Structure and Formation of the Board of Directors and Independent Members

The Board of Directors of Migros consists of 9 members elected by the General Assembly. Members of the company's Board of Directors are elected to terms of not more than three years, unless a shorter term of office has been stipulated at the general meeting at which they were elected. A board member whose term of office expires may be reelected. A general assembly may replace any board member at any time that it deems such replacement to be necessary. These issues are set forth in the company's articles of incorporation.

**Board of Directors**

| | |
|---|---|
| Fevzi Bülent Özaydınlı | Chairman |
| Nicholas Stathopoulos | Member |
| Stefano Ferraresi | Member |
| Ömer Özgür Tort | Member |
| Giovanni Maria Cavallini | Member |
| Glen Allen Osmond | Member |
| Jacob Cornelio Adriano de Jonge | Independent Member |
| Tayfun Bayazıt | Independent Member |
| Hakkı Hasan Yılmaz | Independent Member |

According to the allocation of duties within the Board of Directors, Fevzi Bülent Özaydınlı serves as the Chairman of the Board of Directors.

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 between 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.

**Resumes of the board members**

**Fevzi Bülend Özaydınlı**

Born in 1949, F. Bülend Özaydınlı received his bachelor's degree from the American University of Beirut. He started his career at OYAK in 1972 where he held various senior management positions until 1987. Before leaving OYAK, Özaydınlı had served as Assistant General Manager of Associates for 8 years and held seats on the boards of directors of numerous companies. He joined the Koç Group in 1987.

After serving as Maret Assistant General Manager, F. Bülend Özaydınlı was the General Manager of Migros Türk T.A.Ş. for 10 years. He was appointed as the President of Koç Fiat (Tofaş) Division in 2000; in addition to that position, he was named the Deputy CEO of the Koç Group in 2001.

Having held the position of Koç Holding CEO from 2002 until May 2007, Özaydınlı served on the boards of directors of Koç Holding, Arçelik, Tofaş, Ford Otosan, Koç Finansal Hizmetler, Migros, Tüpraş and Türk Traktör companies, as well as Vehbi Koç Foundation.

F. Bülend Özaydınlı has been working as the Chairman of the Board at Migros since May 2008.

**External Positions Held**

Fevzi Bülent Özaydınlı, the Chairman of the Board at Migros, serves as the Chairman of the Board at Baracuda Su Ürünleri Sanayi ve Ticaret Anonim Şirketi.

**Ömer Özgür Tort**

Born in 1973, Ömer Özgür Tort received his undergraduate degree in industrial engineering from İstanbul Technical University, upon which he went to US for graduate studies. He got his master's degree in engineering management from the University of Missouri in 1996.

He started his business life as an industrial engineer at Migros Türk T.A.Ş. in 1996, where he became International Investments Coordination Manager in 1998. In 2001, he assumed additional responsibility as CRM Applications Manager. Tort worked as Assistant General Manager of Sales and Marketing at Ramenka from 2002 to 2006, when he returned to Turkey and carried on with his career as Assistant General Manager of Human Resources at Migros Türk T.A.Ş.

Tort has been serving as the General Manager and a board member at Migros since August 2008.

**External 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).

**Nicholas Stathopoulos**

Born in 1969, Nicholas Stathopoulos got his undergraduate degree in business administration from the University of Athens, followed by a graduate degree from the Harvard Business School.

He began his career in 1995 at the Boston Consulting Group (BCG), where he worked until 1998. Having been a partner at Apax Partners from 1998 until 2005, Stathopoulos has been serving as a managing partner at BC Partners since 2005.

Nicholas Stathopoulos has been a board member at Migros since May 2008.

**External Positions Held**

Nicholas Stathopoulos serves as the managing partner at BC Partners. He also holds seats on the boards of directors of Gruppo Coin SpA and Com Hem AB companies.

**Stefano Ferraresi**

Born in 1972, Stefano Ferraresi received his undergraduate degree in business administration from Bocconi University in Italy, and his graduate degree from the Stockholm School of Economics.

Having started his business life at Barclays Capital, Ferraresi worked in the Finance Department at Merrill Lynch London office from 2000 to 2002. Ferraresi has been a director at BC Partners since 2002.

Stefano Ferraresi has been a board member at Migros since May 2008.

**External Positions Held**

Stefano Ferraresi functions as a director at BC Partners. He also holds a seat on the Board of Directors of Gruppo Coin SpA.

**Giovanni Maria Cavallini**

Born in 1950, Giovanni Maria Cavallini got his bachelor's degree in civil engineering from Politecnico di Milano University in Italy and his master's degree from the Harvard Business School.

He began his career in 1978 at the Boston Consulting Group; from 1988 to 1994, he served as the CEO of Società Iniziative Commerciali, and as a member of the Board of Directors at Società Sviluppo Commerciale. He served as the Chairman of the Board at OBI Italy (Tengelmann Group) from 1994 to 1996, and has been the CEO and Chairman of the Board of Interpump Group S.p.A. since 1996.

Giovanni Maria Cavallini has been a board director at Migros since 2009.

**External Positions Held**

Giovanni Maria Cavallini serves as the CEO and Chairman of the Board of Interpump Group S.p.A. He also holds seats on the boards of directors of Ansaldo STS and Brembo S.p.A. companies.

**Glen Allen Osmond**

Born in 1971, Glen Allen Osmond received his bachelor's degree in economics from the Brigham Young University, and his master's degree from the Kellogg School of Management.

He began his business life at Bain & Company in 1996, and worked at Kidd & Company in 2000 and 2001. Osmond worked for MESA Investment Advisory from 2003 to 2007, and he has been serving at State General Reserve Fund since 2012.

**External Positions Held**

Glen Allen Osmond functions as an executive at State General Reserve Fund.

**Independent Board Members**

**Jacob Cornelio Adriano de Jonge**

Born in 1953, Jacob Cornelio Adriano de Jonge studied at the Department of Philosophy and Arts at the United States International University.

He began his career at Makro Brasil in 1977, where he held various positions in different countries. He left the company in 2003, when he was holding the position of CEO of Makro Thailand. Having served as the COO of Walmart from 2003 to 2005, Jonge was the CEO of De Bijenkorf from 2007 until 2012.

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.

**External Positions Held**

Jacob Cornelio Adriano de Jonge serves as the CEO of V&D BV company and as a member of the Advisory Board of Agri Holding BV company.

**Tayfun Bayazıt**

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

Having started his career at Citibank in 1980, Bayazıt assumed various positions at Yapı Kredi Bank from 1982 until 1995 and left the bank when he was serving as Assistant General Manager. He functioned as the General Manager of Interbank from 1995 to 1996, and of Banque de Commerce et de Placements from 1996 to 1999. Having worked as Vice President at Doğan Holding from 1999 until 2001, Bayazıt was the CEO and a board member of Dışbank (2001-2005), Fortis Bank (2005-2007), and Yapı Kredi Bank (2007-2009). Having held the position of Managing Director at Yapı Kredi Bank from 2009 to 2011, Bayazıt has been serving as an advisor 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 Ticaret A.Ş. and/or its related parties.

**External Positions Held**

Tayfun Bayazıt is a founding partner of Bayazıt Yönetim Danışmanlık Hizmetleri Ltd. Şti. He is an independent member on the boards of directors of Doğan Şirketler Grubu Holding A.Ş. and TAV Havalimanları Holding A.Ş. Serving as the country corporate officer at Marsh & McLennan Group, Turkey, Bayazıt holds seats on the boards of directors of Marsh Sigorta ve Reasürans Brokerliği A.Ş., Tam Faktoring A.Ş., Vector Yatırım A.Ş., Beşiktaş Gayrimenkul Geliştirme San. Ve Tic. Ltd. Şti., Bomonti Gayrimenkul Pazarlama İnşaat ve San. Tic. A.Ş. and Embarq, Turkey companies, and on the advisory board of Taaleritehdas Asset Management Ltd., Finland. He is also a faculty member at Koç University and the Vice President of the Board of Directors of TUSIAD (Turkish Industry and Business Association).

**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 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 from 1984 until 1995, when he left the company while serving in the position of Regional Leader responsible for East Asia detergent business. He served as the Chairman and CEO of Uzay Gıda from 1995 to 1996. He was the Chairman and CEO of nine entities in Turkey, in which Unilever was the majority shareholder, from 1996 to 2000.

He taught at Koç University from 2000 to 2002, when he joined Koç Holding as President of Food, Retailing and Tourism. Since 2005, he has been lecturing at Koç University. He was a member of the Board of Directors of Migros from April 2002 until April 2006. He has been the CEO of Fenerbahçe Futbol A.Ş. since 8 January 2013.

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.

**External Positions Held**

Serving in the position of CEO of Fenerbahçe Spor Kulübü ve Fenerbahçe Futbol A.Ş. since 8 January 2013, Hakkı Hasan Yılmaz holds a seat on the Board of Directors of Hürriyet Gazetecilik ve Matbaacılık A.Ş. and on the advisory board of Mudo A.Ş. He is also a faculty member at Koç University.

On 6 June 2012, each of the company's independent board members individually signed an independent board member's affidavit, the text of which is presented below, and submitted their affidavit to the company.

# 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 meeting to be held on 28 June 2012, 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 third degree, have, within the most recent five years, entered into any direct or indirect relationship involving employment, capital, or any commercial interest of a significant nature, with the company, or with any related parties of the company, or with any corporate entity whose shareholders control, whether directly or indirectly, a 5% or greater interest in the company's capital or management;

b) That within the most recent five years, I have neither been employed by nor served as a board member in any company, including companies involved in the company's auditing, rating, or consulting functions, which controls all or any part of the company's activities or organization within the framework of any agreement that has been entered into;

c) That within the most recent five years, I have been neither a partner, nor an employee, nor a board member in any firm which provides the company with substantial amounts of any products or services;

d) That no shareholding interest that I may have in the company amounts to more than 1% of the company's capital and that none of these shares entail any special rights;

e) 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;

f) 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;

g) That I am a resident of Turkey as defined in the Income Tax Law;

h) 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;

i) 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.

Jacob Cornelio Adriano de Jonge

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 meeting to be held on 28 June 2012, 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 third degree, have, within the most recent five years, entered into any direct or indirect relationship involving employment, capital, or any commercial interest of a significant nature, with the company, or with any related parties of the company, or with any corporate entity whose shareholders control, whether directly or indirectly, a 5% or greater interest in the company's capital or management;

b) That within the most recent five years, I have neither been employed by nor served as a board member in any company, including companies involved in the company's auditing, rating, or consulting functions, which controls all or any part of the company's activities or organization within the framework of any agreement that has been entered into;

c) That within the most recent five years, I have been neither a partner, nor an employee, nor a board member in any firm which provides the company with substantial amounts of any products or services;

d) That no shareholding interest that I may have in the company amounts to more than 1% of the company's capital and that none of these shares entail any special rights;

e) 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;

f) 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;

g) That I am a resident of Turkey as defined in the Income Tax Law;

h) 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;

i) 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.

Tayfun Bayazıt

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 meeting to be held on 28 June 2012, 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 third degree, have, within the most recent five years, entered into any direct or indirect relationship involving employment, capital, or any commercial interest of a significant nature, with the company, or with any related parties of the company, or with any corporate entity whose shareholders control, whether directly or indirectly, a 5% or greater interest in the company's capital or management;

b) That within the most recent five years, I have neither been employed by nor served as a board member in any company, including companies involved in the company's auditing, rating, or consulting functions, which controls all or any part of the company's activities or organization within the framework of any agreement that has been entered into;

c) That within the most recent five years, I have been neither a partner, nor an employee, nor a board member in any firm which provides the company with substantial amounts of any products or services;

d) That no shareholding interest that I may have in the company amounts to more than 1% of the company's capital and that none of these shares entail any special rights;

e) 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;

f) 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;

g) That I am a resident of Turkey as defined in the Income Tax Law;

h) 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;

i) 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.

Hakkı Hasan Yılmaz

### 19. Qualifications of the Members of the Board of Directors

Each member of the Board of Directors possesses the qualifications listed in the Article 4.3 of Section IV of CMB's Communique on Determination and Application of Corporate Governance Principles. They are also professionals whose knowledge, experience and educational backgrounds are exemplary both in the industry and throughout the business world.

Under article 4.3.4 of "CMB Communique IV:56 concerning the determination and application of corporate governance principles", the number of independent board members on a Board of Directors may not be less than one-third of the board's total membership. When determining the number of independent board members, fractions must be treated as whole numbers but in no case may the number of independent board members on a board be fewer than two. In compliance with this article of the communique, three of the members of the Migros Board of Directors are independent board members.

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

Our 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.

Our mission is to strengthen our leadership position in the Turkish retailing industry and become a strong and exemplary regional retail chain by ranking first or second in our operating countries.

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.

Board members are updated on the progress and direction of the company's business results via meetings in which the annual updates of long term five-year plans are presented and reviewed; annual budget is discussed and monthly performance results are presented and the Board's feedback is sought. In addition, detailed monthly progress reports are prepared and submitted to the Board allowing the members to monitor the company's efforts to achieve objectives and immediately intervene and provide guidance when necessary.

## 21. Risk Management and Internal Control Mechanism

The purpose of the Internal Control System at Migros is to provide management with independent information on the functional, operational and financial performance of audited business processes or units. This enables management of identified or predicted risks, and systematic establishment and operation of necessary control mechanisms.

In the scheduled financial and operational audits carried out, the Internal Audit Department of Migros investigates and reviews:

- 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,

One of the basic duties of the audit department is to investigate and examine and, when necessary, to conduct re-audits of 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.

Irregularities uncovered during the audit operations are investigated in detail to allow for the taking of necessary measures. In addition, proposals are made to compensate for the losses incurred by the company. The efforts focus mainly on the changes to be made to the processes to prevent any similar situations.

Within this framework, the Internal Audit Department performed financial and operational audits in line with risk analysis conducted in 2012 and the annual internal audit schedule. The assessment, recommendations and areas of improvement identified during the audit reviews have been presented to the senior management of the company in the form of audit reports. In addition to financial and operational audits, the Internal Audit Department also performed follow-up audits on issues that were reported to the senior management before and for which actions plans were put in place for corrections.

As required by the new trade law, by Capital Markets Board laws and regulations, and by CMB "Communique concerning the determination and application of corporate governance principles", the Board of Directors has set up an Early Detection of Risk Committee. Pursuant to a Board of Directors resolution dated 9 October 2012, Independent Board Member Tayfun Bayazıt, Independent Board Member Jacob Cornelio Adriano de Jonge, Board Member Stefano Ferraresi, and Migros Assistant General Manager for Financial Affairs Erkin Yılmaz were elected members of this committee. In compliance with CMB regulations, Jacob Cornelio Adriano de Jonge serves as this committee's chairman.

## 22. Authorities and Responsibilities of the Members of the Board of Directors and Executives

The duties and authorities of the members of the Board of Directors are clearly delineated and defined in the Articles of Association of the company, which can be accessed at the Migros corporate website at www.migroskurumsal.com.

The Board of Directors of Migros is authorized to decide on all matters with the exception of those for which responsibility cannot be delegated by the General Assembly according to the Turkish Commercial Code and the Articles of Association of the company.

## 23. Principles of Activity of the Board of Directors

The Board of Directors passed 21 resolutions on various matters in 2012. At least six (6) members were in attendance during each of these meetings. Pre-meeting and post-meeting activities are organized by a Secretariat responsible for such matters. The Secretariat keeps records in an orderly manner; the records are copied to the minutes book of the Board of Directors and made available for review by all members of the Board. 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 2012. Any questions which 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 quora 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 Board of Directors of Migros is entitled to a single vote. Members are not granted any weighted voting rights or positive/negative veto rights.

Members of the Board of Directors are not allowed to cast votes concerning agenda items which would acquit board members of their fiduciary responsibilities.

### 24. Prohibition from Engaging in Transactions and Competing with the company

None of the Members of the Board of Directors was involved in any business transactions or competition with the company during the reporting period.

### 25. Code of Ethics

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 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.

**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).

### 26. Number, Structure and Independence of the Committees Established by the Board of Directors

An audit committee and an early detection of risk committee have been set up both in compliance with the requirements of the CMB's "Communique concerning the determination and application of corporate governance principles" 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. Every possible effort is made to avoid having any single board member serving on more than one committee.

As required by the CMB's "Communique concerning the determination and application of corporate governance principles", all of the members of the Audit Committee are chosen from among the board's independent board members, who are also the only candidates allowed to head the other committees. No executive board member or general manager may serve on these committees.

#### a) Audit Committee

At a meeting of the Board of Directors held on 9 October 2012, it was decided that the Audit Committee should consist of two independent board members and that Hakkı Hasan Yılmaz and Tayfun Bayazıt were elected to fill these seats. In compliance with CMB regulations, Tayfun Bayazıt was chosen to serve as committee chairman. The Audit Committee is formed of two members and convenes four times a year.

#### b) Corporate Governance Committee

The Board of Directors of Migros also formed a Corporate Governance Committee which is responsible for monitoring the Corporate Governance practices across the company and coordinating the activities of the Investor Relations Department. At a meeting of the Board of Directors held on 9 October 2012, it was decided to elect Hakkı Hasan Yılmaz, Nicholas Stathopoulos, and Affan Nomak to seats on the Corporate Governance Committee. In compliance with Capital Markets Board regulations, Hakkı Hasan Yılmaz was chosen to serve as committee chairman. It was decided that the Corporate Governance Committee should also perform the duties of both a nomination committee and a remuneration committee as provided for under CMB Communique IV:56 concerning the determination and application of corporate governance principles.

The working principles of the Corporate Governance Committee are determined by the Board of Directors in line with the requirements of CMB Communique IV:56 and the requirements of Turkish commercial law. The committee's duties consist of overseeing the company's compliance with corporate governance principles, with taking such action as may be required by current Capital Markets Law and other applicable laws, regulations, and administrative provisions, and with making such recommendations to the Board of Directors as may be deemed to be necessary to constantly improve the company's performance in the area of corporate governance. The Corporate Governance Committee is formed of three members and convenes four times a year.

#### c) Early Detection of Risk Committee

At a meeting of the Board of Directors held on 9 October 2012, it was decided to elect Tayfun Bayazıt, Jacob Cornelio Adriano de Jonge, Stefano Ferraresi, 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, Jacob Cornelio Adriano de Jonge was designated as the committee's head.

The working principles of the Early Detection of Risk Committee are determined by the Board of Directors in line with the requirements of Turkish commercial law and capital market laws and regulations. The committee's duties consist of identifying and assessing risks that are entailed by the company's current financial standing, taking measures to deal with such risks, and to coordinate matters related to the management of risks. The Early Detection of Risk Committee is formed of four members and convenes six times a year.

## 27. Remuneration of the Board of Directors

The forms of remuneration which are to be provided to board members are discussed under a separate agenda item at general assembly meetings. At the company's annual general meeting on 28 June 2012, shareholders voted to pay independent board members a gross fee in the amount of TL 16,000 for each board meeting that they attend and not to pay the other board members a monthly fee for such attendance. The benefits which are provided to senior executives are itemized in the footnotes to the financial statements.

A board member and senior executive remuneration policy spelled out in accordance with the requirements of "CMB Communique concerning the determination and application of corporate governance principles" was submitted for the information of shareholders at the 28 June 2012 annual general meeting. It has also been published on our corporate website at www.migroskurumsal.com.

**Benefits provided to senior executives during the reporting period**

"Senior management" is defined as consisting of the chairman and members of the company's Board of Directors, general managers, and assistant general managers.

Details concerning benefits provided to senior executives during the two most recent reporting periods are presented below.

| (TL 1,000) | **1 Jan - 31 Dec 2012** | **1 Jan - 31 Dec 2011** |
|---|---|---|
| Short-term benefits provided to employees | 11,076 | 11,682 |
| | **11,076** | **11,682** |

The benefits provided to senior executives consist of salaries, bonuses, pension contributions, company-leased automobiles, employer's share of social security premiums, and board honorariums.

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.

## 28. Other issues

Changes that were made in the statutory and regulatory frameworks in Turkey during 2012 have had a significant impact on the activities of all companies but especially those of publicly traded firms. A new Turkish Commercial Code that went into effect on 1 July 2012 brings with it a number of substantial innovations in Turkish commercial life. New rules arising from the new Capital Markets Law that went into effect at the beginning of the year are also expected to contribute to the growth and development of Turkey's capital markets.

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 footnotes to the consolidated financial statements.

The company is not a party to any mutual cross-shareholding that involves more than 5% of any entity's capital.

Deloitte.

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# Independent Auditor's Report

**To the Board of Directors of**

**Migros Ticaret A.Ş.**

We have audited the accompanying consolidated financial statements of Migros Ticaret A.Ş. and its subsidiaries (collectively referred to as the "Group") which comprise the consolidated financial position as of 31 December 2012 and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statements of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

## Management's Responsibility for the Financial Statements

The Group management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the financial reporting standards accepted by the Capital Markets Board ("CMB"). This responsibility includes: designing, implementing and maintaining internal control relevant to the proper preparation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards issued by the CMB. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's proper preparation of the 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 audit also includes 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Migros Ticaret A.Ş. and its subsidiaries as of 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with the financial reporting standards accepted by the CMB (Note 2).

## Additional paragraph for convenience translation into English

The accounting principles described in Note 2 to the consolidated financial statements differ from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board with respect to the application of inflation accounting for the period 1 January - 31 December 2005. Accordingly, the accompanying consolidated financial statements are not intended to present the financial position and results of operations of the Group in accordance with IFRS.

İstanbul, 3 April 2013

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Gaye Şentürk
Partner

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# Audited Consolidated Financial Position at 31 December 2012 and 2011

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)
(Currencies other than TL are expressed in thousands unless otherwise indicated.)

| | Notes | (Audited) 31 December 2012 | (Audited) 31 December 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 4 | 1.040.867 | 1.010.255 |
| Trade receivables | 7 | 47.345 | 67.174 |
| - Other trade receivables | | 47.293 | 67.164 |
| - Due from related parties | 25 | 52 | 10 |
| Other receivables | 8 | 1.233 | 1.037 |
| Derivative financial instruments | 26 | 15 | - |
| Inventories | 9 | 786.036 | 679.000 |
| Other current assets | 16 | 33.054 | 30.794 |
| **Total current assets** | | **1.908.550** | **1.788.260** |
| **Non-current assets** | | | |
| Other receivables | 8 | 1.302 | 1.165 |
| Financial investments | 5 | 1.695 | 1.695 |
| Derivative financial instruments | 26 | 241 | 43 |
| Investment property | 10 | 45.777 | 51.365 |
| Property, plant and equipment | 11 | 1.142.342 | 1.118.881 |
| Intangible assets | 12 | 248.510 | 250.270 |
| Goodwill | 13 | 2.251.427 | 2.251.427 |
| Other non-current assets | 16 | 24.501 | 17.858 |
| **Total non-current assets** | | **3.715.795** | **3.692.704** |
| **Total assets** | | **5.624.345** | **5.480.964** |

The accompanying notes form an integral part of these consolidated financial statements.

# Audited Consolidated Financial Position at 31 December 2012 and 2011

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)
(Currencies other than TL are expressed in thousands unless otherwise indicated.)

| | Notes | (Audited) 31 December 2012 | (Audited) 31 December 2011 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Financial liabilities | 6 | 146.261 | 13.796 |
| Derivative financial instruments | 26 | 20.063 | 22.591 |
| Trade payables | 7 | 1.538.112 | 1.387.042 |
| - Due to related parties | 25 | 1.251 | 1.365 |
| - Other payables | | 1.536.861 | 1.385.677 |
| Other payables | 8 | 1.701 | 684 |
| Taxes on income | 23 | 8.473 | 2.521 |
| Provisions | 14 | 64.735 | 53.505 |
| Other current liabilities | 16 | 95.795 | 98.555 |
| **Total current liabilities** | | **1.875.140** | **1.578.694** |
| **Non-current liabilities** | | | |
| Financial liabilities | 6 | 2.340.110 | 2.573.754 |
| Derivative financial instruments | 26 | 1.279 | 13.345 |
| Other liabilities | 8 | 3.288 | 3.602 |
| Provision for employee termination benefits | 15 | 35.834 | 10.516 |
| Deferred income tax liabilities | 23 | 106.618 | 105.346 |
| **Total non-current liabilities** | | **2.487.129** | **2.706.563** |
| **Total liabilities** | | **4.362.269** | **4.285.257** |
| **EQUITY** | | | |
| **Attributable to equity holders of the parent** | | **1.261.554** | **1.195.231** |
| Share capital | 17 | 178.030 | 178.030 |
| Share premium | 17 | 678.233 | 678.233 |
| Other capital reserves | 17 | (365) | (365) |
| Restricted reserves | 17 | 385.856 | 385.856 |
| Cumulative translation differences | 17 | 10.973 | 18.869 |
| Additional contribution to shareholders' equity related to merger | 17,29 | 27.312 | 27.312 |
| Retained earnings | 17 | (106.548) | 70.541 |
| Net income/(loss) for the period | 17 | 88.063 | (163.245) |
| **Non-controlling interest** | | **522** | **476** |
| **Total equity** | | **1.262.076** | **1.195.707** |
| **Total liabilities and equity** | | **5.624.345** | **5.480.964** |

The accompanying notes form an integral part of these consolidated financial statements.

Migros Ticaret Anonim Şirketi and Its Subsidiaries

# Audited Consolidated Statement of Income for the Year Ended 31 December 2012 and 2011

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)
(Currencies other than TL are expressed in thousands unless otherwise indicated.)

| | Notes | (Audited) 1 January - 31 December 2012 | (Audited) 1 January - 31 December 2011 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| Revenue | 3,18 | 6.482.402 | 5.753.112 |
| Cost of sales (-) | 3,18 | (4.777.067) | (4.258.622) |
| **GROSS PROFIT** | **3,18** | **1.705.335** | **1.494.490** |
| Marketing, selling and distribution expenses (-) | 19 | (1.203.501) | (1.030.684) |
| General administrative expenses (-) | 19 | (232.161) | (211.139) |
| Other operating income | 20 | 11.112 | 8.955 |
| Other operating expense (-) | 20 | (32.862) | (29.210) |
| **OPERATING PROFIT** | **3** | **247.923** | **232.412** |
| Financial income | 21 | 178.240 | 176.935 |
| Financial expense (-) | 22 | (297.253) | (725.205) |
| **INCOME/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS** | **3** | **128.910** | **(315.858)** |
| **Income tax expense** | **23** | **(40.774)** | **(53.356)** |
| - Income tax expense | 23 | (36.506) | (47.939) |
| - Deferred tax expense | 23 | (4.268) | (5.417) |
| **NET INCOME/(LOSS) FROM CONTINUING OPERATIONS** | | **88.136** | **(369.214)** |
| **DISCONTINUED OPERATIONS** | | | |
| Income after tax from discontinued operations | 30 | - | 206.044 |
| **NET INCOME/(LOSS)** | | **88.136** | **(163.170)** |
| **Net income/(loss) attributable to:** | | | |
| Equity holders of the parent | | 88.063 | (163.245) |
| Non-controlling interest | | 73 | 75 |
| | | **88.136** | **(163.170)** |
| | | | |
| Earning/(loss) per share (Kr) | 24 | 0,49 | (0,92) |

The accompanying notes form an integral part of these consolidated financial statements.

Migros Ticaret Anonim Şirketi and Its Subsidiaries

# Audited Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2012 and 2011

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)
(Currencies other than TL are expressed in thousands unless otherwise indicated.)

| | Notes | (Audited) 1 January - 31 December 2012 | (Audited) 1 January - 31 December 2011 |
|---|---|---|---|
| **Net income/(loss) for the period** | | **88.136** | **(163.170)** |
| **Other comprehensive (expense)/income:** | | | |
| Actuarial loss arising from employee benefits | | (13.844) | - |
| Currency translation differences | | (7.923) | 17.713 |
| Cumulative translation differences reclassified due to foreign operations disposal | | - | (5.989) |
| **Other comprehensive (loss)/income for the period** | | **(21.767)** | **11.724** |
| **Total comprehensive income/(loss) for the period** | | **66.369** | **(151.446)** |
| **Total comprehensive income/(loss) attributable to:** | | | |
| Equity holders of the parent | | 66.323 | (151.416) |
| Non-controlling interest | | 46 | (30) |
| | | **66.369** | **(151.446)** |

The accompanying notes form an integral part of these consolidated financial statements.

Migros Ticaret Anonim Şirketi and Its Subsidiaries

# Audited Consolidated Statement of Changes in Equity for the Year Ended 31 December 2012 and 2011

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)
(Currencies other than TL are expressed in thousands unless otherwise indicated.)

| | Share capital | Share premium | Other capital reserves | Restricted reserves | Cumulative translation differences |
|---|---|---|---|---|---|
| **Balances at 1 January 2011** | **178.030** | **678.233** | **(365)** | **385.856** | **7.040** |
| **Total comprehensive income** | | | | | |
| Net loss for the year | - | - | - | - | - |
| **Other comprehensive income** | | | | | |
| Currency translation differences | - | - | - | - | 11.829 |
| **Other comprehensive income (after tax) for the year** | **-** | **-** | **-** | **-** | **11.829** |
| **Total comprehensive income** | **-** | **-** | **-** | **-** | **11.829** |
| Transfers | - | - | - | - | - |
| **Balances at 31 December 2011** | **178.030** | **678.233** | **(365)** | **385.856** | **18.869** |
| **Balances at 1 January 2012** | **178.030** | **678.233** | **(365)** | **385.856** | **18.869** |
| **Total comprehensive income** | | | | | |
| Net profit for the year | - | - | - | - | - |
| **Other comprehensive income** | | | | | |
| Actuarial loss arising from employee benefits | - | - | - | - | - |
| Currency translation differences | - | - | - | - | (7.896) |
| **Other comprehensive income (after tax) for the year** | **-** | **-** | **-** | **-** | **(7.896)** |
| **Total comprehensive income** | **-** | **-** | **-** | **-** | **(7.896)** |
| Transfers | - | - | - | - | - |
| **Balances at 31 December 2012** | **178.030** | **678.233** | **(365)** | **385.856** | **10.973** |

The accompanying notes form an integral part of these consolidated financial statements.

Migros Ticaret Anonim Şirketi and Its Subsidiaries

# Audited Consolidated Statement of Changes in Equity for the Year Ended 31 December 2012 and 2011

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)
(Currencies other than TL are expressed in thousands unless otherwise indicated.)

| Additional contribution to equity related to merger | Retained earnings | Net (loss)/ income | Attributable to equity holders of the parent | Non-controlling interest | Total equity |
|---|---|---|---|---|---|
| **27.312** | **27.960** | **42.581** | **1.346.647** | **506** | **1.347.153** |
| - | - | (163.245) | (163.245) | 75 | (163.170) |
| | | | - | | - |
| - | - | - | 11.829 | (105) | 11.724 |
| **-** | **-** | **-** | **11.829** | **(105)** | **11.724** |
| **-** | **-** | **(163.245)** | **(151.416)** | **(30)** | **(151.446)** |
| **-** | 42.581 | (42.581) | **-** | - | - |
| **27.312** | **70.541** | **(163.245)** | **1.195.231** | **476** | **1.195.707** |
| **27.312** | **70.541** | **(163.245)** | **1.195.231** | **476** | **1.195.707** |
| - | - | 88.063 | 88.063 | 73 | 88.136 |
| - | (13.844) | - | (13.844) | - | (13.844) |
| - | - | - | (7.896) | (27) | (7.923) |
| **-** | **(13.844)** | **-** | **(21.740)** | **(27)** | **(21.767)** |
| **-** | **(13.844)** | **88.063** | **66.323** | **46** | **66.369** |
| - | (163.245) | 163.245 | - | **-** | **-** |
| **27.312** | **(106.548)** | **88.063** | **1.261.554** | **522** | **1.262.076** |

Migros Ticaret Anonim Şirketi and Its Subsidiaries

# Audited Consolidated Statement of Cash Flow for the Year Ended 31 December 2012 and 2011

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)
(Currencies other than TL are expressed in thousands unless otherwise indicated.)

| | Notes | (Audited) 1 January - 31 December 2012 | (Audited) 1 January - 31 December 2011 |
|---|---|---|---|
| **Operating activities:** | | | |
| Net income/(loss) for the period from continuing operations | | 88.063 | (369.289) |
| Net income for the period from discontinued operations | 30 | - | 206.044 |
| **Adjustments to reconcile net income to net cash provided/used by operating activities:** | | | |
| Net income attributable to non-controlling interest | | 73 | 75 |
| Depreciation and amortisation | 19 | 131.146 | 123.744 |
| Provision for employment termination benefits | 15 | 20.464 | 14.185 |
| Provision for unused vacation | 14 | 13.511 | 15.090 |
| Provision for litigation | 14 | 9.121 | 5.314 |
| Doubtful receivable provision | 7 | 3.091 | 1.639 |
| Income tax expense | 23, 30 | 40.774 | 120.960 |
| Tax provision concerning prior periods | | - | 1.930 |
| Interest income | 21 | (61.405) | (53.777) |
| Interest expense | 22 | 231.477 | 230.850 |
| (Gain)/loss on sale of property, plant and equipment - net | 20 | (1.583) | 2.132 |
| Impairment of property, plant and equipment | 11 | 4.701 | 8.941 |
| Gain from sale of subsidiary | 30 | - | (357.613) |
| Fair value (gain)/loss of derivative instruments | 21, 22 | 22.263 | (18.418) |
| Unrecognised foreign exchange differences (gain)/loss - net | | (97.009) | 459.492 |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **404.687** | **391.299** |
| Changes in operating assets and liabilities: | | | |
| Trade receivables | | 16.738 | (18.957) |
| Inventories | | (107.036) | (27.881) |
| Other current assets and other receivables | | (2.456) | 16.128 |
| Other non-current assets | | (6.780) | 2.485 |
| Current trade payables | | 151.070 | (74.789) |
| Other current payables and liabilities | | (1.750) | 8.705 |
| Non-current trade payables | | (314) | (494) |
| Employment termination benefits paid | 15 | (12.451) | (13.400) |
| Unused vacation paid | 14 | (4.691) | (5.590) |
| Income taxes paid | 23 | (30.554) | (106.044) |
| Tax paid concerning prior periods | | - | (13.094) |
| Compensations paid | 14 | (6.711) | (2.486) |
| Accrued interest | | (843) | 2.662 |
| Net cash provided from operating activities of discontinued operations | | - | 14.912 |
| **Net cash provided from investing activities** | | **398.909** | **173.456** |

The accompanying notes form an integral part of these consolidated financial statements.

Migros Ticaret Anonim Şirketi and Its Subsidiaries

# Audited Consolidated Statement of Cash Flow for the Year Ended 31 December 2012 and 2011

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)
(Currencies other than TL are expressed in thousands unless otherwise indicated.)

| | Notes | (Audited) 1 January - 31 December 2012 | (Audited) 1 January - 31 December 2011 |
|---|---|---|---|
| **Investing activities:** | | | |
| Purchase of investment property | 10 | - | (253) |
| Purchase of property, plant and equipment | 11 | (146.707) | (155.593) |
| Purchase of intangible assets | 12 | (12.981) | (9.964) |
| Proceeds from sale of property, plant and equipment | | 2.953 | 2.548 |
| Cash received due to sale of subsidiary | | - | 595.153 |
| Interest received | | 62.248 | 51.115 |
| Net cash used in investing activities of discontinued operations | | - | (3.934) |
| **Net cash (used in)/provided from investing activities** | | **(94.487)** | **479.072** |
| **Financing activities:** | | | |
| Bank borrowings paid | | (631) | (262.300) |
| Cash paid with respect to derivative instruments | | (37.069) | (26.336) |
| Interest paid | | (235.016) | (228.875) |
| Net cash used in financing activities of discontinued operations | | - | (10.058) |
| **Net cash used in financing activities** | | **(272.716)** | **(527.569)** |
| Cumulative translation adjustment | | (1.094) | 1.116 |
| Net increase in cash and cash equivalents | | 30.612 | 126.075 |
| **Cash and cash equivalents at the beginning of the period** | | **1.010.255** | **884.180** |
| **Cash and cash equivalents at the end of the period** | **4** | **1.040.867** | **1.010.255** |

The accompanying notes form an integral part of these consolidated financial statements.

## 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 TL 1.922.440 subsequent to the approval of the Competition Board. As of 31 December 2008, Moonlight had increased its shares in Migros to 97,92% as a result of purchases made in Istanbul Stock Exchange on various dates.

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 TL 174.323.340 to TL 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 TL 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 as Migros Ticaret A.Ş (Note 29).

The Company will be mentioned as the "Group" together with its subsidiaries. The parent company of the Group is MH Perakendecilik ve Ticaret A.Ş. ("MH Perakendecilik"). Its shareholding in Migros Ticaret A.Ş is 80,51% (31 December 2011: 80,51%). The Group sold its subsidiary Ramstore Azerbaijan of which they had 100% of shares, on 17 February 2011 and sold its subsidiary Şok Marketler Ticaret A.Ş. of which they had 99,6% of shares, to a third party on the date 25 August 2011.

As of 31 December 2012, the Group employed 17.437 people (31 December 2011: 16.778) on average.

The Company is mainly engaged in the retail sales of food and beverages, consumer and durable goods through its Migros, 5M, Tansaş 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 2012, the Group operates in 882 stores (31 December 2011: 745) with a net retail space of 851.680 (31 December 2011: 797.761) square meters. Retail is the main business segment of the Group and constitutes almost 96,7% of gross sales (31 December 2011: 96,4%).

The address of the registered office is as follows:

Migros Ticaret A.Ş.

Turgut Özal Caddesi No: 12

34758 Ataşehir İstanbul

These consolidated financial statements have been approved for issue by the Board of Directors "(BOD)" on 3 April 2013 and signed by Ö.Özgür Tort, General Manager, and Erkin Yılmaz, Assistant General Manager, on behalf of the BOD. The owners of the Company have the power 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 condensed consolidated interim financial statements, their respective geographical segments are as follows:

| Subsidiary | Country of incorporation | Geographical segment | Nature of business | 31 December 2012 % | 31 December 2011 % |
|---|---|---|---|---|---|
| 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 | Trade | 100,0 | 100,0 |

(*) Not included in the scope of consolidation on the grounds of materiality.

## NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

### 2.1 Financial Reporting Standards

The consolidated financial statements of Migros have been prepared in accordance with the accounting and reporting principles accepted by the Capital Markets Board ("CMB"), namely "CMB Financial Reporting Standards". CMB regulated the principles and procedures of preparation, presentation and announcement of financial statements prepared by the entities with the Communiqué No: XI-29, "Principles of Financial Reporting in Capital Markets" ("the Communiqué"). This Communiqué is effective for the annual periods starting from 1 January 2008 and supersedes the Communiqué No: XI-25, "The Financial Reporting Standards in the Capital Markets". According to the Communiqué, entities shall prepare their financial statements in accordance with International Financial Reporting Standards ("IAS/IFRS") endorsed by the European Union. Until the differences of the IAS/IFRS as endorsed by the European Union from the ones issued by the International Accounting Standards Board ("IASB") are announced by Turkish Accounting Standards Board ("TASB"), IAS/IFRS issued by the IASB shall be applied. Accordingly, Turkish Accounting Standards/Turkish Financial Reporting Standards ("TAS/TFRS") issued by the TASB which are in line with the aforementioned standards shall be considered.

With the decision taken on 17 March 2005, the CMB announced that, effective from 1 January 2005, for companies operating in Turkey and preparing their financial statements in accordance with CMB Financial Reporting Standards, the application of inflation accounting is no longer required Accordingly, IAS 29, "Financial Reporting in Hyperinflationary Economies", issued by the IASB, has not been applied in the financial statements for the accounting periods starting 1 January 2005.

As the differences of the IAS/IFRS endorsed by the European Union from the ones issued by the IASB have not been announced by TASB as of the date of preparation of these consolidated financial statements, the consolidated financial statements have been prepared within the framework of Communiqué XI, No: 29 and related promulgations to this Communiqué as issued by the CMB in accordance with the accounting and reporting principles accepted by the CMB ("CMB Financial Reporting Standards") which are based on IAS/IFRS. The consolidated financial statements and the related notes to them are presented in accordance with the formats required at the announcements of CMB dated at 17 April 2008 and 9 January 2009.

Statutory Decree No: 660, which has been become effective and published in the Official Gazette on 2 November 2011, and the Additional Clause 1 of the Law No: 2499 were nullified and accordingly, Public Oversight, Accounting and Audit Standards Institution (the "Institution") was established. As per Additional Article 1 of the Statutory Decree, applicable laws and standards will apply until new standards and regulations be issued by the Institution and will become effective. In this respect, the respective matter has no effect over the 'Basis of The Preparation of Financial Statements" Note disclosed in the accompanying financial statements as of the reporting date.

Migros Ticaret maintains its books of account and prepares its statutory financial statements in accordance with the Turkish Commercial Code ("TCC"), tax legislation and the Uniform Chart of Accounts issued by the Ministry of Finance and accounting principles issued by the 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 are based on the statutory records, which are maintained under historical cost conversion, with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with the CMB Financial Reporting Standards.

The consolidated financial statements are prepared in Turkish Lira ("TL") based on the historical cost convention except for the financial assets and liabilities which are expressed with their fair values.

### 2.1.1 Functional and Presentation 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 TL, which are the functional currency of Migros Ticaret and the presentation currency of the Group.

The Group prepared its consolidated financial statements in accordance with the going concern assumption.

### 2.1.2 Translation of Financial Statements of Foreign Subsidiaries

Financial statements of Subsidiaries operating in foreign countries are prepared according to the legislation of the country in which they operate and adjusted to the CMB Financial Reporting Standards to reflect the proper presentation and content. Foreign Subsidiaries' assets and liabilities are translated into TL from the foreign exchange rate at the balance sheet date and income and expenses are translated into TL at the average foreign exchange rate. Exchange differences arising from the retranslation of the opening net assets of foreign undertakings and differences between the average and balance sheet date rates are included in the "cumulative translation differences" under the equity.

The preparation of financial statements in conformity with IFRS requires management to exercise its judgment in the process of applying the group's accounting policies. The significant assumptions and estimates applied in the preparation of the consolidated financial statements are disclosed in Note 2.7.

## 2.2 New and Revised International Financial Reporting Standards

### (a) Amendments to IFRSs affecting amounts reported in the financial statements

### Amendments to IFRSs affecting presentation and disclosure only

None

### Amendments to IFRSs affecting the reported financial performance and/or financial position

### IAS 19 Employee Benefits

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the "corridor approach" permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The 2011 amendment of IAS 19 is effective for annual periods beginning on or after 1 January 2013 and requires retrospective application, but early adoption is allowed. The Group Management has elected to early adopt the 2011 amendment of IAS 19 as discussed in Note 2.4 "Change in accounting policies" which require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

### (b) New and Revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs have been applied in the current year and have affected the amounts reported and disclosures in these financial statements. Details of other new and revised IFRSs applied in these financial statements that have had no material impact on the financial statements are set out in further sections.

### Amendments to IAS 12 Deferred Taxes - Recovery of Underlying Assets

The amendment is effective for annual periods beginning on or after 1 January 2012. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will, normally be, through sale. The Group represents its investment property after deducting the accumulated depreciation and if there is any, impairment loss from the cost amount of the investment property. Therefore, the amendment did not have any effect on the consolidated financial statements.

### Amendments to IFRS 7 Disclosures - Transfers of Financial Assets

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

These amendments to IFRS 7 did not have a significant effect on the Group's disclosures. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

### (c) New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| Amendments to IAS 1 | Presentation of Items of Other Comprehensive Income[1] |
| Amendments to IAS 1 | Clarification of the Requirements for Comparative Information[2] |
| IFRS 9 | Financial Instruments[5] |
| IFRS 10 | Consolidated Financial Statements[3] |
| IFRS 11 | Joint Arrangements[3] |
| IFRS 12 | Disclosure of Interests in Other Entities[3] |
| IFRS 13 | Fair Value Measurement[3] |
| Amendments to IFRS 7 | Disclosures - Offsetting Financial Assets and Financial Liabilities[3] |
| Amendments to IFRS 9 and IFRS 7 | Mandatory Effective Date of IFRS 9 and Transition Disclosures[5] |
| Amendments to IFRS 10, IFRS 11 and IFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guide[3] |
| IAS 19 (as revised in 2011) | Employee Benefits[3] |
| IAS 27 (as revised in 2011) | Separate Financial Statements[3] |
| IAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures[3] |
| Amendments to IAS 32 | Offsetting Financial Assets and Financial Liabilities[4] |
| Amendments to IFRSs | Annual Improvements to IFRSs 2009-2011 Cycle except for the amendment to IAS 1[3] |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine[3] |

[1] Effective for annual periods beginning on or after 1 July 2012.
[2] Effective for annual periods beginning on or after 1 January 2013 as part of the Annual Improvements to IFRSs 2009-2011 Cycle issued in May 2012.
[3] Effective for annual periods beginning on or after 1 January 2013.
[4] Effective for annual periods beginning on or after 1 January 2014.
[5] Effective for annual periods beginning on or after 1 January 2015.

### Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*

The amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* is effective for the annual periods beginning on or after 1 July 2012. The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed the 'statement of profit or loss'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments can be applied retrospectively. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

### Amendments to IAS 1 *Presentation of Financial Statements* (as part of the *Annual Improvements to IFRSs 2009-2011 Cycle* issued in May 2012)

The amendments to IAS 1 as part of the *Annual Improvements to IFRSs 2009-2011 Cycle* are effective for the annual periods beginning on or after 1 January 2013.

IAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to IAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

### IFRS 9 *Financial Instruments*

IFRS 9, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The Group management anticipates that the application of IFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

### New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five Standards are described below:

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. SIC-12 *Consolidation - Special Purpose Entities* will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures*. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportional consolidation.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

These five standards together with the amendments regarding the transition guidance are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted provided all of these standards are applied at the same time. The directors have not yet performed a detailed analysis of the impact of the application of these standards and hence have not yet quantified the extent of the impact.

### IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 *Financial Instruments: Disclosures* will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Group management anticipates that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

### Amendments to IFRS 7 and IAS 32 *Offsetting Financial Assets and Financial Liabilities and the related disclosures*

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The Group management anticipates that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

### *Annual Improvements to IFRSs 2009 - 2011 Cycle* issued in May 2012

*The Annual Improvements to IFRSs 2009 - 2011 Cycle* include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to IFRSs include:

- Amendments to IAS 16 *Property, Plant and Equipment*; and
- Amendments to IAS 32 *Financial Instruments: Presentation*.

Amendments to IAS 16

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise. The Group management does not anticipate that the amendments to IAS 16 will have a significant effect on the Group's consolidated financial statements.

Amendments to IAS 32

The amendments to IAS 32 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 *Income Taxes*. The Group management does not anticipate that the amendments to IAS 32 will have a significant effect on the Group's consolidated financial statements.

## 2.3 Basis of Consolidation

a) The consolidated financial statements include the accounts of the parent company, Migros Ticaret, and its Subsidiaries on the basis set out in sections (b), to (d) below. The financial statements of the companies included in the scope of consolidation have been prepared as of the date of the consolidated financial statements and have been prepared in accordance with CMB Financial Reporting Standards applying uniform accounting policies and presentation. The results of Subsidiaries are included or excluded from their effective dates of acquisition or disposal respectively.

b) 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 directly and indirectly by itself having the power to exercise control over the financial and operating policies.

The table below sets out all Subsidiaries and demonstrates their shareholding structures:

| | Direct and indirect shareholding by Migros and its Subsidiaries (%) | |
|---|---|---|
| Subsidiary | 2012 | 2011 |
| Ramstore Bulgaria (1), (2) | 100,00 | 100,00 |
| Ramstore Kazakhstan (1) | 100,00 | 100,00 |
| Ramstore Macedonia (1) | 99,00 | 99,00 |
| Sanal Merkez (3) | 100,00 | 100,00 |

(1) The balance sheets and income statements of the Subsidiaries are consolidated on a line-by-line basis and the carrying value of the investment held by the Company and its Subsidiaries is eliminated against the related equity. Intercompany transactions and balances between the Company and its Subsidiaries are eliminated on consolidation. The cost of, and the dividends arising from, shares held by the Company and its Subsidiaries in the Subsidiaries are eliminated from equity and income for the period, respectively.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. Where necessary, accounting policies of Subsidiaries have been changed to ensure the consistency with the policies adopted by the Group.

(2) Ramstore Bulgaria closed down its three stores and ceased its retail operations as of March 2007.

(3) 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).

c) The results of foreign Subsidiaries are translated into Turkish Lira at average rates for the period. The assets and liabilities of foreign subsidiaries are translated into Turkish Lira at the closing rate for the period. Exchange differences arising on the retranslation of the opening net assets of foreign Subsidiaries and differences between the average and year-end rates are included in the translation reserve.

d) The minority shareholders' share in the net assets and results for the period for Subsidiaries are separately classified in the consolidated balance sheet and statement of income as non-controlling interest and income or loss attributable to non-controlling interest, respectively.

*Changes in the Group's ownership interests in existing subsidiaries*

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

## 2.4 Changes in the Accounting Policies

Significant changes in accounting policies or significant errors are corrected, retrospectively; by restating the prior period consolidated financial statements.

The Group has elected to early adopt the 2011 amendment for International Accounting Standard No. 19 ("IAS 19") "Employee Benefits" which basically requires all actuarial gains and losses to be recognized immediately through other comprehensive income in order to reflect any change in the liability recognized in the consolidated statement of financial position. The amendments to IAS 19 require retrospective application. In this respect, the Group management evaluated the monetary impact of this accounting policy change on the previous years consolidated financial statements for the years ended 31 December 2011 and concluded that as the net after tax impact is not significant, previous year consolidated financial statements are not recast.

In this context, starting from 31 December 2012, the Group recognizes actuarial gains and losses in the consolidated statement of comprehensive income which were previously presented in consolidated statement of income.

## 2.5 Changes in the Accounting Estimates and Errors

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. The Group did not have any major changes in the accounting estimates during the current year, except for the actuarial assumptions explained in Note 15.

## 2.6 Summary of Significant Accounting Policies

The significant accounting policies applied in the preparation of these consolidated financial statements are summarized below. These accounting policies are applied on a consistent basis for the comparative balances and results, unless otherwise indicated.

### a) Revenue

*(a) 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.

Revenues and discounts from suppliers, sales premiums and advertising participation fees are accounted on an accrual basis and booked against cost of goods sold.

*(b) 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.

*(c) Other Revenue*

Other revenues earned by the Group are recognised on the following bases:

Rent and royalty income - on accrual basis

Interest income - according to the effective interest method

Dividend income - when the right to receive payment is established.

### b) Inventories

Inventories are valued at the lower of cost or net realisable value less costs to sell. Cost is determined by the most recent purchase method. The cost of borrowings is not included in the costs of inventories. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale. When the net realizable value of inventory is less than cost, the inventory is written down to the net realizable value and the expense is included in statement of income/(loss) in the period the write-down or loss occurred. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal amount is limited to the amount of the original write-down.

### c) Property, plant and equipment

Property, plant and equipment obtained before 1 January 2005 are carried at the cost restated to the equivalent purchasing power at 31 December 2004 and the acquisition value of current period additions less accumulated depreciation and, if any, impairment (Note 11). 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.

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.

Depreciation is provided for assets when they are ready for use. Depreciation continues to be provided on assets when they become idle.

Gains or losses on disposals of property, plant and equipment are included in the related income or expense accounts, as appropriate.

Property, plant and equipment are reviewed for impairment losses 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 carrying amount of the asset exceeds its recoverable amount, which is the higher of asset net selling price or value in use. The recoverable amount of the property, plant and equipment is the higher of future net cash flows from the utilisation of this property, plant and equipment or fair value less cost to sell.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits with the item will flow to the company. Repairs and maintenance are charged to the statements of income during the financial year in which they are incurred.

### d) Intangible assets (excluding goodwill)

Intangible assets are comprised of acquired brands, rent agreements, trademarks, patents and computer software (Note 12).

*a) 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.

*b) Rent Agreements and other intangible assets*

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.

*c) Computer software (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.

*d) 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.

### e) Business combinations and goodwill

***Business combinations***

The acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Business combinations that took place prior to 1 January 2010 were accounted for in accordance with the previous version of IFRS 3.

### *Goodwill*

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

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.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### f) Impairment of assets

At each reporting date, the Group assesses whether there is any indication that an asset other than deferred tax asset, intangible assets with indefinite useful lives, financial assets at fair value and goodwill may be impaired. When an indication of impairment exists, the Group estimates the recoverable values of such assets. Impairment exists if the carrying value of an asset or a cash generating unit is greater than its recoverable amount which is the higher of value in use or fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. An impairment loss is recognised immediately in profit or loss. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or group of assets. An impairment loss recognised in prior period for an asset is reversed if the subsequent increase in the asset's recoverable amount is caused by a specific event since the last impairment loss was recognised. Such a reversal amount cannot be higher than the previously recognised impairment loss and shall not exceed the carrying amount that would have been determined, net of amortisation or depreciation, had no impairment loss been recognised for the asset in prior years. Such a reversal is recognized as income in the consolidated financial statements.

### g) Financial liabilities and borrowing costs

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds, net of transaction costs, and the redemption value is recognised in the income statement over the period of the borrowings.

International Accounting Standard 23 ("Borrowing Costs") was revised on 29 March 2007 by the IASB. Besides, the revised IAS 23 is effective at 1 January 2009, yet voluntary early transition to the application right is reserved. The Group opted for early adoption and changed its accounting policy, choosing the policy envisaged in IAS 23 related to borrowing costs. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset in the period in which the asset is prepared for its intended use or sale. All other borrowing costs are charged to the income statement when they are incurred.

## h) Financial instruments

### *Trade receivables*

Trade receivables that are created by way of providing goods or services directly to a debtor are carried at amortised cost using the effective interest rate method.

A credit risk provision for trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to other income.

### *Financial assets*

Financial assets are initially recognized in the consolidated financial statements at their acquisition costs including the operational costs. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale in accordance with the requirements of IAS 39, "Financial Instruments". These are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of financial assets classified as available for sale, a significant or prolonged decline in the fair value of the assets below its cost is considered as an indicator that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value- is removed from "Financial Assets Fair Value Reserve" in equity and the remained amount recognized as loss in the comprehensive income statement of the period.

The unrealised gains and losses arising from changes in the fair value of available-for-sale securities are recognised in "Financial Assets Fair Value Reserve" in equity. Gains and losses previously recognized in "Financial Assets Fair Value Reserve" are transferred to the statement of income when such available-for-sale financial assets are derecognised.

Available-for-sale assets that do not have a quoted market price in active markets and whose fair value cannot be measured reliably, the fair value of these assets are determined by using valuation techniques. These valuation techniques include taking as a basis the current transactions compatible with market conditions and other similar investment tools and the discount cash flow analyses considering the conditions specific for the company invested in.

For investments as subsidiaries that are excluded from the scope of consolidation on the grounds of materiality where there is no quoted market price and where a reasonable estimate of fair value cannot be determined since other methods are inappropriate and unworkable, they are carried at cost less any impairment in value.

### i) Foreign currency transactions

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in TL, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than TL (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise except for:

- Exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below for hedging accounting policies); and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognized in the foreign currency translation reserve and recognized in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in TL using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity. On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

### j) 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.

### k) 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.

### l) Provisions, contingent liabilities and contingent assets

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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 recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### m) Leases

*(1) The Group as the lessee*

Finance leases

Assets acquired under finance lease agreements are capitalised at the inception of the lease at the fair value of the leased asset, net of grants and tax credits receivable, or at the present value of the lease payment, whichever is the lower. Lease payments are treated as comprising capital and interest elements, the capital element is treated as reducing the capitalised obligation under the lease and the interest element is charged as expense to the statement of income. Depreciation on the relevant asset is also charged to the statement of income over its useful life.

Operational leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

*(2) The Group as the lessor*

Operational leases

Assets leased out under operating leases are classified under property, plant and equipment in the consolidated balance sheet and rental income is recognised on a straight-line basis over the lease term.

### n) Related parties

Shareholders who have control or common control on the Group, the companies or affiliates controlled by or affiliated to the shareholders, key management personnel and members of the board of directors, their families, the companies or affiliates controlled by or affiliated to them are deemed related parties in accordance with the aim of these consolidated financial statements (Note 25).

### o) 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).

### p) 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.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

### q) Investment property

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 10).

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.

### r) Current and deferred income tax

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, 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 tax currently payable is based on taxable profit for the year. 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 temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit. 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 deferred tax 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.

Deferred income tax liabilities are recognised for all taxable temporary differences, whereas deferred income tax assets resulting from deductible temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised.

When the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority and there is a legally enforceable right to offset current tax assets against current tax liabilities, deferred tax assets and deferred tax liabilities are offset accordingly. Deferred tax assets and liabilities are classified as long term assets and liabilities at the consolidated financial statements.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

*Current and deferred tax for the period*

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

### s) Employee termination benefits

Employment termination benefits, as required by the Turkish Labour Law and the laws applicable in the countries where the subsidiaries operate, represent the estimated present value of the total reserve of the future probable obligation of the Company arising in case of the retirement of the employees, termination of employment without due cause, call for military service, be retired or death upon the completion of a minimum one year service. Provision which is allocated by using defined benefit pension's current value according to actuarial estimations is calculated by using estimated liability method. All actuarial gains and losses are recognised in consolidated statements of income (Note 15).

### t) Statement of cash flows

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).

### u) Discontinued operations

According to International Financial Reporting Standard 5 ("IFRS 5") "Non-current Assets Held for Sale and Discontinued Operations", the discontinued operation is the part of an entity which either is classified as held-for-sale or has been disposed of and whose activities and cash flows can be treated as separable from the entity's activities and cash flows. Discontinued operations represent separate business or geographical segments, which are part of a plan to sell or dispose, or is a subsidiary acquired for selling.

Net assets of discontinued operations are measured at fair value less cost to sell. An analysis of the revenue, expenses and pre-tax profit or loss of discontinued operations, income tax expense of discontinued operations and the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal groups constituting the discontinued operation are disclosed in the notes to the consolidated financial statements. Besides, the net cash flows attributable to the operating, investing and financing activities of discontinued operations are separately disclosed either in the notes or on the face of consolidated financial statements.

### v) Offsetting

All items with significant amounts and nature, even with similar characteristics, are presented separately in the financial statements. Insignificant amounts are grouped and presented by means of items having similar substance and function. When the nature of transactions and events necessitate offsetting, presentation of these transactions and events over their net amounts or recognition of the assets after deducting the related impairment are not considered as a violation of the rule of non-offsetting. As a result of the transactions in the normal course of business, revenue other than sales are presented as net provided that the nature of the transaction or the event will qualify for offsetting.

### w) Derivative financial instruments and hedging activities

Derivatives are initially recognised at acquisition cost including the transaction fees on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The derivative instruments of the Group mainly consist of foreign exchange forward contracts, cap options and corridor options.

The fair value of financial instruments that are not traded in an active market (for example, forward contracts, cap options and corridor options) is determined by using valuation techniques. The Company is utilizing observable market data at the valuation process.

### x) Dividends

Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably). As a part of distribution of dividends, dividend liabilities are reflected to consolidated financial statements as liabilities, on the period of declaration.

### y) 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.

### z) 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 17).

### aa) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### ab) 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.

### ac) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits at banks and highly liquid short-term investments, with maturity periods of less than three months, which has insignificant risk of change in fair value (Note 4).

### ad) Comparative Information and Restatement of Prior Period Financial Statements

The significant accounting policies used in the preparation of the condensed consolidated interim financial statements together with the explanations of annual consolidated financial statements for the period 1 January - 31 December 2012 are consistent except for the point indicated below:

The Group performed classifications over its prior period statement of income which are detailed in Note 30 in accordance with the Turkish Financial Reporting Standards 5 "Assets Classified As Held For Sale" ("TFRS 5").

### Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish

The accounting principles described in Note 2.6 "Summary of Significant Accounting Policies" from (a) to (ad) to the consolidated financial statements (defined as CMB Financial Reporting Standards) differ from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board with respect to the application of inflation accounting, for the period between 1 January - 31 December 2005. Accordingly, the accompanying consolidated financial statements are not intended to present the financial position and results of operations in accordance with IFRS.

## 2.7 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.

### *(a) Goodwill impairment tests*

As explained in Note 2.6.f, 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 TL 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 5,78% annually, after tax, and includes the Group's specific risk factors as well (Note 13).

### *(b) Impairment on Leasehold Improvements*

As explained in Note 2.6.c, 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 (Note 11).

### *(c) Impairment on intangible assets*

As explained in Note 2.6.d, 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 Group's five year business plans. The Group has performed an impairment test on intangible assets at 31 December 2012 and has not identified any impairment as a result of this test (Note 12).

### *(d) Provisions*

As explained in Note 2.6.l, provisions are recognized when the Group has a present legal or constructive 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 2012 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 14).

### *(e) Taxes on income*

As explained in Note 2.6.r, a provision is recognized for the current year tax liability based on the period results of the Group at the balance sheet date. Tax legislations in the Group's subsidiaries' operating countries are subject to different manners of interpretation and subject to be altered frequently. Accordingly, the interpretation of tax implications regarding the operations of subsidiaries in foreign countries by the tax authorities may differ from the interpretation of the management. Consequently, the Group may encounter additional taxes, penalties and interests (Note 14.d). As of 31 December 2012, the Group has evaluated the possibility of any tax exposure that may arise in foreign subsidiaries and has not identified any necessity to recognize a provision.

### *(f) Accounting of derivative financial instruments and hedging activities*

Derivatives are initially recognised at acquisition cost including the transaction fees on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The derivative instruments of the Group mainly consist of foreign exchange forward contracts, cap options, corridor options and interest rate swap.

The fair value of financial instruments that are not traded in an active market (for example, forward contracts, interest rate swap contracts, cap options and corridor options) is determined by using valuation techniques. The Group is utilizing observable market data at the valuation process.

## 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.

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".

The segment information provided to the board of directors as of 31 December 2012 is as follows:

### a) Segment analysis for the period 1 January - 31 December 2012

| | Turkey | Other countries | Combined total | Intersegment elimination | Total |
|---|---|---|---|---|---|
| External revenues | 6.086.720 | 395.682 | 6.482.402 | - | 6.482.402 |
| Inter segment revenues | 2.622 | - | 2.622 | (2.622) | - |
| Sales revenue | 6.089.342 | 395.682 | 6.485.024 | (2.622) | 6.482.402 |
| Cost of goods sold | (4.482.833) | (296.856) | (4.779.689) | 2.622 | (4.777.067) |
| Gross profit | 1.606.509 | 98.826 | 1.705.335 | - | 1.705.335 |
| Selling and marketing expenses | (1.150.478) | (53.023) | (1.203.501) | - | (1.203.501) |
| General administrative expenses | (202.413) | (29.748) | (232.161) | - | (232.161) |
| Addition: Depreciation and amortization | 114.070 | 17.076 | 131.146 | - | 131.146 |
| Addition: Employment termination benefits | 8.013 | - | 8.013 | - | 8.013 |
| Addition: Termination benefits paid | 12.451 | - | 12.451 | - | 12.451 |
| Addition: Unused vacation provision | 8.820 | - | 8.820 | - | 8.820 |
| **EBITDA** | **396.972** | **33.131** | **430.103** | **-** | **430.103** |

### b) Segment analysis for the period 1 January - 31 December 2011

| | Turkey | Other countries | Combined total | Intersegment elimination | Total | Discontinued operations |
|---|---|---|---|---|---|---|
| External revenues | 5.400.669 | 352.443 | 5.753.112 | - | 5.753.112 | 678.010 |
| Inter segment revenues | 3.417 | - | 3.417 | (3.417) | - | - |
| Sales revenue | 5.404.086 | 352.443 | 5.756.529 | (3.417) | 5.753.112 | 678.010 |
| Cost of goods sold | (3.994.726) | (267.313) | (4.262.039) | 3.417 | (4.258.622) | (576.761) |
| Gross profit | 1.409.360 | 85.130 | 1.494.490 | - | 1.494.490 | 101.249 |
| Selling and marketing expenses | (985.065) | (45.619) | (1.030.684) | - | (1.030.684) | (156.441) |
| General administrative expenses | (183.395) | (27.744) | (211.139) | - | (211.139) | (10.943) |
| Addition: Depreciation and amortization | 106.950 | 16.794 | 123.744 | - | 123.744 | 6.302 |
| Addition: Employment termination benefits | 806 | - | 806 | - | 806 | (21) |
| Addition: Termination benefits paid | 12.071 | - | 12.071 | - | 12.071 | 1.329 |
| Addition: Unused vacation provision | 8.792 | - | 8.792 | - | 8.792 | 707 |
| Addition: One-off costs due to Şok stores concept change | - | - | - | - | - | 8.400 |
| **EBITDA** | **369.519** | **28.561** | **398.080** | **-** | **398.080** | **(49.418)** |

A reconciliation of EBITDA figure to income before tax is provided as follows:

| | 1 January - 31 December 2012 | 1 January - 31 December 2011 |
|---|---|---|
| EBITDA, reported segments | 430.103 | 398.080 |
| Depreciation and amortisation | (131.146) | (123.744) |
| Employment termination benefits | (8.013) | (806) |
| Termination benefits paid | (12.451) | (12.071) |
| Provision of unused vacation | (8.820) | (8.792) |
| Other operating income | 11.112 | 8.955 |
| Other operating expenses (-) | (32.862) | (29.210) |
| **Operating profit** | **247.923** | **232.412** |
| Financial income | 178.240 | 176.935 |
| Financial expenses (-) | (297.253) | (725.205) |
| **Income/(loss) before tax** | **128.910** | **(315.858)** |

## 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.

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Turkey | 5.331.873 | 5.199.234 |
| Other Countries | 369.816 | 359.188 |
| **Segment assets** | **5.701.689** | **5.558.422** |
| Less: Inter-segment elimination | (77.344) | (77.458) |
| **Total assets as per consolidated financial statements** | **5.624.345** | **5.480.964** |

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Turkey | 4.260.500 | 4.192.261 |
| Other Countries | 103.634 | 94.977 |
| **Segment assets** | **4.364.134** | **4.287.237** |
| Less: Inter-segment elimination | (1.865) | (1.981) |
| **Total liabilities as per consolidated financial statements** | **4.362.269** | **4.285.256** |

## NOTE 4 - CASH AND CASH EQUIVALENTS

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Cash | 32.947 | 37.070 |
| Banks | | |
| - demand deposits | 54.542 | 89.437 |
| - time deposits | 601.436 | 592.523 |
| Cheques in collection | 680 | 751 |
| Credit card receivables | 351.262 | 290.474 |
| | **1.040.867** | **1.010.255** |

Weighted average effective interest rates on TL, EURO denominated time deposits at 31 December 2012 are 8,0% and 3,0% (TL, EURO and USD denominated time deposits at 31 December 2011: 11,38%; 5,08%; 5,25%).

Credit card receivables with a maturity of less than one month are discounted at 31 December 2012 with annual rate of 6,0% (31 December 2011: 10,59%).

The maturity analysis of time deposits at 31 December 2012 and 2011 is as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| 1 - 30 days | 601.436 | 592.523 |
| | **601.436** | **592.523** |

## NOTE 5 - FINANCIAL INVESTMENTS

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Long-term available-for-sale investments financial assets - (Unlisted financial assets) | 1.695 | 1.695 |
| **Long-term financial assets** | **1.695** | **1.695** |

### Unlisted financial assets:

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | Share % | Amount | Share % | Amount |
| Sanal Merkez Ticaret A.Ş. | 100% | 1.695 | 100% | 1.695 |
| | | **1.695** | | **1.695** |

Sanal Merkez is the subsidiary that is not included in the scope of consolidation on the grounds of materiality due to the insignificance of its impact on the consolidated net worth, financial position and results of Migros. It is accounted for under long-term available-for-sale investment at cost restated at 31 December 2004 as it is not quoted in any active market.

## NOTE 6 - FINANCIAL LIABILITIES

| | 31 December 2012 | | |
|---|---|---|---|
| | Weighted average interest rate | Euro | Total TL equivalent |
| **Short-term financial liabilities** | | | |
| Current portion of long-term bank borrowings | | | |
| - with fixed interest rates | 2,00% | 124 | 291 |
| - with floating interest rates | 4,30% | 62.070 | 145.970 |
| **Total short-term financial borrowings** | | **62.194** | **146.261** |
| Long-term bank borrowings | | | |
| - with fixed interest rates | 2,00% | 370 | 874 |
| - with floating interest rates | 4,30% | 994.701 | 2.339.236 |
| **Long-term bank borrowings** | | **995.071** | **2.340.110** |
| **Total financial liabilities** | | **1.057.265** | **2.486.371** |

The redemption schedule of long-term bank borrowings with TL equivalents at 31 December 2012 is as follows:

| | Euro | TL |
|---|---|---|
| 2014 | 163.957 | 385.577 |
| 2015 | 199.064 | 468.139 |
| 2016 | 234.171 | 550.700 |
| 2017 | 257.452 | 605.449 |
| 2018 | 140.427 | 330.245 |
| | **995.071** | **2.340.110** |

With respect to long term bank loans, all Migros Ticaret A.Ş. shares owned by Parent Company MH Perakendecilik ve Ticaret A.Ş. was provided as collateral to the financial institutions as from the grant date of the loan. As of 31 December 2012, shares of Migros Ticaret A.Ş. which represents 80,51% of shares and amounting to TL 143.323.336 nominal value (14.332.333.600 shares) owned by MH Perakendecilik ve Ticaret A.Ş. is pledged (31 December 2011: 14.332.333.600 shares representing 80,51%.).

| | 31 December 2011 | | | |
|---|---|---|---|---|
| | Weighted average interest rate | USD | Euro | Total TL equivalent |
| **Short-term financial liabilities** | | | | |
| Current portion of long-term bank borrowings | | | | |
| - with fixed interest rates | 2,00% | - | 124 | 303 |
| - with floating interest rates | 5,66% | - | 5.382 | 13.153 |
| Other financial liabilities | | 179 | - | 340 |
| **Total short-term financial borrowings** | | **179** | **5.506** | **13.796** |
| | | | | |
| Long-term bank borrowings | | | | |
| - with fixed interest rates | 2,00% | - | 496 | 1.212 |
| - with floating interest rates | 5,66% | - | 1.052.681 | 2.572.542 |
| **Long-term bank borrowings** | | **-** | **1.053.177** | **2.573.754** |
| | | | | |
| **Total financial liabilities** | | **179** | **1.058.683** | **2.587.550** |

The redemption schedule of long-term bank borrowings with TL equivalents at 31 December 2011 is as follows:

| | Euro | TL |
|---|---|---|
| 2013 | 58.106 | 141.999 |
| 2014 | 163.957 | 400.678 |
| 2015 | 199.064 | 486.472 |
| 2016 | 234.171 | 572.267 |
| 2017 | 257.452 | 629.160 |
| 2018 | 140.427 | 343.178 |
| | **1.053.177** | **2.573.754** |

The current portion of the long-term bank borrowings with floating interest rates in the table above only includes interest accruals.

The fair value of bank borrowings at 31 December 2012 is TL 2.467.291 (31 December 2011: TL 2.557.576).

## NOTE 7 - TRADE RECEIVABLES AND PAYABLES

### Trade receivables:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Receivables from tenants and wholesale activities | 41.264 | 61.871 |
| Doubtful receivables | 18.117 | 14.454 |
| Notes receivable | 4.717 | 5.276 |
| Due from related parties (Note 25) | 52 | 10 |
| | **64.150** | **81.611** |
| Less: Provision for doubtful receivables | (16.671) | (14.109) |
| Unearned finance income on term sales | (134) | (328) |
| **Short-term trade receivables, net** | **47.345** | **67.174** |

The maturities of trade receivables are generally less than one month at 31 December 2012 and they were discounted with the annual rate of 6,0% (31 December 2011: 10,59%).

Movement of provision for doubtful receivables is as follows:

| | 2011 |
|---|---|
| **1 January** | **12.589** |
| Current year charge (Note 20) | 1.639 |
| Collections and reversals | (1.180) |
| Cumulative translation adjustment | 1.061 |
| **31 December** | **14.109** |

| | 2012 |
|---|---|
| **1 January** | **14.109** |
| Current year charge (Note 20) | 3.091 |
| Collections and reversals | (251) |
| Cumulative translation adjustment | (278) |
| **31 December** | **16.671** |

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Supplier current accounts | 1.547.110 | 1.401.376 |
| Due to related parties (Note 25) | 1.251 | 1.365 |
| Less: Unincurred finance cost on term purchases | (10.249) | (15.699) |
| **Short-term trade payables, net** | **1.538.112** | **1.387.042** |

The maturity of trade payables is generally less than three months and they are discounted with annual rate of 6,0% as of 31 December 2012 (31 December 2011: 10,59%).

## NOTE 8 - OTHER RECEIVABLES AND PAYABLES

### Other Receivables:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Receivables from personnel | 1.233 | 1.037 |
| **Short-term other receivables** | **1.233** | **1.037** |

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Deposits and guarantees given | 1.302 | 1.165 |
| **Long-term other receivables** | **1.302** | **1.165** |

### Other Payables:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Credit card bills collection amount (*) | 1.701 | 684 |
| **Short-term other payables** | **1.701** | **684** |

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Deposits and guarantees taken | 3.288 | 3.602 |
| **Long-term other payables** | **3.288** | **3.602** |

(*) Payable consists of credit card bill collections made in the stores. The collections have the maturity of less than one month.

## NOTE 9 - INVENTORIES

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Raw materials | 1.742 | 1.589 |
| Work in progress | 7.845 | 5.919 |
| Merchandise stocks | 772.791 | 667.851 |
| Other | 3.658 | 3.641 |
| | **786.036** | **679.000** |

Cost of the inventory included in the cost of sales for the period 1 January - 31 December 2012 amounts to TL 4.753.321 (1 January - 31 December 2011: TL 4.226.320).

## NOTE 10 - INVESTMENT PROPERTY

| | Opening 1 January 2012 | Additions | Cumulative translation differences | Closing 31 December 2012 |
|---|---|---|---|---|
| **Cost** | | | | |
| Land and buildings | 71.979 | - | (1.390) | 70.589 |
| **Accumulated depreciation** | | | | |
| Buildings | (20.614) | (4.386) | 188 | (24.812) |
| **Net book value** | **51.365** | | | **45.777** |

| | Opening 1 January 2011 | Additions | Cumulative translation differences | Closing 31 December 2011 |
|---|---|---|---|---|
| **Cost** | | | | |
| Land and buildings | 67.229 | 253 | 4.497 | 71.979 |
| **Accumulated depreciation** | | | | |
| Buildings | (15.036) | (4.967) | (611) | (20.614) |
| **Net book value** | **52.193** | | | **51.365** |

Depreciation expenses of the period are recorded in general administrative expenses.

Investment properties of the Group consist of space rented to other retailers in Samal shopping mall and Tastak store in Kazakhstan and Skopje shopping mall in Macedonia. At 31 December 2012, total investment property of Kazakhstan and Macedonia are 8.131 and 8.420 square meters respectively (31 December 2011: Kazakhstan 8.410 square meters, Macedonia 9.131 square meters).

Fair value of the investment properties in Kazakhstan and Macedonia are TL 69.087 and TL 63.274 respectively (31 December 2011: TL 74.065 and TL 70.438 respectively). This value has been calculated with discounted cash flow approach.

The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounted to TL 18.766 (2011: TL 18.202). Direct operating expenses arising on the investment property in the period include maintenance and repair costs which amounted to TL 3.421 (2011: TL 2.759).

At 31 December 2012 and 2011 there were no mortgages on investment property.

## NOTE 11 - PROPERTY, PLANT AND EQUIPMENT

| | Opening 1 January 2012 | Additions | Disposals | Impairment loss (*) | Transfers | Cumulative translation differences | Closing 31 December 2012 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Land and buildings | 455.747 | 1.321 | - | - | 515 | (2.776) | 454.807 |
| Leasehold improvements | 425.670 | 32.544 | (153) | (11.974) | 10.903 | (1.451) | 455.539 |
| Machinery and equipments | 330.621 | 44.523 | (7.125) | - | 21.262 | (2.191) | 387.090 |
| Vehicles | 2.736 | 363 | (1.480) | - | 5 | (37) | 1.587 |
| Furniture and fixture | 170.053 | 25.059 | (2.129) | - | 5.250 | (711) | 197.522 |
| Construction in progress | 3.210 | 42.897 | - | - | (37.935) | - | 8.172 |
| | **1.388.037** | **146.707** | **(10.887)** | **(11.974)** | **-** | **(7.166)** | **1.504.717** |
| **Accumulated depreciation** | | | | | | | |
| Buildings | (29.918) | (8.986) | - | - | - | 499 | (38.405) |
| Leasehold improvements | (122.215) | (41.754) | 36 | 7.273 | - | 234 | (156.426) |
| Machinery and equipments | (74.075) | (43.295) | 6.940 | - | - | 871 | (109.559) |
| Vehicles | (878) | (307) | 559 | - | - | 7 | (619) |
| Furniture and fixture | (42.070) | (17.834) | 1.982 | - | - | 556 | (57.366) |
| | **(269.156)** | **(112.176)** | **9.517** | **7.273** | **-** | **2.167** | **(362.375)** |
| **Net book value** | **1.118.881** | | | | | | **1.142.342** |

(*) Impairment loss amounting to net TL 4.701 consists of leasehold improvements of the stores closed in 2012.

At 31 December 2012 and 2011 there were no mortgages on property, plant and equipment. Depreciation expenses of the period are recorded in general administrative expenses.

| | Opening 1 January 2011 | Additions | Disposals | Impairment loss (*) | Transfers | Disposals from sale of a subsidiary | Cumulative translation differences | Closing 31 December 2011 |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| Land and buildings | 471.028 | 1.383 | - | - | 64 | (25.978) | 9.250 | 455.747 |
| Leasehold improvements | 454.066 | 35.546 | (2.184) | (23.973) | 22.029 | (63.314) | 3.500 | 425.670 |
| Machinery and equipments | 345.138 | 46.840 | (9.402) | - | 30.922 | (87.359) | 4.482 | 330.621 |
| Vehicles | 2.778 | 111 | (62) | - | 1 | (188) | 96 | 2.736 |
| Furniture and fixture | 157.248 | 21.494 | (2.752) | - | 8.343 | (17.468) | 3.188 | 170.053 |
| Construction in progress | 8.110 | 56.518 | - | - | (61.359) | (76) | 17 | 3.210 |
| | **1.438.368** | **161.892** | **(14.400)** | **(23.973)** | **-** | **(194.383)** | **20.533** | **1.388.037** |
| **Accumulated depreciation** | | | | | | | | |
| Buildings | (26.170) | (8.641) | - | - | - | 5.171 | (278) | (29.918) |
| Leasehold improvements | (119.063) | (45.465) | 1.108 | 15.032 | - | 28.878 | (2.705) | (122.215) |
| Machinery and equipments | (65.931) | (41.229) | 6.470 | - | - | 28.906 | (2.291) | (74.075) |
| Vehicles | (463) | (478) | - | - | - | 101 | (38) | (878) |
| Furniture and fixture | (32.850) | (16.531) | 2.142 | - | - | 7.099 | (1.930) | (42.070) |
| | **(244.477)** | **(112.344)** | **9.720** | **15.032** | **-** | **70.155** | **(7.242)** | **(269.156)** |
| **Net book value** | **1.193.891** | | | | | | | **1.118.881** |

(*) Impairment loss amounting to net TL 8.941 consists of leasehold improvements of the stores closed in 2011.

## NOTE 12 - INTANGIBLE ASSETS

| | Opening 1 January 2012 | Additions | Disposals | Disposals from sale of a subsidiary | Cumulative translation difference | Closing 31 December 2012 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Trademark (*) | 202.175 | - | - | - | - | 202.175 |
| Rent agreements (**) | 32.982 | - | - | - | - | 32.982 |
| Rights | 29.105 | 12.981 | - | - | (193) | 41.893 |
| Other intangible assets (***) | 28.783 | - | - | - | - | 28.783 |
| | **293.045** | **12.981** | **-** | **-** | **(193)** | **305.833** |
| **Accumulated amortisation** | | | | | | |
| Rent agreements | (20.134) | (3.315) | - | - | - | (23.449) |
| Rights | (13.547) | (7.528) | - | - | 30 | (21.045) |
| Other intangible assets | (9.094) | (3.735) | - | - | - | (12.829) |
| | **(42.775)** | **(14.578)** | **-** | **-** | **30** | **(57.323)** |
| **Net book value** | **250.270** | | | | | **248.510** |

Amortisation expenses of the period are recorded in general administrative expenses.

### Trademark impairment test:

Trademark was tested for impairment using the release from royalty method as of 31 December 2012. Sales forecasts which are based on financial budgets approved by the board of directors covering a five year period were considered in the determination of the brand value. The growth rate expected to be realized after five years is assumed to be nil. The estimated royalty income is calculated by applying the expected 1,5%. The royalty income calculated with the stated method have been discounted with 5,45%.

| | Opening 1 January 2011 | Additions | Disposals | Disposals from sale of a subsidiary | Cumulative translation difference | Closing 31 December 2011 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Trademark (*) | 253.068 | - | - | (50.893) | - | 202.175 |
| Rent agreements (**) | 32.982 | - | - | - | - | 32.982 |
| Rights | 20.975 | 9.964 | (306) | (1.519) | (9) | 29.105 |
| Other intangible assets (***) | 28.783 | - | - | - | - | 28.783 |
| | **335.808** | **9.964** | **(306)** | **(52.412)** | **(9)** | **293.045** |
| **Accumulated amortisation** | | | | | | |
| Rent agreements | (15.626) | (4.508) | - | - | - | (20.134) |
| Rights | (9.007) | (5.522) | 302 | 553 | 127 | (13.547) |
| Other intangible assets | (6.389) | (2.705) | - | - | - | (9.094) |
| | **(31.022)** | **(12.735)** | **302** | **553** | **127** | **(42.775)** |
| **Net book value** | **304.786** | | | | | **250.270** |

(*) 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 TL 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, Migros assesses the intangible assets with indefinite useful lives annually for any indication of impairment.

(**) 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 TL 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.

(***) 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 square meters, from Hamoğlu Yönetim Organizasyonu Personel Taşımacılık 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 TL 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 square meters 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 TL 18.486, TL 601 for the Mak Gıda and TL 17.885 for Yonca, respectively- was accounted for under other intangible assets and has been amortised over the rent agreement period.

## NOTE 13 - GOODWILL

Movement of goodwill is as follows:

| | 1 January - 31 December 2012 | 1 January - 31 December 2011 |
|---|---|---|
| **Opening balance** | **2.251.427** | **2.251.427** |
| **Closing balance** | **2.251.427** | **2.251.427** |

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 TL 53.626 were deducted from the sales price determined on the share transfer agreement and the consideration determined as TL 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 TL 1.923.740. As a result of the price adjustment defined in share transfer agreement, price difference amounting to TL 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 TL 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 TL 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 assets acquired | (1.468.995) |
| **Goodwill** | **2.239.210** |

b) 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 assets acquired | (2.669) |
| **Goodwill** | **12.217** |

*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 TL 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 5,78% 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 6,78% or 4,78% instead of 5,78%) causes a decrease/increase of TL 1.609.468 (31 December 2011: TL 501.532) in the fair value calculations for which sales costs are deducted, as of 31 December 2012.

## NOTE 14 - PROVISIONS, COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES

### Short-term provisions:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Provision for litigation | 21.870 | 19.460 |
| Provision for unused vacation | 42.865 | 34.045 |
| **Total short-term provisions** | **64.735** | **53.505** |

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.

Movement of provision for lawsuits is as follows:

| | |
|---|---|
| **1 January 2011** | **16.632** |
| Increase during the period | 5.314 |
| Payments during the period | (2.486) |
| **31 December 2011** | **19.460** |
| **1 January 2012** | **19.460** |
| Increase during the period | 9.121 |
| Payments during the period | (6.711) |
| **31 December 2012** | **21.870** |

As of 31 December 2012, unused vacation obligation amounted to TL 42.865 (31 December 2011: TL 34.045).

The Group management makes an assessment of unused vacation obligations in financial terms which is used in making the necessary provisions in the accounts at the end of each accounting period.

Movement of provision for unused vacation is as follows:

| | |
|---|---|
| **1 January 2011** | **31.565** |
| Increase during the period | 15.090 |
| Payments during the period | (5.590) |
| Disposals from sale of subsidiary | (7.020) |
| **31 December 2011** | **34.045** |
| **1 January 2012** | **34.045** |
| Increase during the period | 13.511 |
| Payments during the period | (4.691) |
| **31 December 2012** | **42.865** |

## Collaterals, Pledges, Mortgages

The details of collaterals, pledges and mortgages ("CPM") of the Company at 31 December 2012 and 2011 are as follows:

| | 31 December 2012 | | | |
|---|---|---|---|---|
| **Collaterals, Pledges, Mortgages:** | **Total TL Amount** | **TL** | **USD** | **Euro** |
| A. CPM given on behalf of the Company's legal personality | 60.547 | 59.646 | 472 | 25 |
| 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 on behalf of the majority shareholder | - | - | - | - |
| ii. Total amount of CPM given to on behalf of other group companies which are not in scope of B and C | - | - | - | - |
| iii. Total amount of CPM given on behalf of third parties which are not in scope of C | - | - | - | - |
| **Total Collaterals, Pledges, Mortgages** | **60.547** | **59.646** | **472** | **25** |
| **Proportion of other CRM's to equity** | **0,0%** | | | |

| | 31 December 2011 | | | |
|---|---|---|---|---|
| **Collaterals, Pledges, Mortgages:** | **Total TL Amount** | **TL** | **USD** | **Euro** |
| A. CPM given on behalf of the Company's legal personality | 56.872 | 55.919 | 472 | 25 |
| 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 on behalf of the majority shareholder | - | - | - | - |
| ii. Total amount of CPM given to on behalf of other group companies which are not in scope of B and C | - | - | - | - |
| iii. Total amount of CPM given on behalf of third parties which are not in scope of C | - | - | - | - |
| **Total Collaterals, Pledges, Mortgages** | **56.872** | **55.919** | **472** | **25** |
| **Proportion of other CRM's to equity** | **0,0%** | | | |

**Contingent assets and liabilities:**

a) Guarantees given at 31 December 2012 and 2011 are as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Letter of guarantees given | 60.547 | 56.872 |

b) Guarantees received at 31 December 2012 and 2011 are as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Guarantees obtained from customers | 100.448 | 92.019 |
| Mortgages obtained from customers | 17.596 | 17.072 |
| | **118.044** | **109.091** |

c) The future aggregate minimum lease payments under non-cancellable operating leases of land and stores are as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Payable with in 1 year | 23.119 | 21.688 |
| Payable in 1 to 5 years | 11.374 | 7.977 |
| 5 years and more | 2.551 | 3.597 |
| | **37.044** | **33.262** |

d) Tax legislations in Kazakhstan is subject to different interpretation and subject to be altered frequently. Accordingly, the interpretation of tax implications regarding the operations of Ramstore Kazakhstan by the tax authorities may differ from the interpretation of the management. Consequently, Ramstore Kazakhstan may encounter additional taxes, penalties and interests. Tax authorities in Kazakhstan maintain the right to inspect the accounts for five fiscal years.

e) Yeni Gimat İşyerleri İşletmesi A.Ş. ("Yeni Gimat") has filed an action of debt regarding the claim of rent difference of the immovable rented to Migros Ticaret amounting TL 38.583 which covers the period from 14 June 2001 to the date of trial, 12 June 2009. The Group management has not booked any provision at the 30 September 2012 condensed consolidated interim financial statements due to the fact that related increases have been made with taking into consideration of rates determined regarding rent increases during the years 2000 and 2001 added as of 16 February 2000 and also as of 31 December 2012 it is seen as a far possibility to be obliged to pay the alleged missing rent payments and overdue interest.

Although the mentioned case concluded in favor of the Company on 3 October 2012, the claimant has the right to request an appeal.

## NOTE 15 - PROVISION FOR EMPLOYMENT TERMINATION BENEFITS

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Provision for employee termination benefits | 35.834 | 10.516 |

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 (58 for women and 60 for men), whose employment is terminated without due cause, is called up for military service or passed away. The amount payable consists of one month's salary limited to a maximum of TL 3.033,98 (31 December 2011: TL 2.731,85) for each year of service at 31 December 2012.

The liability is not funded as there is no funding requirement.

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:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Discount rate (%) | 2,27 | 4,81 |
| Turnover rate to estimate the probability of retirement (%) | 80,80-100,00 | 81,40 |

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 TL 3.129,25 effective from 1 January 2013 (1 January 2012: TL 2.805,04) has been taken into consideration in calculating the reserve for employment termination benefit of the Group.

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 80,8% and 100% for the employees working 0-14 years and 15 years and above, respectively.

| | 2012 | 2011 |
|---|---|---|
| **1 January** | **10.516** | **10.269** |
| Increase during the period | 20.464 | 14.837 |
| Payments during the period | (12.451) | (13.400) |
| Actuarial loss/(gain) | 17.305 | (652) |
| Disposal from sale of subsidiary | - | (538) |
| **31 December** | **35.834** | **10.516** |

As detailed in Note 2.4, actuarial losses amounting to TL 17.305 has been reflected to other comprehensive income for the year ended 31 December 2012. Actuarial gain amounting to TL 652 is included in the statement of income for the year ended 31 December 2011.

## NOTE 16 - OTHER ASSETS AND LIABILITIES

### Other current assets:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Prepaid expense (*) | 24.294 | 24.577 |
| Fixed asset advances | 3.424 | 263 |
| Deductible taxes and funds | 2.102 | 2.335 |
| Other | 3.234 | 3.619 |
| | **33.054** | **30.794** |

(*) Prepaid expenses mainly consist of insurance premium and store rentals.

### Other non-current assets:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Upfront fee expenses (long-term) | 3.514 | 4.310 |
| Prepaid expenses | 20.987 | 13.548 |
| | **24.501** | **17.858** |

### Other current liabilities:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Taxes and funds payable | 26.088 | 29.552 |
| Payables to personnel | 18.559 | 19.169 |
| Various expense accruals (*) | 18.904 | 10.377 |
| Merchandise coupons | 8.789 | 9.464 |
| VAT payable | 15.089 | 12.320 |
| Other | 8.366 | 17.673 |
| | **95.795** | **98.555** |

(*) Expense accruals include accruals for costs such as electricity, water, rent, and communication.

## NOTE 17 - EQUITY

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 2012 (31 December 2011: 17.803.000.000 shares). All shares are paid-in and no privileges are given to different share groups and shareholders.

The shareholders of the Company and their shareholdings stated at historical amounts at 31 December 2012 and 31 December 2011 are stated below:

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| Shareholders | Share % | Amount | Share % | Amount |
| MH Perakendecilik ve Ticaret A.Ş. | 80,51 | 143.323 | 80,51 | 143.323 |
| Other | 19,49 | 34.707 | 19,49 | 34.707 |
| | **100,00** | **178.030** | **100,00** | **178.030** |

### 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 TL 385.856 as of 31 December 2012 (31 December 2011: TL 385.856).

In accordance with the Communiqué Serial: XI, No: 29 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.

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 2011, minimum profit distribution will not be applied for the year 2012 (2011: Not compulsory). 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 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. However, companies that made capital increases before distributing dividends related to the prior period and whose shares are therefore classified as "old" and "new" and that will distribute dividends from the profit made from 2008 operations are required to distribute the initial amount in cash.

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 XI No. 29.

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.

### Dividends Paid

Group did not distribute any dividend in 2012 from 2011 profits (2011: did not distribute any dividend in 2011 from 2010 profits).

### 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 XI No:29. The concerning amount for Migros Ticaret is TL 1.802.839. TL 226.969 portion out of total amount will comprise the inflation effects of statutory equity items that are subject to taxation and gain on the sale of subsidiaries. The Company's reserve that can be subject to dividend distribution in accordance with financial statements prepared in accordance with the accounting principles of CMB Financial Reporting Standards amounts to TL 956.588.

The equity schedules at 31 December 2012 and 2011 are as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Share capital | 178.030 | 178.030 |
| Share premium | 678.233 | 678.233 |
| Other capital reserves | (365) | (365) |
| Restricted Reserves | 385.856 | 385.856 |
| Cumulative translation differences | 10.973 | 18.869 |
| Additional contribution to equity related to merger | 27.312 | 27.312 |
| Retained earnings | (106.548) | 70.541 |
| Net income/(loss) | 88.063 | (163.245) |
| **Attributable to the equity holders of the Group** | **1.261.554** | **1.195.231** |

## NOTE 18 - REVENUE AND COST OF SALES

| | 1 January-31 December 2012 | 1 January-31 December 2011 |
|---|---|---|
| Domestic sales | 6.271.076 | 5.547.385 |
| Foreign sales | 394.733 | 353.347 |
| | **6.665.809** | **5.900.732** |
| Other sales | 10.333 | 13.625 |
| | **6.676.142** | **5.914.357** |
| Less: Discounts and returns | (193.740) | (161.245) |
| **Sales revenue - net** | **6.482.402** | **5.753.112** |
| Cost of sales | (4.777.067) | (4.258.622) |
| **Gross Profit** | **1.705.335** | **1.494.490** |

Details of domestic and foreign sales before other sales, discounts and returns are as follows:

| | 1 January-31 December 2012 | 1 January-31 December 2011 |
|---|---|---|
| Retail sales revenue | 6.444.488 | 5.688.854 |
| Rent income | 77.169 | 95.022 |
| Wholesale revenue | 144.152 | 116.856 |
| | **6.665.809** | **5.900.732** |

## NOTE 19 - EXPENSES BY NATURE

| Total | 1 January-31 December 2012 | 1 January-31 December 2011 |
|---|---|---|
| Staff costs | 572.454 | 481.568 |
| Rent | 289.844 | 243.906 |
| Porterage and cleaning | 40.841 | 33.947 |
| Transportation | 62.424 | 57.035 |
| Depreciation and amortisation | 131.146 | 123.744 |
| Energy | 106.460 | 89.265 |
| Advertising | 47.313 | 46.424 |
| Repair and maintenance | 20.976 | 21.807 |
| Security | 17.845 | 15.359 |
| Warehouse | 35.763 | 32.906 |
| Taxes and other fees | 9.526 | 8.595 |
| Mechanisation | 13.741 | 10.673 |
| Communication | 6.943 | 6.741 |
| Other | 80.386 | 69.853 |
| | **1.435.662** | **1.241.823** |

| Marketing, selling and distribution expenses | 1 January-31 December 2012 | 1 January-31 December 2011 |
|---|---|---|
| Staff costs | 492.911 | 411.984 |
| Rent | 289.373 | 243.850 |
| Porterage and cleaning | 39.678 | 33.007 |
| Transportation | 62.363 | 56.861 |
| Energy | 105.318 | 88.434 |
| Advertising | 47.313 | 46.424 |
| Repair and maintenance | 20.413 | 21.360 |
| Security | 17.163 | 14.929 |
| Warehouse | 35.763 | 32.906 |
| Taxes and other fees | 8.282 | 7.115 |
| Mechanisation | 11.508 | 8.723 |
| Communication | 5.772 | 5.059 |
| Other | 67.644 | 60.032 |
| | **1.203.501** | **1.030.684** |

| General administrative expenses | 1 January-31 December 2012 | 1 January-31 December 2011 |
|---|---|---|
| Staff costs | 79.543 | 69.584 |
| Depreciation and amortisation | 131.146 | 123.744 |
| Other | 21.472 | 17.811 |
| | **232.161** | **211.139** |

Expenses by nature in cost of sales for the periods 1 January - 31 December 2012 and 2011 are as follows:

| | 1 January-31 December 2012 | 1 January-31 December 2011 |
|---|---|---|
| Cost of goods sold | (4.753.321) | (4.226.320) |
| Cost of services | (23.746) | (32.302) |
| | **(4.777.067)** | **(4.258.622)** |

Cost of trade goods include discounts, and volume rebates obtained from suppliers. Service costs are formed of energy, advertising, cleaning, security and administrative expenses incurred in the Group's shopping malls.

## NOTE 20 - OTHER OPERATING INCOME AND EXPENSE

| Other operating income: | 1 January-31 December 2012 | 1 January-31 December 2011 |
|---|---|---|
| Gain on sales of scrap goods | 661 | 909 |
| Provision write-off | 251 | 1.180 |
| Gain on sales of property, plant and equipment | 2.106 | 1.708 |
| Gain on insurance claim | 5.516 | 1.329 |
| Other | 2.578 | 3.829 |
| | **11.112** | **8.955** |

| Other operating expenses: | 1 January-31 December 2012 | 1 January-31 December 2011 |
|---|---|---|
| Losses from closed stores | (4.701) | (7.125) |
| Bad debt expense | (3.091) | (1.639) |
| Litigation provisions | (9.121) | (5.314) |
| Loss on sale of fixed assets | (523) | (3.840) |
| Prior year's rent differences | (8.039) | (1.894) |
| Loss due to subsidiary liquidation | - | (1.529) |
| Other | (7.387) | (7.869) |
| | **(32.862)** | **(29.210)** |

## NOTE 21 - FINANCIAL INCOME

| | 1 January-31 December 2012 | 1 January-31 December 2011 |
|---|---|---|
| Interest income on bank deposits | 37.266 | 34.489 |
| Foreign exchange gains | 96.876 | 78.123 |
| Financial income on derivatives | 19.959 | 44.754 |
| Due date charges on term sales | 24.139 | 19.288 |
| Other | - | 281 |
| | **178.240** | **176.935** |

## NOTE 22 - FINANCIAL EXPENSE

| | 1 January-31 December 2012 | 1 January-31 December 2011 |
|---|---|---|
| Due date difference on term purchases | (98.215) | (71.972) |
| Foreign exchange losses | (18.247) | (460.719) |
| Interest expense on bank borrowings | (133.262) | (158.878) |
| Financial expense on derivatives | (42.222) | (26.336) |
| Other | (5.307) | (7.300) |
| | **(297.253)** | **(725.205)** |

## NOTE 23 - TAX ASSETS AND LIABILITIES

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Taxes and fund payable | 36.506 | 115.691 |
| Less: Prepaid current income taxes | (28.033) | (113.170) |
| **Taxes on income, net** | **8.473** | **2.521** |

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Deferred tax assets | 27.789 | 25.558 |
| Deferred tax liabilities | (134.407) | (130.904) |
| | **(106.618)** | **(105.346)** |

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 2012 is 20% (2011: 20%). Corporation tax is applied to the total income of the companies after adjusting for certain disallowable expenses, exempt income, investment and other allowances 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 (2011: 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.

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).

*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.

## Other Geographical Segments

Implied corporation tax rates in Kazakhstan, Bulgaria and Macedonia are 20%, 10% and 10%, respectively (2011: 20%, 10% and 10%, respectively).

The details of taxation on income is as follows:

| | 1 January-31 December 2012 | 1 January-31 December 2011 |
|---|---|---|
| Current period tax expense | (36.506) | (46.434) |
| Prior period tax expense (*) | - | (1.505) |
| **Period tax expense** | **(36.506)** | **(47.939)** |
| Deferred tax expense | (4.268) | (5.417) |
| | **(40.774)** | **(53.356)** |

(*) As a result of the tax review of the company for the year 2009 performed by Ministry of Finance, Account experts Boards, there is a Corporate Tax of TL 14.579, and a fine amounting to TL 31.228 has been levied on January 14, 2011. The company decided to use the amnesty within the scope of the tax amnesty announced, in relation to related tax and fine imposed. The company also decided to increase the 2006 and 2009 corporate tax base, in accordance with the provisions of the law. In accordance with the relevant provisions of the law and as a result of the study, the company decided to pay the 50% of the tax imposed for the year 2009, which is TL 7.290 and the additional amount of TL 3.874 from the increase in the tax bases for the before mentioned years. The total payable of TL 11.164, thus calculated for previous years, is decided to be reflected in the financial tables as at 31 December 2011 as tax expense. In addition to the aforementioned amount of TL 11.164, the Group paid TL 1.505 and TL 422 overdue interest, within the scope of the tax amnesty in 2011.

The reconciliation of tax expenses stated in the consolidated income statements is as follows:

| | 1 January-31 December 2012 | 1 January-31 December 2011 |
|---|---|---|
| Income/(loss) before tax | 128.910 | (315.858) |
| Expected tax expense according to parent company (20%) | (25.782) | 63.172 |
| Prior period tax expense | - | (1.505) |
| Differences in tax rates of subsidiaries | 740 | 753 |
| **Expected tax expense of the Group** | **(25.042)** | **62.420** |
| Tax effect of non deductible expenses | (15.768) | (134.622) |
| Tax effect of discontinued operations | - | 16.492 |
| Tax effect of exemptions | 130 | 105 |
| Other differences | (94) | 2.249 |
| **Tax expense of the Group** | **(40.774)** | **(53.356)** |

## Deferred Income Taxes

The Group recognises deferred tax assets and liabilities based upon temporary differences arising between their financial statements prepared in accordance with CMB Financial Reporting Standards purposes and its statutory tax financial statements. Deferred income taxes will be calculated on temporary differences that are expected to be realized or settled based on the taxable income as of 31 December 2012 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 (2011: 20%, 20%, 10% and 10%).

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 2012 and 2011 using the currently enacted tax rates, is as follows:

| | Cumulative temporary differences | | Deferred income tax assets/(liabilities) | |
|---|---|---|---|---|
| | 31 December 2012 | 31 December 2011 | 31 December 2012 | 31 December 2011 |
| Fair value change of derivative instruments | 21.342 | 35.936 | 4.268 | 7.187 |
| Expense accruals and provisions | 64.735 | 53.504 | 12.947 | 10.701 |
| Inventories | 11.625 | 16.038 | 2.325 | 3.208 |
| Provision for employment termination benefits | 35.834 | 10.516 | 7.167 | 2.103 |
| Unincurred interest income | 134 | 328 | 27 | 66 |
| Other | 5.274 | 11.466 | 1.055 | 2.293 |
| **Deferred income tax assets** | | | **27.789** | **25.558** |
| Fair value change of derivative instruments | (256) | (43) | (51) | (9) |
| Property, plant and equipment and intangible assets | (693.759) | (664.118) | (131.444) | (125.360) |
| Unincurred interest expense | (10.249) | (15.699) | (2.050) | (3.140) |
| Other | (4.310) | (11.975) | (862) | (2.395) |
| **Deferred income tax liability** | | | **(134.407)** | **(130.904)** |
| **Total deferred income tax liability, net** | | | **(106.618)** | **(105.346)** |

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Deferred income tax assets: | | |
| Deferred income tax asset to be recovered after more than 12 months | 7.423 | 4.772 |
| Deferred income tax asset to be recovered within 12 months | 20.366 | 20.786 |
| | **27.789** | **25.558** |
| Deferred income tax liabilities: | | |
| Deferred income tax liability to be settled after more than 12 months | (131.495) | (125.369) |
| Deferred income tax liability to be settled within 12 months | (2.912) | (5.535) |
| | **(134.407)** | **(130.904)** |
| **Deferred tax liabilities, net** | **(106.618)** | **(105.346)** |

Movement of deferred income tax assets and liabilities are as follows:

| | Deferred income tax liabilities |
|---|---|
| **1 January 2011** | **(118.411)** |
| Deferred tax expense from continuing operations | (5.417) |
| Disposal from sale of subsidiary | 19.030 |
| Cumulative translation difference | (548) |
| **31 December 2011** | **(105.346)** |
| **1 January 2012** | **(105.346)** |
| Deferred tax expense from continuing operations | (4.268) |
| Tax charge recognized in the equity | 3.461 |
| Cumulative translation difference | (465) |
| **31 December 2012** | **(106.618)** |

## NOTE 24 - EARNINGS PER SHARE

Earnings per share disclosed in the consolidated statements of income are determined by dividing the net income by the weighted average number of shares that have been outstanding during the period.

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, such bonus shares are regarded as issued shares. Accordingly, 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 period in which they were issued and for each earlier year.

Basic earnings per share are determined by dividing net income attributable to shareholders by the weighted average number of issued ordinary shares as below:

| | 1 January-31 December 2012 | 1 January-31 December 2011 |
|---|---|---|
| Net income/(loss) attributable to the shareholders | 88.063 | (163.245) |
| Weighted average number of sales with Kr1 face value each ('000) | 17.803.000 | 17.803.000 |
| **Earnings/(loss) per share (Kr)** | **0,49** | **(0,92)** |

There is no difference between basic and diluted earnings per share for any of the periods.

## NOTE 25 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

### (i) Balances with related parties

| Due from related parties | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Mavi Jeans Giyim Sanayi ve Tic. A.Ş. | 11 | 4 |
| Tekin Acar Büyük Mağazacılık T.A.Ş. | 5 | 6 |
| Provus Bilişim Hizmetleri A.Ş. | 13 | - |
| Sanal Merkez T.A.Ş. | 23 | - |
| **Total due from related parties** | **52** | **10** |

| Due to related parties | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Natura Gıda San. Tic. ve A.Ş. | 118 | - |
| Sanal Merkez T.A.Ş. | - | 226 |
| Other | 1.133 | 1.139 |
| **Total due to related parties** | **1.251** | **1.365** |

### (ii) Transactions with related parties

| Non-current asset purchases: | 1 January-31 December 2012 | 1 January-31 December 2011 |
|---|---|---|
| Sanal Merkez T.A.Ş. | - | 5 |
| | **-** | **5** |

| Inventory purchases: | 1 January-31 December 2012 | 1 January-31 December 2011 |
|---|---|---|
| Sanal Merkez T.A.Ş. | - | 11 |
| Şok Marketler Tic. A.Ş. | - | 4.018 |
| Natura Gıda San. Tic. ve A.Ş. | 1.597 | - |
| | **1.597** | **4.029** |

| Services purchases: | 1 January-31 December 2012 | 1 January-31 December 2011 |
|---|---|---|
| Sanal Merkez T.A.Ş. | - | 5 |
| | **-** | **5** |

| Inventory sales: | 1 January-31 December 2012 | 1 January-31 December 2011 |
|---|---|---|
| Sanal Merkez T.A.Ş. | 13 | 13 |
| Pizza Restaurantları T.A.Ş. | 48 | 31 |
| | **61** | **44** |

### (iii) Other transactions with related parties

| | 1 January-31 December 2012 | 1 January-31 December 2011 |
|---|---|---|
| Rent income | 664 | 784 |
| Other income | 198 | 164 |
| | **862** | **948** |

### (iv) Key management personnel compensation

The Group has determined key management personnel as chairman of executive board, members, general manager and general manager assistants.

Detail of compensation amounts to key management is as follows:

| | 1 January-31 December 2012 | 1 January-31 December 2011 |
|---|---|---|
| Short-term benefits to employees | 11.076 | 11.682 |
| | **11.076** | **11.682** |

Compensation paid or payable consists of salaries, benefits, SGK and employer shares and Board of Directors attendance fees.

## NOTE 26 - DERIVATIVE FINANCIAL INSTRUMENTS

### Short-term derivative financial instruments

| Short-term assets | 31 December 2012 | 31 December 2011 |
|---|---|---|
| CAP options | 15 | - |
| | **15** | - |

| Short-term liabilities | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Interest rate swap contracts | 9.622 | - |
| Forward foreign exchange contracts | 10.441 | 22.591 |
| | **20.063** | **22.591** |

### Long-term derivative financial instruments

| Long-term assets | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Corridor options | - | 40 |
| CAP options | 241 | 3 |
| | **241** | **43** |

| Long-term liabilities | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Forward foreign exchange contracts | - | 7.554 |
| Interest rate swap contracts | 1.279 | 5.791 |
| | **1.279** | **13.345** |

The Group entered into a number of forward currency exchange contracts with banks in order to hedge its exchange rate risk. As at the settlement date, the Group sells TL and purchases Euro at agreed strike prices. The fair values of the foreign exchange contracts as of 31 December 2012 which extend until year 2013 are as follows:

| | EURO Amount to be purchased | TL Amount to be sold | Fair Value (TL) |
|---|---|---|---|
| Forward foreign exchange contracts | 32.425 | 88.850 | 10.441 |

The fair values of the foreign exchange contracts as of 31 December 2011 which extend until year 2013 are as follows:

| | EURO Amount to be purchased | TL Amount to be sold | Fair Value (TL) |
|---|---|---|---|
| Forward foreign exchange contracts | 46.140 | 151.540 | 30.145 |

The Group entered number of cap, corridor and interest rate swap contracts with banks in order to hedge its interest rate risk. The fair values of contracts and details as of 31 December 2012 and 2011 are as follows:

### 31 December 2012

#### Short-term assets

| Agreement Type | Transaction Date | Effective Date | Expiration Date | Derivative Instrument Amount (EUR) | Fair Value TL |
|---|---|---|---|---|---|
| Cap | 30 May 2012 | 31 May 2012 | 29 November 2013 | 212,5 million | 15 |
| | | | | | **15** |

#### Long-term assets

| Agreement Type | Transaction Date | Effective Date | Expiration Date | Derivative Instrument Amount (EUR) | Fair Value TL |
|---|---|---|---|---|---|
| Cap | 20 November 2012 | 30 November 2012 | 30 November 2014 | 300 million | 241 |
| | | | | | **241** |

#### Short-term liabilities

| Agreement Type | Transaction Date | Effective Date | Expiration Date | Derivative Instrument Amount (EUR) | Fair Value TL |
|---|---|---|---|---|---|
| Interest rate swap | 6 October 2010 | 31 May 2011 | 29 November 2013 | 105 million | 2.874 |
| Interest rate swap | 6 October 2010 | 30 November 2011 | 29 November 2013 | 105 million | 3.322 |
| Interest rate swap | 6 October 2010 | 31 May 2011 | 29 November 2013 | 53 million | 1.663 |
| Interest rate swap | 6 October 2010 | 30 November 2011 | 29 November 2013 | 53 million | 1.763 |
| | | | | | **9.622** |

**Long-term liabilities**

| Agreement Type | Transaction Date | Effective Date | Expiration Date | Derivative Instrument Amount (EUR) | Fair Value TL |
|---|---|---|---|---|---|
| Interest rate swap | 20 November 2012 | 30 November 2012 | 30 November 2015 | 200 million | 1.279 |
| | | | | | **1.279** |

**31 December 2011**

**Long-term assets**

| Agreement Type | Transaction Date | Effective Date | Expiration Date | Derivative Instrument Amount (EUR) | Fair Value TL |
|---|---|---|---|---|---|
| Coridor | 26 August 2009 | 31 May 2011 | 30 November 2012 | 300 million | 40 |
| Cap | 26 August 2009 | 31 May 2011 | 30 November 2012 | 125 million | 3 |
| | | | | | **43** |

**Long-term liabilities**

| Agreement Type | Transaction Date | Effective Date | Expiration Date | Derivative Instrument Amount (EUR) | Fair Value TL |
|---|---|---|---|---|---|
| Interest rate swap | 6 October 2010 | 31 May 2011 | 30 November 2013 | 105 million | 1.711 |
| Interest rate swap | 6 October 2010 | 30 November 2011 | 29 November 2013 | 105 million | 1.963 |
| Interest rate swap | 6 October 2010 | 31 May 2011 | 29 November 2013 | 53 million | 1.039 |
| Interest rate swap | 6 October 2010 | 30 November 2011 | 30 November 2013 | 53 million | 1.078 |
| | | | | | **5.791** |

## NOTE 27 - 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.

*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 Group's financial liabilities that are sensitive to interest is 4,30% (31 December 2011: 5,66%) as of 31 December 2012. If interest rates on TL, 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 TL 2.117 (31 December 2011: TL 2.222) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Interest rate positions of the Group at 31 December 2012 and 2011 are as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **Financial instruments with fixed interest rates** | | |
| Time deposits | 601.436 | 592.523 |
| Financial liabilities | 1.165 | 1.515 |
| **Financial instruments with floating interest rates** | | |
| Financial liabilities | 2.485.206 | 2.586.035 |

*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 2012, the Group's financial debt with a maturity longer than 1 year is TL 2.340.110 (31 December 2011: TL 2.573.754) (Note 6).

The maturity analysis of Group's financial liabilities as of 31 December 2012 is as follows:

| | Carrying value | Contractual cash flows | Up to 3 months | 3 months - 12 months | 1 year - 5 years | 5 years and over |
|---|---|---|---|---|---|---|
| **Financial liabilities (Non-derivative):** | | | | | | |
| Financial payables | 2.486.371 | 2.856.426 | - | 242.378 | 2.276.772 | 337.276 |
| Trade payables | 1.538.112 | 1.548.361 | 1.289.567 | 258.794 | - | - |
| Other payables | 1.700 | 1.700 | 1.700 | - | - | - |
| | **4.026.183** | **4.406.487** | **1.291.267** | **501.172** | **2.276.772** | **337.276** |

**Derivative financial instruments**

| | Carrying value | Contractual cash flows | Up to 3 months | 3 months - 12 months | 1 year - 5 years | 5 years and over |
|---|---|---|---|---|---|---|
| Derivative cash inflows | 256 | 37 | - | 37 | - | - |
| Derivative cash outflows | (21.342) | (26.414) | - | (24.217) | (2.197) | - |
| **Derivative financial liabilities, net** | **(21.086)** | **(26.377)** | **-** | **(24.180)** | **(2.197)** | **-** |

The maturity analysis of Group's financial liabilities as of 31 December 2011 is as follows:

| | Carrying value | Contractual cash flows | Up to 3 months | 3 months - 12 months | 1 year - 5 years | 5 years and over |
|---|---|---|---|---|---|---|
| **Financial liabilities (Non-derivative):** | | | | | | |
| Financial payables | 2.587.550 | 3.232.393 | - | 144.279 | 2.059.792 | 1.028.322 |
| Trade payables | 1.387.042 | 1.402.741 | 1.116.371 | 286.370 | - | - |
| Other payables | 684 | 684 | 684 | - | - | - |
| | **3.975.276** | **4.635.818** | **1.117.055** | **430.649** | **2.059.792** | **1.028.322** |

**Derivative financial instruments**

| | Carrying value | Contractual cash flows | Up to 3 months | 3 months - 12 months | 1 year - 5 years | 5 years and over |
|---|---|---|---|---|---|---|
| Derivative cash inflows | 43 | 43 | - | 43 | - | - |
| Derivative cash outflows | (35.936) | (39.417) | - | (27.916) | (11.501) | - |
| **Derivative financial liabilities, net** | **(35.893)** | **(39.374)** | **-** | **(27.873)** | **(11.501)** | **-** |

*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 2012 and 2011 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 2012 | | | |
|---|---|---|---|---|
| | Trade receivables | | Other receivables | Deposits |
| | Related Parties | Other | Other | in Banks |
| **Maximum exposed credit risk** | | | | |
| **As of reporting date (A+B+C+D)** | **52** | **47.293** | **2.535** | **655.978** |
| Secured portion of maximum | | | | |
| Credit risk by guarantees etc. | - | 8.004 | - | - |
| A. Net book value of financial assets | | | | |
| Either are not due or not impaired | 52 | 43.124 | 2.535 | 655.978 |
| Secured portion by guarantees etc. | - | 6.558 | - | - |
| B. Financial assets with renegotiated conditions | - | - | - | - |
| Secured portion by guarantees etc. | - | - | - | - |
| C. Net book value of the expired | | | | |
| or not impaired financial assets | - | 2.723 | - | - |
| secured portion by guarantees | - | - | - | - |
| D. Impaired assets | | | | |
| Net book value | - | 1.446 | - | - |
| Overdue (Gross book value) | - | 18.117 | - | - |
| Impairment (-) | - | (16.671) | - | - |
| Secured portion of the net value | | | | |
| By guarantees etc. | - | 1.446 | - | - |

| | 31 December 2011 | | | |
|---|---|---|---|---|
| | Trade receivables | | Other receivables | Deposits |
| | Related Parties | Other | Other | in Banks |
| **Maximum exposed credit risk** | | | | |
| **As of reporting date (A+B+C+D)** | **10** | **67.164** | **2.202** | **681.960** |
| Secured portion of maximum | | | | |
| Credit risk by guarantees etc. | - | 8.446 | - | - |
| A. Net book value of financial assets | | | | |
| Either are not due or not impaired | 10 | 64.646 | 2.202 | 681.960 |
| Secured portion by guarantees etc. | - | 8.101 | - | - |
| B. Financial assets with renegotiated conditions | - | - | - | - |
| Secured portion by guarantees etc. | - | - | - | - |
| C. Net book value of the expired | | | | |
| or not impaired financial assets | - | 2.173 | - | - |
| secured portion by guarantees | - | - | - | - |
| D. Impaired assets | | | | |
| Net book value | - | 345 | - | - |
| Overdue (Gross book value) | - | 14.454 | - | - |
| Impairment (-) | - | (14.109) | - | - |
| Secured portion of the net value | | | | |
| By guarantees etc. | - | 345 | - | - |

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Group 1 | 5.721 | 4.330 |
| Group 2 | 39.759 | 61.738 |
| Group 3 | 231 | 790 |
| | **45.711** | **66.858** |

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

### b) Aging of the receivables which are overdue but not impaired

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| 0-1 months | 601 | 1.022 |
| 1-3 months | 505 | 415 |
| 3-12 months | 916 | 627 |
| 1-5 years | 700 | 109 |
| | **2.722** | **2.173** |

### c) Geographical concentration of the trade and other receivables

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Turkey | 40.882 | 62.044 |
| Other | 8.998 | 7.332 |
| | **49.880** | **69.376** |

*Foreign currency risk*

The Group is exposed to foreign exchange risk arising primarily with respect to borrowings denominated in foreign currencies. Aforementioned foreign exchange risk is followed and monitored by the management.

At 31 December 2012, if Euro had appreciated against TL by 5% and all other variables remaining the same, the profit 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 lower by TL 103.271.

| | 31 December 2012 | | | |
|---|---|---|---|---|
| | | Original Currencies | | |
| | Total TL equivalent | USD | EURO | Other currency TL equivalent |
| **Assets:** | | | | |
| Cash and cash equivalents | 440.591 | 158 | 180.059 | 16.865 |
| Trade receivables | 4.740 | 246 | - | 4.301 |
| Other current assets | 6.717 | 1.422 | - | 4.182 |
| **Total current assets** | **452.048** | **1.826** | **180.059** | **25.348** |
| **Total assets** | **452.048** | **1.826** | **180.059** | **25.348** |
| Current financial liabilities | 146.261 | - | 62.194 | - |
| Trade payables (net) | 7.478 | 131 | - | 7.244 |
| Other current liabilities | 4.061 | 1.131 | - | 2.045 |
| **Total current liabilities** | **157.800** | **1.262** | **62.194** | **9.289** |
| Non-current financial liabilities | 2.340.110 | - | 995.071 | - |
| Other non-current liabilities | 2.500 | - | 1.063 | - |
| **Total non-current liabilities** | **2.342.610** | **-** | **996.134** | **-** |
| **Total liabilities** | **2.500.410** | **1.262** | **1.058.328** | **9.289** |
| **Net balance sheet foreign currency position** | **(2.048.362)** | **564** | **(878.269)** | **16.059** |
| Net asset/liability position of off-balance sheet derivatives (A-B) | - | - | - | - |
| A. Total foreign currency amount of off-balance sheet derivative financial assets | - | - | - | - |
| B. Total foreign currency amount of off-balance sheet derivative financial liabilities | - | - | - | - |
| **Net foreign currency position** | **(2.048.362)** | **564** | **(878.269)** | **16.059** |
| Export | - | - | - | - |
| Import | 74.715 | 41.764 | - | - |
| Fair value of hedged funds of foreign currency | 10.441 | - | - | - |
| Hedge amount of foreign currency assets | - | - | - | - |
| Hedged amount of foreign currency liabilities | 76.254 | - | 32.425 | - |

| | 31 December 2011 | | | |
|---|---|---|---|---|
| | | Original Currencies | | |
| | Total TL equivalent | USD | EURO | Other currency TL equivalent |
| **Assets:** | | | | |
| Cash and cash equivalents | 454.204 | 8.161 | 174.148 | 13.206 |
| Trade receivables | 4.695 | 461 | 29 | 3.753 |
| Other current assets | 3.974 | 1.643 | - | 871 |
| **Total current assets** | **462.873** | **10.265** | **174.177** | **17.830** |
| **Total assets** | **462.873** | **10.265** | **174.177** | **17.830** |
| Current financial liabilities | 13.796 | 179 | 5.506 | - |
| Trade payables | 7.683 | - | 777 | 5.784 |
| Other current liabilities | 6.150 | 2.676 | 24 | 1.037 |
| **Total current liabilities** | **27.629** | **2.855** | **6.307** | **6.821** |
| Non-current financial liabilities | 2.573.754 | - | 1.053.177 | - |
| **Total non-current liabilities** | **2.573.754** | **-** | **1.053.177** | **-** |
| **Total liabilities** | **2.601.383** | **2.855** | **1.059.484** | **6.821** |
| **Net balance sheet foreign currency position** | **(2.138.510)** | **7.410** | **(885.307)** | **11.009** |
| Net asset/liability position of off-balance sheet derivatives (A-B) | - | - | - | - |
| A. Total foreign currency amount of off-balance sheet derivative financial assets | - | - | - | - |
| B. Total foreign currency amount of off-balance sheet derivative financial liabilities | - | - | - | - |
| **Net foreign currency position** | **(2.138.510)** | **7.410** | **(885.307)** | **11.009** |
| Export | - | - | - | - |
| Import | 57.855 | 35.002 | - | - |
| Fair value of hedged funds of foreign currency | 30.145 | - | - | - |
| Hedge amount of foreign currency assets | - | - | - | - |
| Hedged amount of foreign currency liabilities | 112.757 | - | 46.140 | - |

Foreign currency sensitivity analysis as of 31 December 2012 and 2011 is as follows:

**31 December 2012**

| | Gain/Loss | |
|---|---|---|
| | Foreign exchange appreciation | Foreign exchange depreciation |
| 5% change in Euro Exchange rate | | |
| Euro net asset/liability | (103.271) | 103.271 |
| Portion secured from Euro risk | - | - |
| **Euro net effect** | **(103.271)** | **103.271** |

**31 December 2011**

| | Gain/Loss | |
|---|---|---|
| | Foreign exchange appreciation | Foreign exchange depreciation |
| 5% change in Euro Exchange rate | | |
| Euro net asset/liability | (108.176) | 108.176 |
| Portion secured from Euro risk | - | - |
| **Euro net effect** | **(108.176)** | **108.176** |

***Capital risk management***

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and maintain an optimal structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group carries out financial risk analysis by following its capital risk management on a monthly basis on the basis of gearing ratio, short term balance sheet liquidity and net financial debt level.

The ratio of net debt/(equity +net debt) at 31 December 2012 and 2011 is as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Total liabilities | 4.362.269 | 4.285.257 |
| Less: Cash and cash equivalents | (1.040.867) | (1.010.255) |
| Deferred tax liabilities (net) | (106.618) | (105.346) |
| Net debt | 3.214.784 | 3.169.656 |
| Equity | 1.261.554 | 1.195.231 |
| Equity+net debt | 4.476.338 | 4.364.887 |
| **Net debt/(Equity+net debt) ratio** | **71,82%** | **72,62%** |

## NOTE 28 - 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 IFRS 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 financial instrument is the only item that is recognised at fair value. The fair value of derivative financial 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 amortised cost at the balance sheet are presented with their values in Note 6. 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 29 - 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 TL 174.323.340 to TL 178.030.000 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 TL 3.706.660 issued by Moonlight have been distributed to the minority shareholders of Migros Türk 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 6 May 2009 dated and 7305 numbered Trade Registry Gazette. As a result of the merger, Moonlight's trade name has been changed to Migros Ticaret A.Ş.

The difference occurred as a result of merger amounting TL 27.312, has been presented as "Additional contribution to shareholders' equity related to merger" under consolidated equity, as there are no related lines present at the financial statement presentation format which is held mandatory by CMB.

## NOTE 30 - DISCLOSURE OF OTHER MATTERS REQUIRED FOR THE PURPOSE OF UNDERSTANDING AND INTERPRETING THE CONSOLIDATED FINANCIAL STATEMENTS

On the meeting of Board of Directors dated on 7 June 2011, the Group decided to sell 99,60% shares of subsidiary, Şok Marketler Ticaret A.Ş., to a third party. Accordingly, sale process of Şok Marketler Ticaret A.Ş. has been initiated following the signature of share transfer agreement on 7 June 2011. The necessary permit from Competition Board was obtained on 17 August 2011 and as of 25 August 2011 share transfer was completed. In addition, on 1 August 2011, the Group transferred assets and liabilities allocated to operations held under the Şok Brand to Şok Marketler Ticaret A.Ş.

On 17 February 2011, the Group sold 100% shares of subsidiary, Ramstore Azerbaijan, to a third party. 993 TL worth of sales income is classified under income statement of discontinued operations.

1 January - 31 December 2011 accounting period, income statement of the discontinued operations are as follows:

| | 1 January-<br>31 December 2011 |
|---|---|
| Revenue (net) | 678.010 |
| Cost of sales (-) | (576.761) |
| Marketing, selling and distribution expenses (-) | (156.441) |
| General administrative expenses (-) | (10.943) |
| Financial income | 2.365 |
| Financial expenses (-) | (10.058) |
| Other expenses (-) | (8.632) |
| **Loss before tax** | **(82.460)** |
| Tax income | 148 |
| **Net loss from discontinued operations before the gain from sale of subsidiary** | **(82.312)** |
| Gain on sales of subsidiary | 357.613 |
| Sales profit tax expense | (69.257) |
| **Net income** | **206.044** |

## NOTE 31 - SUBSEQUENT EVENTS

None.

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