MİGROS 2017 ANNUAL REPORT

MiGROS

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OUR FORMATS

1.652
STORES

73
PROVINCES

162
STORES

20
PROVINCES

MİGROS

MİGROS

Celebrating its 63rd year in business in Turkey's retailing industry in 2017, Migros appeals to its customers' hearts and minds through stores located in 73 provinces and all seven of the country's regions. Increasing its Migros Jet, M, MM, MMM, and 5M format presence in the ever-greater number of territories that it serves, Migros' product diversity, reasonable prices, and cheerful and helpful service ensure that customers enjoy a superior shopping experience.

kipa

KİPA

Kipa, a food-retailing chain that opened its first store in İzmir's Bornova township in 1994, was purchased by Migros on 1 March 2017. This acquisition combines Kipa's strong local knowledge and presence with Migros' own national retailing experience. Kipa serves customers through 162 stores located in 20 of Turkey's cities, including the three biggest–İstanbul, Ankara, and İzmir. One of the leading names in Turkish retailing, Kipa conducts its operations through 47 hypermarkets, 45 supermarkets, and 68 express markets. The company also has two convenience stores that are located in fuel stations.

44
STORES

6
PROVINCES

110
STORES

27
PROVINCES

39
STORES

2
COUNTRIES

macrocenter

MACROCENTER

An exclusive product portfolio, superior customer service standards, unique store design, and range of delicacies all position Macrocenter as Turkey's top-end supermarket chain. While catering to its customers' lifestyles and preferences with outstanding offerings from Europe and the rest of the world as well as with some of the choicest of Turkey's regional specialties, Macrocenter's service quality and passion for what it does enable it to exceed customers' expectations.

MİGROS SANAL MARKET www.sanalmarket.com.tr

MİGROS VIRTUAL MARKET

Making shopping more convenient since 1997, Migros Virtual Market (MVM) is a major e-commerce food retailer. Customers can place their orders online, with a mobile app, and by telephone and have their purchases delivered to their homes. MVM also offers several options for customers who may have special delivery requirements. For those who work during the day, there's "Drop Off At Work"; for those with no time to do their shopping, there's "Drive By & Collect", which lets them pick up their purchases from a Migros Jet store at a local Petrol Ofisi gas station on the way home; and for those who don't want to wait in a supermarket checkout line, there's "Pick Up At The Store".

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

Ramstore SUPERMARKET

RAMSTORE

Besides being the leader of Turkey's retailing industry, Migros also serves customers through Ramstores at 39 locations outside Turkey, including two shopping malls, one in Kazakhstan and one in Macedonia. Ramstore provides its customers with a window on the Migros world of enjoyable shopping. In addition to increasing its footprint in the countries in which it already has a presence, Ramstore is also looking into new investment opportunities in other ones.

CORPORATE PROFILE

MİGROS RANKS 247TH AMONG THE WORLD'S LEADING RETAILERS.*

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

The pioneer of modern retailing in Turkey, Migros' spacious stores fully meet all of their customers' needs with a huge range of offerings consisting of thousands of products that include not just food and household necessities but also cosmetics, stationery, glassware, electronic goods, books, and textiles etc.

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

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*Deloitte's 2018 report based on 2016 year-end data

VISION-MISSION-STRATEGIES-VALUES-PRINCIPLES

MİGROS PROVIDES ITS CUSTOMERS WITH MODERN, RELIABLE, ECONOMICAL, AND HIGH-QUALITY SERVICE TO.

Vision

To always be shoppers' first-choice address by providing superior customer attention and a dependable shopping experience.

Mission

To offer a unique shopping experience that combines unrivalled service quality, innovative practices, rich product diversity, and prices that contribute to families' budgets. To engage in socially and environmentally beneficial activities that create value for all stakeholders.

Strategies

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

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

Values

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

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

Principles

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

Migros has adopted all four basic tenets of corporate governance:

- Fairness
- Transparency
- Responsibility
- Accountability.

2017 AT A GLANCE

MİGROS MAINTAINED ITS STRONG GROWTH IN 2017.

On 29 December 2017, Migros' corporate governance rating was raised to 9.58 (95.77).

193

Migros opened 193 new stores in 2017, thereby fulfilling its target for the year.

Migros' total sales grew by 38.7% last year while its consolidated turnover reached TRL 15.3 billion. The company opened 193 new stores in 2017, thereby reaching its target for the year. Continuing to fulfill its mission of contributing to national employment, Migros' monthly payroll averaged 26,770 people as of year-end.

As was also the case in previous years, Migros' growth remained in the double-digit range in 2017. On 1 March 2017, Migros acquired a 95.50% stake in Kipa, a modern retailing chain with a presence mainly in Turkey's Aegean region. As a result of mandatory tender call to Kipa minority shareholders, Migros' stake in Kipa subsequently increased to 96.25%.

14th

In Capital magazine's 2017 "Turkey's Most Admired Companies" Turkey was cited as Turkey's best-liked retailer for the fourteenth year in a row.

Migros' growth was boosted by the consolidation of Kipa's financial results as of 1 March 2017. However even when those results are factored out, Migros' growth remains robust because the company continued to expand its own market share thanks to new store openings on the one hand and to strong performances by existing stores on the other.

On 29 December 2017, Migros' corporate governance rating was raised to 9.58 (95.77). Among the companies that are subject to such independent rating, this is the fourth highest grade that has ever been assigned together with Anadolu Efes, another company in the Anadolu Group.

Migros' shares continued to be included in the Borsa İstanbul's BIST Sustainability Index, which made it the first and only Turkish retailer to qualify for inclusion in that index for four years in a row. Migros also regularly reports its efforts to combat climate change to the Carbon Disclosure Project (CDP), a highly-respected international organization that advocates environmental performance disclosure by corporations. On 28 November 2017 Migros received CDP Turkey's "Climate Leader" award for having received an A-grade on the 2017 climate change report that it submitted to the organization. Migros' shares have been included in the FTSE4Good Emerging Markets Index for two years in a row.

In the "Turkey's Most Admired Companies" survey conducted annually by Capital, a financial magazine, Migros has topped the list of the country's retailers for fourteen years in a row. In Deloitte's list of the world's top retailers, Migros ranked 247th.

In Fortune magazine's "Fortune 500 Turkey Survey" of the country's biggest companies, Migros ranked 18th in 2017.

AWARDS & RECOGNITIONS

THE PIONEER OF MODERN RETAILING IN TURKEY, MİGROS' SUCCESS WAS ACKNOWLEDGED BY THE AWARDS AND RECOGNITIONS THAT IT RECEIVED IN MANY DIFFERENT AREAS IN 2017.

Learning Awards

Retailing's Fastest

CDP Turkey Climate Leaders

Felis Awards

Best Socially Responsible Company Award 2017

The Smarties Awards

CRE Awards

Association for Talent Development Excellence in Practice Awards

SocialBrands Data Analytics Awards “Chain Markets” Category

SocialBrands Data Analytics Awards “Chain Markets” Category

Companies Providing the Most Employment Opportunities for the Handicapped Awards

Best Managing the Customer Experience

PLMA International Private-Label Excellence Award

Etika Award

Capital Award

Best Managers of the Customer Experience Awards

Aon Best Employers Awards Success in Employee Loyalty Award

Voice of the Turkish Customer Survey

Stevie Awards “Outstanding Sales of the Year” category

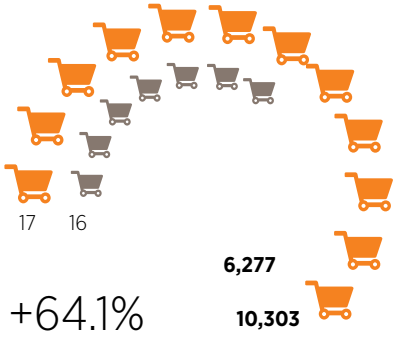
Stevie Awards “Outstanding Sales of the Year” category

Stevie Awards for Great Employers

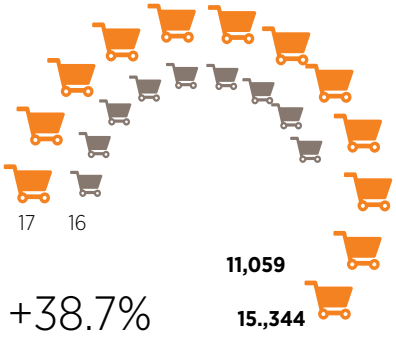
KEY INDICATORS

MİGROS' CONSOLIDATED SALES INCREASED BY 38.7% IN 2017 AND REACHED TRL 15,344 MILLION.

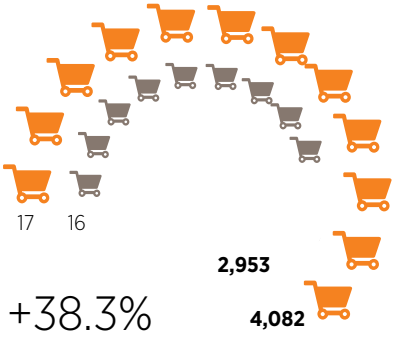
Total Assets (TRL million)



Net Sales (TRL million)



Gross Profit (TRL million)



39.4%

The company's domestic sales were up by 39.4% year-on and reached TRL 14,946 in 2017.

Summary Consolidated Balance Sheet

(TRL thousand)	2017	2016	Change (%)
Assets			
Current Assets	3,776,275	2,471,347	52.8
Non-Current Assets	6,526,400	3,805,379	71.5
Total Assets	**10,302,675**	**6,276,726**	**64.1**
Liabilities			
Current Liabilities	5,516,096	3,320,760	66.1
Non-current Liabilities	3,259,431	2,763,353	18.0
Non-controlling Interests	56,654	820	6.809.0
Attributable to Equity Holders of the Parent	1,470,494	191,793	666.7
Total Liabilities and Equity	**10,302,675**	**6,276,726**	**64.1**

Summary Consolidated Statement of Income

(TRL thousand)	2017	2016	Change (%)
Net Sales	15,344,047	11,059,224	38.7
Gross Profit	4,081,966	2,952,557	38.3
Operating Profit	302,823	331,170	-8.6
Net Income	509,036	-300,106	269.6
EBITDA	871,902	677,392	28.7

64.1%

The company's total assets grew by 64.1% and reached TRL 10,303 million.

TIMELINE

1954
45 SHOPPING CARTS

10TH ANNIVERSARY
1964
1 STORE

20TH ANNIVERSARY
1974
3 STORES

30TH ANNIVERSARY
1984
25 STORES

40TH ANNIVERSARY
1994
38 M
11 MM
7 MMM
TOTAL
56 STORES

1954
ESTABLISHED

Migros is established as a joint venture of the Swiss-based Migros Cooperatives Society and the İstanbul municipality.

1957

First Migros store opens in the İstanbul Beyoğlu fish market.

1975

Koç Group acquires a majority stake in Migros.

1988

Migros ventures outside İstanbul for the first time by opening four stores in İzmir.

1990

Large-scale retailing begins with the introduction of the "MM" and "MMM" formats.

Migros introduces part-time employment practices to Turkey's food retailing sector.

Migroskop begins publication.

Turkey's first computerized automatic-weighing cash registers are introduced at Migros stores.

1991

Migros goes public.

1995

Migros-branded private label products appear on the shelves of Migros stores.

Migros starts sales with credit cards in the retailing sector.

1996

Migros ventures abroad with its first store in another country.

First electronic shelf tags go into use.

1997

Migros launches Migros Virtual Market, Turkey's first online food retailer.

Migros opens its first shopping mall in the Beylikdüzü district of İstanbul.

50TH ANNIVERSARY

2004

DOMESTIC
283 DISCOUNT STORES
72 M
72 MM
33 MMM
3 5M

INTERNATIONAL
44 RAMSTORE

TOTAL
507 STORES

60TH ANNIVERSARY

2014

DOMESTIC
212 TANSAŞ
28 MACROCENTER
273 MİGROS JET
319 M
213 MM
79 MMM
24 5M

INTERNATIONAL
42 RAMSTORE

TOTAL
1.190 STORES

64TH ANNIVERSARY

2017

DOMESTIC
44 MACROCENTER
632 MİGROS JET
563 M
308 MM
111 MMM
21 5M
17 WHOLESALE
162 KİPA

INTERNATIONAL
39 RAMSTORE

TOTAL
1.897 STORES

1998

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

1999

Migros' first Ramstore is opened, in Kazakhstan.

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

2005

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

The Macrocenter format is launched.

Migros opens its first Ramstore in Macedonia.

2007

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

2009

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

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

2011

The Migros Jet convenience store format is launched.

2014

Migros celebrates its 60th anniversary.

2015

Anadolu Group acquired 40.25% of Migros shares indirectly.

2016

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

2017

The Anadolu Group's stake in Migros reaches 50%.

Migros acquires 95.5% of Kipa's shares on March 1st.

CHAIRMAN'S MESSAGE

MİGROS CONTINUED TO UNDERTAKE NEW INVESTMENTS AND TO GROW ALL YEAR LONG.

I sincerely believe that Migros will continue to grow even more soundly in the years ahead and will become one of the world's foremost regional food retailers.

38.7%

Thanks to strong growth, our company's consolidated sales surpassed TRL 15.3 billion while the year-on increase in our sales was 38.7%.

Esteemed stakeholders:

Welcome to Migros' general meeting for 2017. On this occasion I am pleased to have this opportunity to present you with a review of last year and to tell you about our expectations and plans for the year ahead. Once again let me bid you all welcome.

Economic and sectoral review

Valued Migros partners, we are embarking upon the new year with new hopes. We have completed a year in which other developed and developing countries' markets performed relatively better than was the case in previous years. Inflation in the United States and euro area remained fairly subdued. The world's stock exchanges broke new records in response to expectations of corporate profits and real growth. Here in our own country, Borsa İstanbul registered its best performance ever and reached record highs. Although Turkey certainly has geopolitical and economic problems of its own, they are issues that can be resolved. It is also true that our country is located in a difficult part of the world but its people have repeatedly demonstrated how they can come together and act with one purpose when they must.

Last year Turkey's economy grew by 7.4%. That was higher than the growth rates achieved by any EU, G20, or OECD country. Although low base effects certainly contributed to this economic growth, the performance was undeniably enhanced by the infusion of resources into the real sector through the effective use of such channels as the Credit Guarantee Fund. New employment opportunities were created and businesses' confidence was given a refreshing new boost. We witnessed signs of improvements in tourism. Of course it will henceforth be important to ensure the continuity of this growth in the future as well. That is because the sustainability of our gains as a country is extremely crucial. On the other hand inflation remained in the double-digit range last year, though that was partly due to exchange rates. I anticipate that inflation will return to single-digit figures in the period ahead. I believe that sooner or later Turkey will achieve its goal of having strong growth combined with low inflation. This country's problem with inflation is the result of issues that can be addressed through structural reforms, the right incentives, and the right investments. For our own part we will do what we need to do: we will continue investing and work even harder.

Strategies and operational performance

Valued Migros partners, when I spoke to you last year I said that we had just completed a year in which we gave new direction to Migros' strategies. In 2017 we made one of those strategic moves with our acquisition of Kipa. In the ensuing process we took every possible cost-focused measure in order to restore Kipa to profitability. Kipa's business processes were improved. Employing our technological capacity in many different areas such as supply chain, logistics, quality, store management, and headquarters operations, Kipa was restructured in line with Migros' own customer-focused point of view. At the same time, Migros continued to undertake new investments of its own all year long. In 2017 we opened 193 new stores. With the inclusion of the stores taken over as part of our Kipa acquisition, the number of new additions to our stores portfolio topped 350 while the total number of stores when Migros' domestic and international subsidiaries are taken into account reached 1,897. Thanks to strong growth, our company's consolidated sales surpassed TRL 15.3 billion while the year-on increase in our sales was 38.7%. The company's operational profitability was also up as compared with the previous year.

Expectations for the future

More growth and increased operational profitability will once again be on Migros' agenda in 2018. We will expand our domestic footprint and soon there will be no province in which we do not have at least a presence, which means that we will be serving customers everywhere in the country. Another of our 2018 goals will be to merge the operations of Migros and Kipa, thereby increasing productivity and creating synergies.

As we do these things, we will also be asking the question "How can we serve our customers better?" Customer focus has become the most important element of how we do business today. I have even greater confidence than ever in Migros' future and success. I sincerely believe that, backed by the confidence of all of our stakeholders, Migros will continue to grow even more soundly in the years ahead and will become one of the world's foremost regional food retailers.

Very truly yours,

Tuncay Özilhan
Chairman of the Board of Directors
Migros Ticaret A.Ş.

CEO MESSAGE

2017 WILL BE RECOGNIZED AS AN IMPORTANT CHAPTER IN THE STORY OF MİGROS' GROWTH THAT HAS BEEN CONTINUING UNBROKEN SINCE 1954.

We are striving to reach our customers through every channel and to win their hearts through every means that technology makes possible.

2.2x

We have increased our consolidated turnover by 2.2 times over the last four years.

Honored Migros partners:

Migros and its sector

Turkey's food and retailing sectors harbor tremendous growth potential. The two most prominent and fundamental factors supporting growth in our industry are the country's rising population and the nationwide increase in per capita disposable income. However we are seeing not only a rapid increase in the number of stores being opened by organized retailers but also strong across-the-board growth in retailing in general. In that respect then we can say that Migros is engaged in an extremely competitive business line. The only way to succeed under such conditions is to distinguish ourselves from our competitors in the sector by employing the right strategies.

That is the path leading to success and as we advance along it, I wish to share with you the highlights not only of Migros' current operational and financial performance but also of what we are planning in the context of the company's vision of the future.

As a result of the new stores that we will be opening in 2018 in line with Migros' strategy of being closer to its customers, there will be no provinces in which we do not have an operational presence in Turkey. While pursuing growth by opening new stores we are simultaneously putting digital transformation at the focal point of our overall development. In all of our internal functions and processes as a company we are proceeding so as to ensure that the way we do business evolves in that direction. If electronic commerce is going to be the future of shopping then we need to blend online and bricks-and-mortar shopping in such a way as to provide customers with a perfect shopping experience. We are striving to reach our customers through every channel and to win their hearts through every means that technology makes possible. In this respect we will be seeing much greater growth and development in the Migros Virtual Market in the years ahead. This prognosis is further supported by examples of mergers and acquisitions currently taking place around the world.

Financial and operational performance

I believe that 2017 will be recognized as an important chapter in the story of Migros' growth that has been continuing unbroken since 1954. Our acquisition of Kipa last year was a big step forward for Migros. A host of Migros teams representing every function of our company worked together with Kipa employees in a tremendous effort to make Kipa profitable again. This was a two-way process however: just as many aspects of how Kipa does business were transformed, Kipa's successful practices

were also adopted by Migros. Every element that did not generate added value was eliminated one by one and in the end our two companies' operational integration was completed. There are probably very few examples in the world of such a complex process being brought to fruition in such a short time.

Besides acquiring Kipa last year, we also opened 193 new stores in Turkey. The number of stores through which the company conducts its operations now stands at 1,897. Our Kipa acquisition expanded our geographical footprint and allows us to serve more customers at more locations. In 2017 our company registered a 38.7% rate of growth in its consolidated sales, which topped TRL 13.5 billion in value. Our consolidated gross profit and EBITDA also improved year-on. The twelve-month rise in our gross profit was 38.3%, our consolidated EBITDA reached TRL 872 million, and our EBITDA margin stood at 5.7%. Although profitability suffered somewhat owing to financing costs, which stemmed mainly from non-cash expenses arising from exchange rate losses, Migros still posted a net profit of TRL 509 million in 2017 as a result of its operations and of its acquisition of a subsidiary. In 2018 our goals will be to continue opening new stores, to improve our operating expenses, and to increase productivity by optimizing Kipa stores sales space.

Vision and strategies

Last year's Kipa acquisition was certainly an important development for our company and, for those viewing it from outside, and interesting one as well. There is another point here that I also want to draw your attention to however. Migros is going through great changes related to how it positions itself in its sector. Supplying the best in quality and service has always been a first-place issue for us; indeed it has become part of our genetic makeup. Today we have a Migros whose wider range of products makes it much more competitive and allows it to create much more added value for its customers. Consumers from every walk of life prefer Migros, come into its stores increasingly more often, and enjoy a genuine shopping experience because they can find thousands of economically-priced products and are assured of Migros quality and Migros service. Today we are reaping the benefits of the long-term strategies that we have been implementing and of the efforts and investments that we have been making for many years. In a sector that is intensely competitive, we have increased our consolidated turnover by 2.2 times over the last four years. I believe that a picture of Migros today shows a company which is more vibrant, a company which profits from what it does, a company which is no longer just a national player in this beautiful country of ours bridging Asia and Europe but which is advancing in line with its bold vision of being a regional and even global player. As we move towards the fulfillment of that vision, I have confidence in all of our stakeholders from shareholders to suppliers and from business partners to customers as well as in our dedicated employees whose passion for their work is never absent from their eyes.

Very truly yours,

Ömer Özgür Tort
Managing Director & CEO
Migros Ticaret A.Ş.

FINANCIAL REVIEW

MİGROS FULFILLED ALL OF ITS 2017 NEW STORE OPENING, SALES GROWTH, AND EBITDA MARGIN TARGETS.

509

Migros posted a consolidated net profit of TRL 509 million in 2017.

In a strategic move made in 2017, Migros further strengthened its position in Turkey's organized retailing sector by acquiring a 95.5% stake in Kipa. This major investment in the retailing industry is a testament to the confidence that the company has in the food retailing business line. Migros began consolidating Kipa's results with its own as of 1 March 2017. As a result of mandatory buy-out provisions pertaining to other Kipa shareholders, Migros' stake in Kipa subsequently increased to 96.25%.

Migros registered especially strong growth in 2017: the company's consolidated sales increased by 38.7% year-on and topped TRL 15.3 billion. Although the acquisition of Kipa did give a one-off boost to Migros' growth last year, even when Kipa's results are factored out, Migros is still seen to have gained market share and expanded its domestic footprint thanks to new store openings and to strong performances by existing stores.

The company continued to undertake new investments and opened a total of 193 new stores during 2017, a number that does not include the inclusion of the new Kipa premises in its portfolio. As of end-2017 Kipa had 162 stores operating under its own name.

In the twelve months to end-2017, Migros' consolidated gross profit grew by 38.3% and reached TRL 4,082 million. Although its gross profit margin appears to have slipped a percentage point from 26.7% to 26.6% year-on, it was actually 26.8% when Kipa's results are excluded.

Consolidated earnings before interest, taxes, depreciation, and amortization (EBITDA) in 2017 weighed in at TRL 872 million, which corresponds to a year-on rise of 28.7%, while at 5.7%, Migros' EBITDA margin was just above the 5.0-5.5% range which the company had targeted at the beginning of the year. Although EBITDA before rent costs were 32.8% higher in 2017 than they were in 2016, the company's EBITDA before rent costs margin is slightly lower (10.7% vs 11.1%) when Kipa's results are included and is slightly higher (11.3%) when they are not.

Overall then 2017 was a satisfactory year from the standpoint of the operational performance of Migros' stores. In the wake of the Kipa acquisition in March, intensive efforts were made to boost the profitability of that chain's stores. These included improvements in its business processes and transformation of its operational systems. As a result of such changes, there were apparent improvements in Kipa's performance beginning in the second half of the year.

Although Migros' profitability suffered somewhat in 2017 due to financing costs (which include exchange-rate losses), the company posted a consolidated net profit of TRL 509 million, a figure that includes the year's "acquisition of a subsidiary" profit. As a result of a change (from

"cost model" to "revaluation model") in the method used by Migros to account for real estate properties, there was a TRL 743.7 million increase in the company's consolidated equity, which stood at TRL 1,527 million as of year-end 2017.

Having achieved the store-opening, sales-growth, and EBITDA-margin targets that it set for itself, Migros registered yet another successful year in 2017. For 2018, the company has set its sights on opening between 120 and 150 new stores and on achieving a 15-18% or so increase in sales.

LIQUIDITY RATIOS	31 December 2017	31 December 2016
Current Ratio	0.68	0.74

FINANCIAL STRUCTURE RATIOS	31 December 2017	31 December 2016
Financial Leverage (Total Liabilities/Total Equity)	0.85	0.97
Total Liabilities/Total Equity	5.75	31.59
Financial Liabilities/Total Assets	0.38	0.47
Net Cash Position (TRL thousand)	-2,302,244	-1,822,244

PROFITABILITY RATIOS (%)	1 January - 31 December 2017	1 January - 31 December 2016
Gross Profit Margin	26.6	26.7
Operating Profit Margin	2.0	3.0
EBITDA Margin	5.7	6.1
EBITDAR Margin	10.7	11.1
Net Profit Margin	3.3	-2.7

SHARE PERFORMANCE RATIOS	December 2017	December 2016
Market Capitalization (TRL thousand)	4,906,507	3,129,767
Share Price (TRL)	27.56	17.58
Earnings per Share (TRL 0.01)	2.88	-1.69

10.7%

Migros' 10.7% EBITDA before rent costs margin is one of the highest reported by any international retailer.


Ispanak Filo 700 g
4,95
Money Hediye
İYİ TARIM
Meyve-Sebze

MİGROS DESIGNS ITS STORES ACCORDING TO CUSTOMER EXPECTATIONS

MİGROS OPERATIONS IN 2017

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

Migros' portfolio reached a total of 1,897 stores.

INVESTMENTS

Besides its own Migros, Macrocenter, 5M Migros, Virtual Market, online, and wholesale formats, the company also serves customers through the Kipa formats of its domestic subsidiary and Ramstore brand of its international subsidiary.

Continuing to open new stores during the year, the company also renovated some of the existing ones. With its acquisition of a majority stake in Kipa last year, Migros also added that chain's stores to its portfolio as of 1 March 2017.

During 2017 a total of 193 new stores were opened. Of this number, 187 were in Turkey and consisted of 98 in the Migros (65 M, 25 MM, 8 MMM), 79 in the Migros Jet, 6 in the Macrocenter, 2 in the 5M, and 2 in the Wholesale formats while in the Company's international operations, six new Ramstores (three in Macedonia and three in Kazakhstan) were opened.

As of end-2017, Migros was active in 73 of Turkey's 81 provinces and all seven of the country's geographical regions and continued to conduct its international operations in Macedonia and Kazakhstan. As of year-end 2017, the Company's portfolio held a total of 1,897 stores consisting of 563 M, 308 MM, 111 MMM, 632 Migros Jet, 21 5M, 17 Wholesale, 44 Macrocenter, and through its subsidiary 162 Kipa stores in Turkey and 39 Ramstores (16 in Kazakhstan and 23 in Macedonia) abroad.

Besides its supermarkets in Turkey and those in Kazakhstan and Macedonia, the company also manages shopping malls. Owing in part to the acquisition of the Kipa chain last year, Migros' aggregate total net sales space in Turkey and abroad increased by 31.3% and surpassed 1.4 million m^2.

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

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

Acquisition of Kipa

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

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

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

Along with the transfer of these shareholding interests, Kipa's management and control also passed to Migros.

In the ensuing mandatory buy-out process, Migros submitted a formal share buy-out proposal application to the Capital Markets Board (SPK) on 12 June 2017. This application was approved by SPK on 22 June 2017.

As stated in that application, Migros offered a price of TRL 2.2477 to purchase Kipa's outstanding "A" and "B" class shares, the nominal value of which was

TRL 1.00 in both cases. This price was arrived at by calculating the weighted-average daily price of Kipa's BIST-traded shares during the six months prior to 10 June 2016 (the date on which the Kipa share-purchase agreement between Migros and Kipa was publicly disclosed).

The tender offer was managed by the İş Investment brokerage house. During the tender offer period, which began on 29 June and ended on 26 July 2017, Migros purchased a total of 10,007,207.263 outstanding Kipa shares with a par value of TRL 1.00 each from 57 of Kipa's remaining shareholders. As a result of this mandatory tender offer, Migros' stake in Kipa increased to 96.25% and its value to TRL 1,282,656,526.59.

A modern retailing chain with a presence mainly in Turkey's Aegean region, Kipa had 162 stores and about 300 thousand m^2 of net sales space as of end-2017. Kipa's own portfolio also contains real estate properties with leasable space in them.

Kipa's financial results have been consolidated with those of Migros since 1 March 2017, the date on which the transfer of shares formally took place.

As stated in a material event disclosure dated 9 January 2018, Kipa is targeted to be merged with Migros under Migros based on the consolidated financial statements of Migros dated 31.12.2017 and financial statements of Kipa dated 31.12.2017, through takeover of Kipa's assets and liabilities as a whole, by way of "simplified merger process", pursuant to the article 134 and others of the Turkish Commercial Code (Statute 6102) concerning corporate mergers, the provisions of articles 19 and 20 of the Corporation Tax Law (Statute 5520), articles 23 and 24 of the Capital Markets Law (Statute 6362), and other Capital Markets Board regulations.

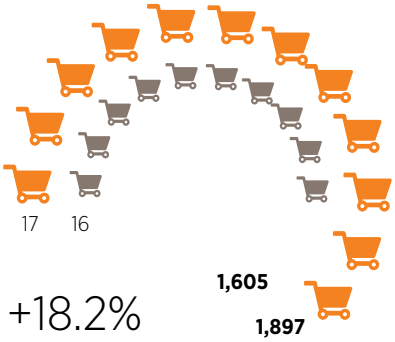
MİGROS OPERATIONS IN 2017

AT YEAR-END 2017, THE TOTAL NUMBER OF MİGROS STORES REACHED 1,897 WITH 1,858 STORES IN TURKEY AND 39 STORES ABROAD.

1.4 mn m²

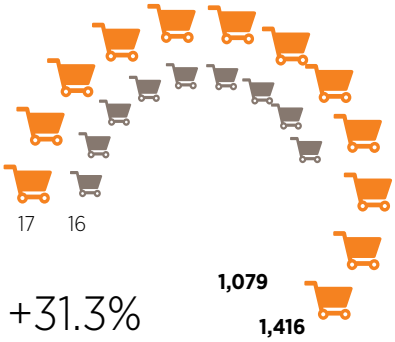
Total sales area reached 1.4 million m².

Total Number of Stores (unit)



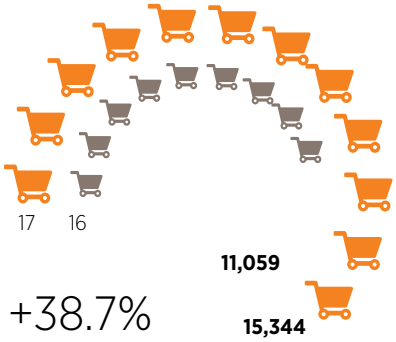
+18.2%

Total Net Sales Area (thousand m²)



+31.3%

Total Net Sales (TRL million)



+38.7%

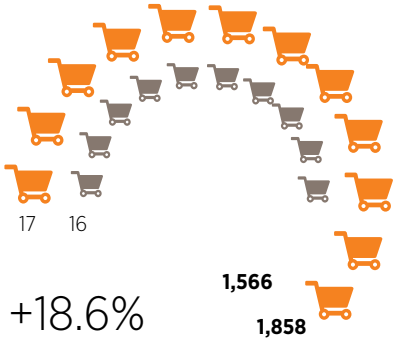
73

As of year-end 2017 Migros operates in 73 of the country's provinces.

39

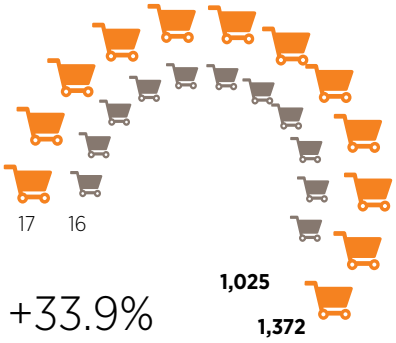
Abroad, Migros provides services with 39 stores in total (16 stores in Kazakhstan and 23 stores in Macedonia).

Number of Stores of Domestic Operations (unit)



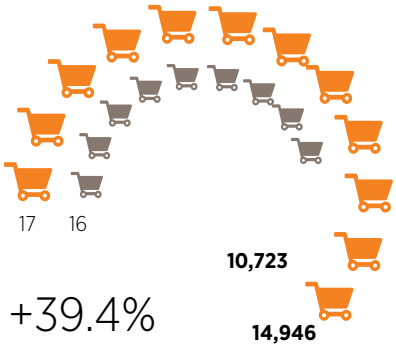
+18.6%

Net Sales Area of Domestic Stores (thousand m²)



+33.9%

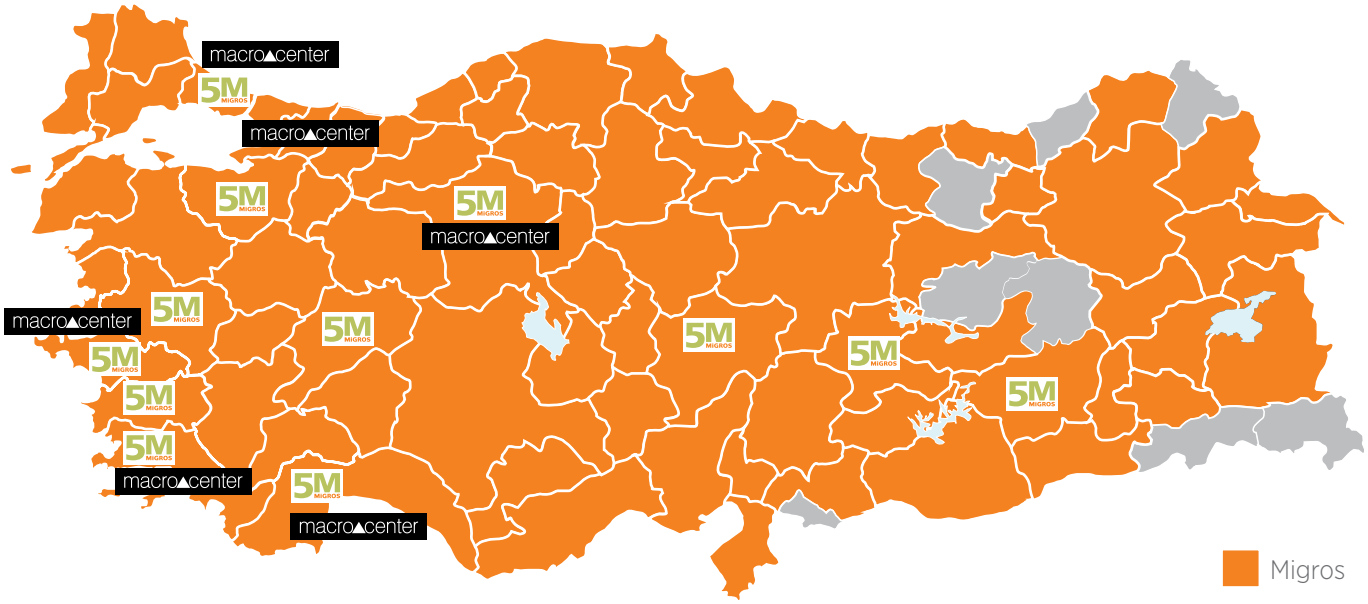
Domestic Sales (TRL million)



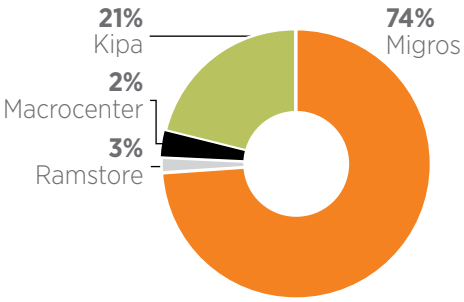
+39.4%

MİGROS OPERATIONS IN 2017

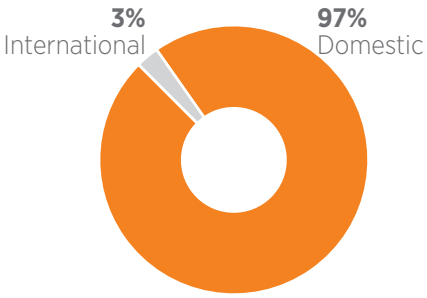
MİGROS CONTINUES ITS GROWTH WITH NEW STORE OPENINGS.



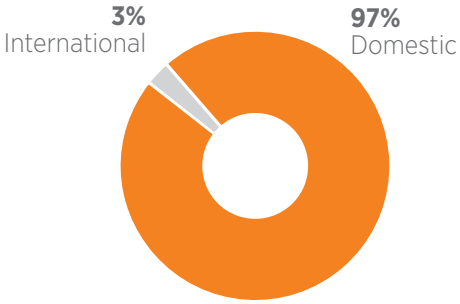
Breakdown of Net Sales Area by Brands (%)



Breakdown of Sales (%)



Breakdown of Net Sales Area by Store Formats (%)



MİGROS OPERATIONS IN 2017

IN 2017 MİGROS CONTINUED ITS INTERNATIONAL OPERATIONS THROUGH ITS SUBSIDIARIES IN KAZAKHSTAN AND MACEDONIA.

398

Migros' international subsidiaries in Kazakhstan and Macedonia booked combined sales worth TRL 398 million in 2017.

INTERNATIONAL SUBSIDIARIES

Migros continued its operations in Kazakhstan and Macedonia in 2017.

Thanks to improvements in export performance and to a recovery in domestic demand, the Kazakhstan economy grew by 4.2% in the first nine months of the year and registered a performance relatively better in 2017 than it did in 2016. Notwithstanding this however, customer demand in food retailing remained fairly weak.

The Macedonian economy remained moderately on course in 2017.

Ramstore Kazakhstan continued to serve customers with 16 stores and 23,789 m^2 of sales space in two cities in 2017. Ramstore Kazakhstan registered a total of 12.3 million customer footfalls last year.

Ramstore Macedonia opened three new stores in Kumanovo, Ohrid and Strumica and increased the total number of its stores to 23 and total sales area to 20,490 m^2. Ramstore Macedonia served more than 9.3 million customers in 2017.

International subsidiaries, operating through a total of 39 stores, were active on a total 44,279 m^2 sales area at the end of 2017.

Migros' international subsidiaries in Kazakhstan and Macedonia booked combined sales worth TRL 398 million in 2017, a figure which corresponds to about 3% of Migros' consolidated sales. The Company's international subsidiaries' combined EBITDA profit amounted TRL 9 million last year.

Kazakhstan and Macedonia offer prospective growth potential for organized retailers.

MİGROS OFFERS CUSTOMERS A RICH PORTFOLIO OF COMPETITIVELY-PRICED GOODS THAT WILL APPEAL TO THEM.

effective

Migros distinguishes itself from its rivals in the retailing industry through effective marketing strategies that include themed campaigns.

PRODUCT MANAGEMENT

Migros offers customers a rich portfolio of competitively-priced goods that will appeal to them. The Company distinguishes itself from its rivals in the retailing industry through effective marketing strategies that include themed campaigns.

In celebration of Migros' 63rd anniversary last year, category-based "Good For Your Family" campaigns were conducted in which various products were sold to customers at discount prices. Themed catalogues, weekend discounts, and "Seeing Is Believing" campaigns continued to be carried out throughout the year. In keeping with long-standing Migros traditions, discounts were offered to mark special days like Mother's Day, Women's Day, Children's Day, and World Animal Day while special catalogs such as "Mother & Baby" also continued to be published Season-specific campaigns such as "Ramadan" and "Back-To-School" were also conducted. As they usually do, our "I bought it too!" promotional campaigns in which attractively-priced non-food product specials centered around a particular theme are put on sale proved to be most effective.

MİGROS OPERATIONS IN 2017

Migros continued to expand the range of fresh produce on offer by taking advantage of opportunities to develop delivery channels for local suppliers.

Product availability was improved by a variety of projects undertaken to make stores' stock and order management processes more effective.

Competition on price continued to be a major issue for the company. Migros strives to deliver the best service to customers by offering the best-quality products at the most economical prices.

The availability of perishables was improved by increasing the frequency at which such products are shipped by suppliers, thus ensuring that the goods can be sold to customers in fresher condition. Migros continued to expand the range of fresh produce on offer by taking advantage of opportunities to develop delivery channels for local suppliers. In order to effectively address consumers' price, quality, and variety priorities, the company also continues to expand its healthy-lifestyle portfolio of organic, gluten-free, and sugar-free products as well as its portfolio of imported goods.

Migros installs bakery sections in M-format stores where possible so that freshly-made baked goods can be produced on the premises and supplied directly to consumers. The scope of services provided by these sections was expanded and the concept continued to be extended to other locations.

The range of packaged red meat and offal was expanded. Modified atmosphere packaging (MAP), which increases the shelf-life of perishables, was introduced for fish thus providing shoppers at Migros stores that lack a fresh seafood section with the benefit of wholesome alternatives that are always available.

STRONG LOGISTICAL NETWORK SUPPORT GIVES MİGROS A TREMENDOUS COMPETITIVE ADVANTAGE IN ENSURING THE QUALITY AND FRESHNESS OF ITS FRESH PRODUCE.

PRIVATE LABELS

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

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

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

"M Life" is the brand of products that support healthy life style and offer products in different sub-categories such as organic, low calorie, diabetic. Additionally, there are private-label products such as Viva, Minies, Body Pure, Home Basix, M Toys, Touch Me in non-food product categories such as paper,baby products, home textile, toys, glassware, small household appliances, and heaters.

"Anadolu Specialties", a project that was inaugurated as a result of surveys conducted in every region of Turkey in order to identify local specialties and crops, had been expanded to include 47 products and 106 stores as of end-2017. These are products which are distinguished by their local and/or cultural connotations, are produced by means of traditional methods, and are typically associated with a backstory. The goal of this project is to ensure that Turkey's culinary heritage is preserved and passed on to future generations.

In line with private-label products strategy, prices of private-label products were kept down while studies to raise their quality further continued in 2017.

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

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


HEM İNDİRİMLİ
HEM
MONEY HEDİYELİ
Soğuk
12

MİGROS OFFERS ITS CUSTOMERS SUPERIOR YET REASONABLY-PRICED PRODUCTS AND SERVICES

MİGROS OPERATIONS IN 2017

MİGROS' MONEY CLUB CARD ONCE AGAIN PLACED FIRST AS "THE LOYALTY CARD MOST RECOMMENDED IN ITS SECTOR" AMONG ALL AGE GROUPS.

Migros' mobile app was downloaded 4.2 million times in 2017.

MONEY CLUB AND CRM

With 10.3 million active users in 2017, Money Club continues to be Turkey's biggest loyalty program.

Just as it did in 2014, 2015, and 2016, in the 2017 customer survey carried out by MediaCat, Migros' Money Club Card once again placed first as "the loyalty card most recommended in its sector" among all age groups owing to its innovative practices, promotional campaign offerings, and customer communication approaches.

Under the "Meant For Me" campaign that was conducted last year, 900 thousand Migros customers took advantage of 4.4 million discount offers that were made to them based on their existing shopping habits. These personalized offers are made by taking into account the types of products that customers buy the most often, the average total value of their shopping basket, the frequency of their store visits, and their spending potential.

Migros' mobile app was downloaded 4.2 million times in 2017. Besides making it easier for customers to receive "Meant For Me" offers, this app also allows them to conveniently keep track of all of their Money Club Card-related purchases and earned points.

social

In keeping with its strategy of focusing on communication effectiveness, Migros manages five Facebook, five Twitter accounts, and three Instagram accounts.

Introducing campaigns unlike anything seen in the sector before, Money Club offered its members up to 40% discounts on goods in their personally favorite categories on the occasion of Migros' 63rd anniversary in 2017.

In addition and as part of the company's 63rd anniversary celebrations, under agreements with 22 of Turkey's leading brands in their respective sectors, Money Club members were allowed to take advantage of special discounts and offers on those brands' products both at Migros' stores and at the brands' own points of sale.

Recognizing that suppliers best know and understand their own customers' needs, customer relationship management (CRM) campaigns were conducted in tandem with participating suppliers, under which suppliers' offers were sent to their customers at the most appropriate times through Money Club. There was a 10% year-on increase in the number of such campaigns in 2017.

MİGROS BRAND COMMUNICATION

In 2017 Migros continued to make effective use of TV, newspaper, radio, outdoor, and magazine media. Product spot and crawl ads on TV and product launch campaigns were conducted all year long in line with the company's communication strategy. Migros also distinguished itself in retail-industry brand communication by virtue of its presence on digital platforms and the deployment of its own digital channels.

Informed by its vision of communicating with consumers through video content, Migros TV hosts some 9 thousand video files whose subjects range from cooking demonstrations to beauty care and from parenting tips to do-it-yourself ideas. During 2017 Migros TV attracted an average of 7 million views a month. The channel continues to work with experts in order to produce video content in such areas as food, personal care, makeup tips, and parenting.

In keeping with its strategy of focusing on communication effectiveness, Migros also recognizes the importance of social media as a communication channel. The Company manages five Facebook, five Twitter accounts, and three Instagram accounts. With a total of 3.1 million followers, these accounts disseminate messages dealing with many different subjects every day Two digital media projects that were undertaken in 2017 were the recipients of awards. The "Spoken Recipes" project making use of audio technology picked up three gold awards in the "Mobile Website", "Mobile Audio", and "Enabling Technology Company Of The Year" categories in "The Smarties" program conducted by the Mobile Marketing Association. Migros also brought home a Felis award in the "Paradigm-Changing Projects (New Media)" category from the year's MediaCat Felis Awards ceremony.

Migros expanded the scope of its "Good For You Ambassadors" projects in 2017. Intended especially for women, this online communication platform located at iyigelecekelcileri.migros.com.tr invites users to become members by logging in with their Money Club card numbers. The "Magic Points" that participants earn by fulfilling individualized targets can be used in exchange for gifts selected from a catalogue and can also be converted into Money Club points that can be used to shop at Migros. As of 31 December 2017, the platform had 10 thousand active users. Migros' "Good For You Ambassadors" platform was the recipient of a "Direct Marketing (Loyalty Program)" Felis award in November 2017.

MİGROS OPERATIONS IN 2017

LAST YEAR MİGROS VIRTUAL MARKET ADDED THREE MORE PROVINCES (ÇANAKKALE, ISPARTA, MANİSA) TO ITS DELIVERY TERRITORIES, BRINGING THE NUMBER SERVED BY ITS FLEET OF VANS TO 27.

17%

In 2017 Migros Virtual Market increased the number of the households it serves by 17%.

MİGROS E-COMMERCE
www.sanalmarket.com.tr

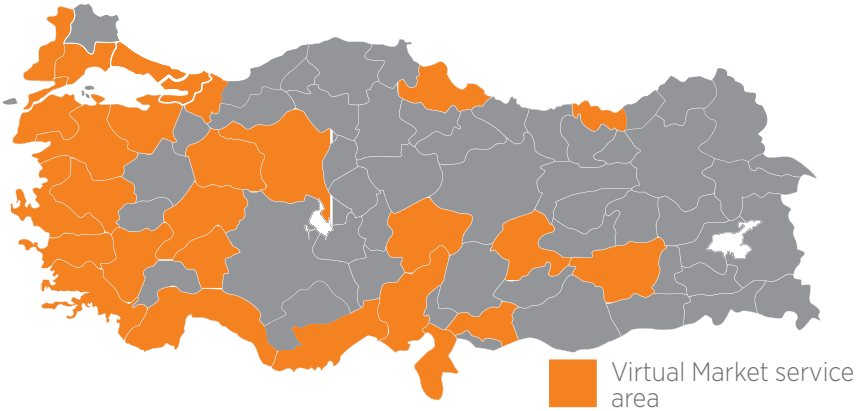
In service in Turkey since 1997 and accessible to customers over the internet, by telephone, and through smartphone and tablet apps, Migros Virtual Market continued to diversify and grow rapidly in 2017. Last year Migros Virtual Market increased the number of the households it serves by 17% and added three more provinces (Çanakkale, Isparta, Manisa) to its delivery territories, bringing the number served by its fleet of vans to 27.

In 2017 the groundwork of a long-term business model was created through projects aimed at developing Migros Virtual Market's processes and increasing its efficiency. These projects enhanced the productivity of the market's workforce, which accounts for the biggest part of its operational expenditures, by 13%.

In 2017 particular attention was given to supporting sustainable growth, creating cost advantages, and accelerating the pace of software development through infrastructure renovation investments. As part of this, the first phase of a project to change over to a cloud-based system was completed. The aims of this project are to reduce server costs and to prevent performance degradation during order-placement surges. All e-commerce operational processes were reviewed and assessed, ways to improve them were considered, and operational software was renewed accordingly.

Software development focused primarily on the Tazedirekt website and on mobile and back-office/management apps.

The number of registered Migros Virtual Market users reached more than 1.7 million in 2017 with people in the 35-44 age group making up the biggest contingent of them. These are followed in turn by users in the 25-34 and the 45-54 age groups. In 2017, more than half (56%) of Migros Virtual Market's orders were placed using the website's dedicated mobile app.



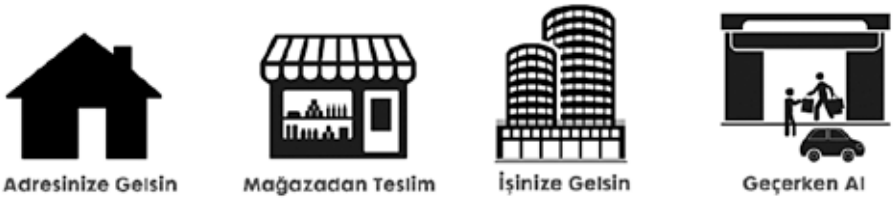
Migros Virtual Market: Delivering the freshness that customers demand

With perishable product groups continuing to be an important focal point of Migros' e-commerce strategy, attention was given to developing freshness perceptiveness both within the company and in customer communication.

The number of electric vehicles whose use Migros introduced to improve its energy efficiency was increased to 17 in 2017. It is calculated that this prevented the emission of as much CO_2 as is consumed by 300 trees in one year. Twenty-five e-bikes are also being used by stores located on housing estates and in seasonally-open stores.

E-commerce continues to be deployed as an element of the company's multichannel management strategy in order to address different needs and to develop new channels.

- Located at www.migroselektronik.com, the Migros Electronic website continues to give online shoppers access to the computers, computer accessories, home appliances, telephones, music systems, and other electronic and electrical goods that the company sells.
- Migros Virtual Market conducts Turkey's biggest online-order & home-delivery kurban (sacrificial animal) programs during the run-up to the Feast of Sacrifice every year. Animals procured from breeders all over Turkey and carefully inspected and selected by Migros veterinarians are ritually slaughtered before being butchered and delivered to customers in packaged form.



MİGROS OPERATIONS IN 2017

The "MacroPhone" telephone order line now includes Ankara, İzmir, Muğla, and Antalya as well as İstanbul.

- Migros Virtual Market is always mindful of customers' individual delivery requirements. Besides "Drop Off At Work" for those who work during the day, "Drive By & Collect", which lets those with no time to do their shopping pick up their purchases from a Migros Jet store at a local Petrol Ofisi gas station, and "Pick Up At Store" for those who don't want to wait in a supermarket checkout line, deliveries can also be made to people enjoying their vacations in resort areas and at yacht marinas.
- Night deliveries between the hours of 22:00 and 24:00 have begun in thirteen territories.

In 2017 Migros' Macrocenter format continued to attract online customers in İstanbul with its superior service standards and products through its "MacroOnline" service at online. macrocenter.com.tr. The Macrocenter format is also accessible via the "MacroPhone" telephone order line, whose steadily-expanding service and distribution network now includes Ankara, İzmir, Muğla, and Antalya as well as İstanbul.

www.tazedirekt.com

Although Tazedirekt was incorporated into Migros' e-commerce operations in November 2016, it continues to carry out its operations as a separately-managed e-commerce website without any changes in its inherent DNA.

Believing that consumers deserve the best of everything, Tazedirekt set up an operations center in Beykoz township in İstanbul at the beginning of 2017 in order to ensure the excellence of its service quality by allowing Tazedirekt to work directly with the local boutique suppliers from which naturally-grown fresh produce is carefully selected and packaged for customers.

A separate section of the quality management unit has initiated a supplier development program whose aim is to help small suppliers raise produce which conforms to quality standards and which can be sold to customers. Many suppliers have been provided with know-how under this program.

A "Happy Customer" hotline was set up in order to provide superior service at every point of contact with customers. This hotline supports Tazedirekt's fully-boutique approach of ensuring that its customers have only the best experience at every step from A to Z.

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

850K

During 2017, the Migros Call Center communicated directly with 850 thousand customers.

CUSTOMER SERVICE LINE 444 10 44

Because it regards customer feedback as highly valuable input when shaping company strategies, fast and effective communication is an important goal for Migros at all times. During 2017, the Migros Call Center communicated directly with 850 thousand customers.

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

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


Meze
Meze
PEYNIR

MİGROS OFFERS ITS EXTENSIVE LINEUP OF PRODUCTS AT COMPETITIVE PRICES

MİGROS OPERATIONS IN 2017

MİGROS ALWAYS DELIVER THE HIGHEST-QUALITY SERVICE TO ITS CUSTOMERS.

5

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

QUALITY MANAGEMENT

Migros always deliver the highest-quality service to its customers.

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

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

The first retailer in Turkey to be awarded certification of compliance with Part Three ("Validation and verification of greenhouse gas assertions") of the ISO 14064 Greenhouse gases standard, Migros' certification was renewed in 2017 after its corporate greenhouse gas emissions were verified by TÜV Nord Germany.

The Organic Food Handling certifications of Migros' İzmir, Bursa, and Mersin fresh-produce warehouses were also renewed in 2017.

Ensuring Product Quality

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

Supplier-firm Inspections

In its capacity as a responsible retailer, Migros gives great importance to the issue of supplier selection and therefore keeps its eye on its suppliers' practices in order to provide them with assistance and guidance in ways to improve their performance.

More than a thousand inspections of Migros' main suppliers were conducted on the company's behalf by independent accreditation firms. The quality performance of those who supply products for sale in the Tazedirekt format was also improved and Migros initiated a consultancy service program to help these suppliers conform to the company's standards.

Under a "Bakery Project" that was launched in 2017, Migros inspects all of the bakeries from which the bread that is sold daily at all of its stores is sourced. These inspections are carried out not only to be sure that the bread conforms to standards but also that it is being made under conditions that comply with the requirements of laws and regulations. These inspections additionally generate input for the improvement and development of food safety standards.

New-product Quality Controls

Before they are allowed to go on sale, all new products are checked to be sure that their labeling information and analysis results comply with the requirements of laws and regulations. Migros also makes sure that the products' makers are properly licensed.

Product Analyses

To be sure that items sold on Migros store shelves comply with the Turkish Food Codex, Turkish standards, EU requirements, and all other applicable laws and regulations, the company has verification analyses performed on them by an accredited independent laboratory that specializes in such issues. During 2017, product safety verification analyses were performed on more than 6,500 food items in order to determine their compliance with more than 30,000 quality parameters. Besides ensuring that customers are buying and consuming safe and wholesome products that comply with the law, these analyses also create added value by serving as scientifically verifiable input that can be used to constantly improve producers' output.

Private-Label Product Development Processes

The production facilities of all firms that supply Migros with its private-label products were inspected. Private-label products are analyzed periodically both by independent accredited firms and by quality control laboratories located in the Company's own distribution centers. A total of 1,400 items were sent for analysis according to more than 14,000 different parameters.

Distribution Center Quality Processes

There are quality control laboratories located in all of Migros' distribution centers. These laboratories are responsible for checking all products sent by suppliers (including produce warehouses and meat distribution centers) before the goods are accepted. Migros' cold-chain processes, which are of critical importance in ensuring the safety of some food groups, begin at the time goods are accepted and continue without interruption until the moment they reach the consumer. In 2017 quality specialists checked more than 2 million food and non-food items for compliance with 132 different parameters.

MİGROS OPERATIONS IN 2017

~3,000

During 2017 nearly 3,000 unannounced inspections were performed.

Effective Reporting with Uninformed Mobile Store Audits

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

During 2017 nearly 3,000 unannounced inspections were performed. In 2015 the inspection results reporting system was made more effective by moving it onto a mobile-access platform. This system continued to be used last year in order to report results to store managers and so as to ensure that appropriate action is taken. For the conduct of these inspections, an independent laboratory performed more than 20 thousand hygiene analyses of the cleanliness of store personnel, equipment surfaces, and service water.

Migros stores' meat, charcuterie, baked goods, fish, and prepared-appetizers sections were inspected by store quality specialists in order to ensure their compliance with food freshness and safety criteria. More than 3,200 inspections were conducted for this purpose last year and corrective/preventive measures were initiated at points where inspection results indicated that action was needed.

All new stores and seasonally-open stores were inspected to ensure the compliance and adequacy of their systems, fixtures and equipment.

The numbers and kinds of store inspections that were carried out in 2017 are as follows:

- **By store quality teams:** 1,280 inspections
- **By independent accredited firms:** 1,521 inspections
- **Of perishables sections:** 3,232 sections in 831 stores
- **Of Migros Virtual Market:** 192 inspections
- **Of new and seasonally-open stores' infrastructure and equipment suitability and adequacy:** 351 inspections

>3,200

Migros stores' meat, charcuterie, baked goods, fish, and prepared-appetizers sections were inspected by store quality specialists in order to ensure their compliance with food freshness and safety criteria. More than 3,200 inspections were conducted for this purpose last year

QUALITY MANAGEMENT SYSTEMS

Monitoring and measurement was carried out as required in order to ensure the continuity of existing integrated quality management systems.

Quality Training

Within the scope of Integrated Management Systems (ISO 9001 - ISO 14001 - OHSAS 18001), 5 classroom based training programs in 5 different regions (İstanbul, Ankara, Adana, Antalya and İzmir), each of a 3-day duration, were carried out together with the TSI and 251 personnel received a total of 6,024 hours of Internal Auditor Education.

Information about the training which Migros blue- and white-collar personnel must receive on matters related to the Company's five quality management systems was included in the curriculum of Akademig, the Company's corporate development platform. A total of 64,235 hours of such training was provided last year.

Specialist teams conducted 673 training sessions for more than 9,300 personnel at the company's distribution centers and fresh-produce regional warehouses. This training focused mainly on improving quality management system practices and on orienting newly-hired personnel about quality-related issues.

Migros quality specialists provided store managers and essential personnel with classroom training on environmental management systems and associated store practices during 2017.

Internal Auditing of Quality Management Systems

Integrated quality management system internal audits were at 1,468 stores, 12 distribution centers, 5 fresh produce regional warehouses, and 66 headquarters and branch units.

TSE Inspections of Quality Management System

Based on the findings of its inspections, the Turkish Standards Institution (TSE) decided to renew the company's TS EN ISO 9001:2015 Quality Management System certification and to continue its TS ISO EN 22000 Food Safety Management System, TS ISO EN 10002 Customer Satisfaction Management System, and TS 18001 Occupational Health and Safety Management System certifications.

MİGROS OPERATIONS IN 2017

IN 2017 MİGROS AUTHORED YET ANOTHER FIRST BY OFFERING GAP-CERTIFIED RAW MILK BEARING ITS "GOOD MILK" LOGO.

1,033

As of end of 2017, products were being supplied from 1,033 producers who held 280 GPA certificates related to 126 kinds of products produced in accordance with GPA procedures and principles.

GOOD AGRICULTURAL PRACTICES

Good Agricultural Practices: Crop Production

Migros continued the success of previous years by being awarded the Good Agricultural Practices (GPA) Group Certificate for a 5th time for 17 different kinds of fruit and vegetable products, after having undergone production and operational area audits carried out by a control certification body authorized by the Ministry of Food, Agriculture and Livestock.

As of end of 2017, products were being supplied from 1,033 producers who held 280 GPA certificates related to 126 kinds of products produced in accordance with GPA procedures and principles.

GAP

The company's "Good Agricultural Practices In Animal Husbandry" project continued in 2017 with a total of ten suppliers providing Migros with chicken and turkey meat whose production complied with GAP requirements.

Good Agricultural Practices: Animal Husbandry

The traceability and sustainability of animal-based foods in order to ensure their safety have become major concerns in today's world.

Working with a dairy farm whose operations and products have been awarded EU certification for compliance with international standards pertaining to animal husbandry, in 2017 Migros authored yet another first by offering GAP-certified raw milk bearing its "Good Milk" logo.

The company's "Good Agricultural Practices In Animal Husbandry" project continued in 2017 with a total of ten suppliers providing Migros with chicken and turkey meat whose production complied with GAP requirements. In the case of eggs, products supplied by three firms whose farming operations have been certified as being GAP-compliant are now appearing on Migros' shelves.

MİGROS OPERATIONS IN 2017

FOREMOST AMONG THE ISSUES THAT DISTRIBUTION CENTERS MUST ADDRESS ARE SERVICE QUALITY AND EFFICIENCY.

An automated order picking and distribution system became operational with full capacity at the İstanbul Gebze Distribution Center in 2017.

DISTRIBUTION CENTERS AND LOGISTICS MANAGEMENT

Foremost among the issues that distribution centers must address are service quality and efficiency. The company also took proactive measures in order to deal with the effects of rising costs in 2017.

As of end-2017, Migros was conducting its operations through 24 distribution centers, including the fresh-produce and meat distribution centers that had been acquired as a result of the Kipa takeover.

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

Operational capacity was increased at the Adana distribution center in 2017. Last year work also began on projects to set up a new distribution center in Bursa and to expand the Gölbaşı center outside Ankara.

24

As of end-2017, Migros was conducting its operations through 24 distribution centers, including the fresh-produce and meat distribution centers that had been acquired as a result of the Kipa takeover.

An automated order picking and distribution system became operational with full capacity at the İstanbul Gebze Distribution Center in 2017. By bringing stock items to pickers rather than requiring pickers to retrieve the items themselves, this system improves labor efficiency, eliminates picking errors, and significantly reduces the distances that have to be traveled and the loads that have to be moved inside the warehouse. In order to design the infrastructure for this system, which incorporates elements of intelligent warehousing, an inventory of the Company's products was carried out in which lasers were used to measure the sizes of more than 10,000 individual and boxed items.

Effective use of technology makes it possible to keep track of vehicles' locations and onboard temperatures while goods are in transit. Such information is fully integrated into Migros' stock-management systems. Using a mapping app on a tablet computer, a store's managers can see exactly where a vehicle on its way to deliver goods to them is located and they can also estimate its arrival time. This allows for better workforce deployment and stock planning at the store. In 2017 this system's functionality was improved with the addition of location-based and product-dependent temperature warnings.

Under the warehouse management system that Migros has developed, fresh fruits and vegetables are now being kept and moved about in crates. This improves labor efficiency while also minimizing the physical handling that produce must be subjected to.

The project that was initiated to make shipments at night between stores' opening and closing hours has been extended to five regions. Besides shortening the time between order-placement and delivery, this procedure improves shipping efficiency and allows incoming goods to be handled at stores before the doors are opened to customers.

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

MİGROS OPERATIONS IN 2017

MİGROS MOBILE APP ENABLES CUSTOMERS MAKE THEIR SHOPPINGS EASILY.

The Electronic Labeling System developed by the Migros IT R&D Center was commissioned with the ability to keep track of more than 10 thousand items in a store.

INFORMATION TECHNOLOGIES

Mkolay: Mkolay is an innovative approach to shopping that allows customers to do a lot of things for themselves when they're in a store. Using the Migros mobile app, shoppers can read the barcodes of their purchases and bag and pay for everything themselves all without having to wait in a checkout line.

System Updates: The Merchandising, Central ERP, and Data-Warehousing systems were updated to the latest versions.

Smart-badge Monitoring of Service Quality: New functions added to Migros' smart badges allow them to be used to monitor and measure the quality of service being provided in service-intensive sections of stores.

Mobile App for Wholesale Customers: A mobile app specially designed for customers who make wholesale purchases allows them to place orders conveniently and to have the orders delivered to addresses that they designate.

Electronic Labels: The Electronic Labeling System developed by the Migros IT R&D Center was commissioned with the ability to keep track of more than 10 thousand items in a store. Work on expanding the scope of this system is currently in progress.

Digital Wallet Code (E-Pin) Sales Project: This project gives customers immediate access to the digital wallet codes for the most popular online games while they are on the premises of Migros stores.

SPECIFICALLY DESIGNED TO BE FAIR, CONSISTENT, AND TRANSPARENT, MİGROS' HUMAN RESOURCES EVALUATION SYSTEMS MAKE USE OF THE MOST ADVANCED TECHNOLOGY AND THE MOST EFFECTIVE METHODS.

5,500

During 2017, more than 300 thousand job applications were received and 5,500 new hires were made.

HUMAN RESOURCES & TRAINING

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

During 2017, more than 300 thousand job applications were received and 5,500 new hires were made. The company's internal application system was also used to fill vacancies with more than 300 positions being filled by means of in-house personnel transfers. Forty percent of the people newly hired into administrative positions in 2017 were female.

Migros is a young and energetic family, 78% of whose employees are from generation Y (born between 1980 and 2000), with its staff having an average age of 31. Its white collar employees have an average seniority of 10 years.

The "A Good Job Will Do You Good" employer brand campaign that was initiated in 2014 in order to further strengthen both Migros' image as a preferred employer and Migros employees' company loyalty continued last year through a variety of projects. The Migros Career Facebook page, the first of its kind in the Turkish food retailing industry, had nearly 80,000 followers as of end-2017. Migros' LinkedIn page that has also been in active use since 2015 has nearly 30,000 followers.

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

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

MİGROS OPERATIONS IN 2017

THE RECIPIENT OF MANY INTERNATIONAL AWARDS AND RECOGNITIONS, IN 2017 MİGROS RETAILING ACADEMY BROUGHT HOME TWO THAT HAD NEVER BEEN RECEIVED IN TURKEY BEFORE.

The objectives of the Migros Performance Management System are to:

- Make certain that the Company's strategies and goals are disseminated among and shared by employees,
- Manage and evaluate employees' performance fairly, transparently, and objectively within the framework of communally-recognized Migros principles,
- Provide guidance for career development and backup, total compensation package, and personal development policies that are based on actual data,
- Identify and motivate employees whose performance contributes to the achievement of company goals and retain the best-quality people,
- Recognize and reward, in a timely fashion, employees who perform as good as or better than what is expected of them.

A Goal-Awareness Workshop is conducted every year in order to ensure that the company's targets and strategies are fairly, equally, and clearly understood by all Migros employees. About 200 people at the manager level or higher representing all company departments attend and play an active role in this workshop, which provides a setting for effective communication in order to ensure that all of the objectives supporting the company's basic strategies are agreed upon and objectively made known to all departments.

In the conduct of administrative unit and store white collar personnel performance management processes, more than 6,5000 evaluations are made every year. Another and more comprehensive performance evaluation is embodied in the Store Personnel Performance Management process that is conducted at six-month intervals. Under this program, close to 16,800 store personnel on average are evaluated twice a year by service quality and job performance managers, who rate employees on the basis of eight basic competencies identified as being essential in the retailing industry and who also quantify their professional skills. The results of these performance evaluations play a determinative role in employees' career and progression plans.

A 360º Competency Evaluation System and the proven-effective competency-assessment tools of an independent consultancy are used in order to identify the competency areas in which Migros administrative-unit and store-management personnel are strong or are in need of development and to formulate effective progression plans. During 2017, more than 600 employees underwent such assessments.

At the Strategic Planning Meeting that was held in 2017, the Company's Skill Matrix, Potentials & Stars, Critical Positions, and Backup Plans were reviewed.

Efforts continue unabated so as to ensure that both customer and employee satisfaction is achieved at all times and at the same level of quality through the proper use of technology.

A "Working Life Assessment Survey" is conducted every year by an independent research company in order to measure and further improve the levels of Migros employees' job satisfaction and company loyalty. The goal of this survey is to determine and prioritize issues that are in need of improvement. Migros was an award recipient in the 2016 round of the Aon Best Employers Program.

Migros Hotline, whose aims are to increase employee satisfaction and to resolve personnel-related problems in the quickest way possible, responded to and dealt with more than 19,000 calls during 2017.

The Migros Reward System serves employees by recognizing and rewarding performance in seven main categories

19,000

Migros Hotline, whose aims are to increase employee satisfaction and to resolve personnel-related problems in the quickest way possible, responded to and dealt with more than 19,000 calls during 2017.

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

Migros Retailing Academy (MRA), a program that is conducted in order to contribute towards employees' development and to raise qualified labor force, seeks to develop human resources in line with the Company's corporate priorities and with individual and sectoral needs so as to achieve the Company's strategic objectives. MRA designs the most effective models, methods, and tools for use in Migros employees' career development.

MRA's curriculum consists of numerous classroom courses, e-learning programs, training videos, and a recommended-reading list of magazine articles and 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 by creating opportunities to exchange knowledge and experience that goes beyond training.

Migros employees were provided with an average of 20 days of training in 2017.

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

To meet the need for qualified employees in the sector, the partnerships that the Company entered into with Ege University and Anadolu University also continued in 2017.

Employees are made aware of important issues on the company's agenda such as sustainability, corporate policies, and data security through gamified training programs. Migros personnel can access all online training whenever they want and wherever they may be from the company's e-learning platform www.akademig.com and its Migros Sosyal social learning platform.

The recipient of many international awards and recognitions, in 2017 MRA brought home two that had never been received in Turkey before.

In the 21st annual Learning Awards conducted by the Learning & Performance Institute, a global platform of training professionals from all over the world, Migros' Butcher Training Program won the gold prize in the "People Development Program of the Year" category. Migros is the first and only company in Turkey to receive such an award. So far, 3,800 people have completed this program and begun working as professional butchers. So successful in fact is this program that about a quarter of all the professionally licensed butchers in Turkey today are its graduates. Moreover although fewer than 1% of the butchers working in Turkey today are female, 211 women who received training under the Migros program are now being employed as butchers by the company, where they occupy 10% of the payroll positions in that category.

MRA's second groundbreaking award performance took place at the 2017 round of Stevie Awards, the world's premier series of business award competitions. With five training program entries in the Stevie Awards for Great Employers competition, Migros was the leader among the year's Stevie winners with five gold, five silver, and four bronze awards in a variety of categories. Migros also earned the Grand Stevie Award trophy as the most honored organization in the 2017 competition.

The success of Migros Retailing Academy is attested to by the thirty-six awards that it has garnered as a finalist in competitions organized by institutional academies and corporate training units all over the world.

MİGROS ENGAGES IN AN ONGOING EFFORT TO PROMOTE A SAFETY CULTURE SHARED BY BOTH EMPLOYEES AND CUSTOMERS ALIKE AND TO CONTRIBUTE TOWARDS MAKING SAFE BEHAVIOR A HABIT THROUGHOUT SOCIETY.

In addition to being provided with training on OHS issues when they are first hired but before they actually start doing their jobs, Migros employees are also given refresher OHS training at regular intervals.

HEALTH & SAFETY

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

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

In its capacity as the most senior management unit responsible for dealing with occupational health and safety (OHS) issues, in 2017 this committee oversaw the planning of corrective and preventive measures specified in risk-assessment reports and it continues to monitor the progress of improvements. Risk assessments were also carried out at stores, headquarters and branch units, distribution centers, fresh-produce warehouses, and the MİGET meat-processing plant. A complete battery of risk assessments is always conducted whenever a new workplace is to be opened.

During 2017, duly-licensed firms continued to provide the company with OHS services at its low-risk stores and headquarters and directorate units with fifty or more employees as well as at all Migros high-risk distribution centers and fresh-produce warehouses and at the MİGET meat-processing plant. OHS committee meetings are regularly conducted at every unit to which these services are being provided.

10K

Training on hygiene-related issues was given to about 10 thousand personnel employed in all units.

In addition to being provided with training on OHS issues when they are first hired but before they actually start doing their jobs, Migros employees are also given refresher OHS training at regular intervals. Classroom training is reinforced by means of distance-learning resources that are available at all locations.

Training on hygiene-related issues was given to about 10 thousand personnel employed in all units.

In 2017 all company-owned equipment used by employees in the performance of their jobs was checked at regular intervals by authorized agencies to ensure compliance with OHS regulations. General polyclinic services were provided by workplace physicians to employees. These physicians also give employees health checkups both before they are hired and at regular intervals thereafter. Employees were provided with firefighting, search & rescue, earthquake response, and evacuation training by fire department officers, specialized firms, and workplace safety specialists as called for in the Company's Emergency Action Plan.

Independent OHS consultants accompanied by company OHS managers visited stores, distribution centers, fresh-produce warehouses, and the MİGET meat-processing plant. During these visits, workplace OHS processes and practices were inspected and corrective/preventive measures were taken when necessary. A total of 240 scheduled OHS visits were conducted during 2017.

Because its operations are conducted in many different regions and jurisdictions, Migros makes use of customized software in order to systematically and centrally monitor and report on all OHS-related processes and practices.

Believing that such certification adds value to the overall conduct of OHS activities, enhances OHS participation and motivation, and leads both to beneficial improvements in the OHS system and to its systematization, Migros sought and was awarded TS OHSAS 18001 Occupational Health and Safety Management System certification. In 2017 the Company successfully passed a review and audit of this certification that was conducted by TSE examiners at Migros' headquarters, stores, and distribution centers.

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

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

MİGROS CARES ABOUT ITS EMPLOYEES' AND CUSTOMERS' FUTURES

THE MİGROS APPROACH TO SUSTAINABILITY

FOUR YEARS AGO MİGROS BECAME THE FIRST–AND IS STILL THE ONLY–FOOD RETAILER IN TURKEY WHOSE EFFORTS ON BEHALF OF SUSTAINABILITY QUALIFIED ITS PUBLICLY-TRADED SHARES FOR INCLUSION IN THE BIST SUSTAINABILITY INDEX.

In 2017 Migros was a recipient of the "CDP Turkey Climate Leaders" award for the second time.

Migros regards sustainability as a concept that must serve as a guide in the conduct of all of its activities and operations. The Migros Sustainability Committee, on which all company functions are represented, is responsible for debating and assessing ways in which the sustainability both of existing activities and of newly-considered ones can be improved and for formulating a consensus-based roadmap for them.

Migros is also a member of the Consumer Goods Forum (CGF), a global umbrella organization of the world's leading retailers and manufacturers that provides the consumer goods industry with guidance on ways to conduct its activities more sustainably. Represented on the CGF Board of Directors by one of its general managers, Migros has committed itself to making improvements in the four areas that are the organization's primary focus: Sustainability, Health & Wellness, Product Safety, and End-to-End Value Chain & Standards.

In 2017 Migros issued its first sustainability report conforming to internationally-recognized Global Reporting Initiative (GRI) standards and published it on its migroskurumsal.com website. Four years ago Migros became the first–and is still the only–food retailer in Turkey whose efforts on behalf of sustainability qualified its publicly-traded shares for inclusion in the BIST Sustainability Index. The shares have remained there ever since. The plan that Migros regularly submits to the Carbon Disclosure Project (CDP) to combat climate change made it the recipient of a "CDP Turkey Climate Leaders" award for the second time. Migros' shares have regularly been included in the FTSE4Good Emerging Markets Index at six-month intervals since the beginning of 2017.

Corporate Social Responsibility

Informing its operations with an awareness of its responsibilities towards people, the environment, and future generations, Migros marshals both its own corporate resources and the voluntary efforts of its employees in order to undertake many different projects in areas in which it perceives there to be social benefit.

"Good Life" Store Tours for Children

Striving to provide its customers with the best, the freshest, and the highest-quality products, Migros also engages in a variety of efforts under its "Good Life" banner that are aimed at improving public health by drawing attention to the importance of balanced nutrition and physical activity.

In the course of 23 years, the Migros Children's Theater Festival held every year on April 23rd has entertained a million children free of charge. The performances given during the most recent two years focused on the "Good Life" themes in The Migros Guide to Growing Up Healthy prepared by the Food Safety Association.

As a continuation of its "Good Life" program, Migros has begun to organize "Good Life Store Tours" for children from local neighborhoods and their families, who are invited to take part in them. In 2017 these tours were conducted by volunteering store managers at 205 Migros stores in 65 provinces.

Children taking part in Migros Good Life programs are given information on a host of subjects ranging from the benefits of fresh fruits and vegetables to the checks that foods undergo before they are allowed on store shelves and from good agricultural practices to tips on how to read labels correctly. Children are also told about the benefits of the waste-collection bins in stores and how they are contributing to a better future by bringing in waste for recycling. Migros store tours also draw attention to the importance of balanced nutrition and physical activity and children taking part in these tours are also given copies of The Migros Guide to Growing Up Healthy.

With the inclusion of all of the other projects besides the Good Life Store Tours that Migros undertakes to foster "Good Life" awareness, Migros has reached 81 thousand children to date.

Migros also engages with its stakeholders in a variety of projects in the areas of education, sport, and health.

THE MİGROS APPROACH TO SUSTAINABILITY

"Respect For Food" project

Last year Migros began sending fruits and vegetables which do not look good enough to put on its shelves for sale but which are still nutritionally wholesome to food banks and other charitable outlets on a daily basis. The 58 tons of food that Migros donated in this way in 2017 were enough to provide 138,095 meals to needy individuals.

"Leftover Food For Our Four-Legged Friends" project

Since 2014 Migros has been conducting its "Leftover Food For Our Four-Legged Friends" project to feed wildlife, stray animals, and animals kept in shelters. The aim of this project is to keep from throwing away food products that are still edible simply because the products have approached their sell-by date. In 2017, 281 tons of food were donated to charitable organizations for them to use in this way.

Other social responsibility projects and activities

By identifying areas in which there is a social need and by undertaking projects to address those needs, Migros further strengthens the impact of its social responsibility efforts. For this reason Migros also engages with its stakeholders in a variety of projects in the areas of education, sport, and health.

"Special Support For Athletes With Special Needs" is the longest-running social responsibility project that Migros has undertaken in the area of sports. In 2016 it was retooled as a project for children with special needs in the 2-7

81K

With the inclusion of all of the other projects besides the Good Life Store Tours that Migros undertakes to foster "Good Life" awareness, Migros has reached 81 thousand children to date

age group. Under this project, a portion of the proceeds from the sale of Proctor & Gamble products at Migros stores is donated to the Turkish Committee of the International Special Olympics to fund its campaign focusing on increasing the children's coordination skills and on helping them to socialize by interacting positively with other kids their own age. The 9 million Migros customers who have taken part in this project in the course of 13 years have made it possible for 5,900 youngsters with special needs to take part in sports.

Through its customers, Migros supports the efforts of the Books For Everybody Foundation to encourage reading habits in children. "Books For Everybody Foundation" bins are set up in Migros stores in which customers can put books that they buy at a discount from Migros as well as used books which they bring from home. To date, 48,194 books have been donated in this way and sent to schools all over Turkey.

Under the "Clothes Donation Campaign" that Migros has traditionally been conducting jointly with Ariel (a P&G detergents manufacturer), the company has supported the donation of more than 600 thousand garments to 275 thousand children.

"No-Handicap Store" project

Migros has launched a "No-Handicap Store" project in order to consolidate all of the special services which its stores provide to make shopping easier for handicapped and elderly customers. After undergoing pilot trials in 2016, the full-fledged project was introduced at 48 Migros and Macrocenter stores in 12 provinces in 2017. Migros and Macrocenter stores which have adopted the "No-Handicap" concept have at least one employee on duty who is trained in sign language in order to help hearing-impaired customers and this person wears a badge that indicates this; for the benefit of customers who are confined to wheelchairs, there are wheelchair access ramps equipped with guardrails at the stores' entrances and store aisles are designed so as to be wide enough for wheelchairs to get around. These stores also provide wheelchair shopping carts for elderly customers. At least one of the checkout aisles at these stores is 90 cms wide to allow the wheelchairs to pass and the aisle is visibly indicated with a unique sign. Handicapped shoppers are given priority at such aisles. Upon request, a handicapped or elderly customer at a Migros No-Handicap store can be assigned a Migros employee to accompany them around the store while they do their shopping.

Migros and Macrocenter stores which have adopted the "No-Handicap" concept have at least one employee on duty who is trained in sign language in order to help hearing-impaired customers and this person wears a badge that indicates this.

MİGROS Sustainability Report 2017

We are **Turkish Food Retailers Association & Consumer Goods Forum** board member

%38 growth

13 years in a row "Turkiye's Most Admired Retail Company"

%95,77
Our Corporate Governance Rating Score

4 years in a row
We are the first and only retail company that is listed in Istanbul Stock Exchange Sustainability Index

2 years in a row
We are among CDP Climate Leaders through our reporting for Carbon Disclosure Project

2 years in a row
We are listed in "FTSE4Good Emerging Markets Index" for the first time

OUR ENVIRONMENTAL PERFORMANCE*

Our Carbon Footprint

2.1% decrease - We overreached the target of reducing the daily carbon emissions per sales area by 1.5% compared to 2015

Target: *11.5% decrease* - Up to 2021, reducing the daily carbon emissions per sales area compared to 2015

Our Water Management

5% decrease - We reduced the annual consumption per employee compared to 2015

Target: *5% decrease* - Up to 2021, reducing the annual water consumption per employee compared to 2016

Our Energy Saving Practices

5.5% - Our energy saving compared to 2013 accounts for the monthly electricity consumption of ***88,000 households***

Target: *11.5% decrease* - Up to 2021, reducing the daily electric consumption per sales area compared to 2013

*These are 2016 data. The data of 2017 is not verified yet.

OUR PRACTICES TO PREVENT FOOD WASTE

We decreased the number of contact with products from **12 to 5** via the **Gebze Automated Distribution Center**

58 tons of fruits and vegetables which equals to **138.095** meals are donated to food banks

4,728 tons of organic waste were used to produce biogas / compost

Enough energy was produced to run a 100-watt light bulb for **10 million** hours

TL 6 million Amount of discounts made in order to save products with approaching expiry dates

To feed stray and shelter animals we donated **281 tons** of food

Target: *50% decrease* - Up to 2025, reducing the ratio of food waste disposable tonnage to total food sales tonnage

OUR RECYCLING PRACTICES

8.45 million* packaging waste have been collected through Environmental Kiosks

*Up to now

12,601 tons of non-hazardous waste was recovered (wood, paper, metal, plastic, glass)

75,609 trees to be cut down

We collected **23,3 tons** of vegetable oil, **95 tons** of electrical and electronic devices from our customers

3,874 tons of packaging waste from Migros' private label products were collected and recycled

OUR SUPPLY CHAIN

Our Quality Certificates

The first food retail company to have 5 Quality Management System Certificates approved by the Turkish Standards Institute

- **ISO 9001** Quality Management System
- **ISO 14001** Environmental Management System
- **OHSAS 8001** Occupational Health and Safety Management System
- **ISO 22000** Food Safety Management System
- **ISO 10002** Customer Satisfaction Management System

Our Quality Audits

80% of the suppliers constituting 92% of our total turnover were audited for **1,027** times

Product safety audits through **BRC Global Market**, ethical and social audits through **GC-SEDEX** were made

We came together with our **1,200** suppliers in the annually organized Migros Business Partners Summit

OUR CORPORATE SOCIAL RESPONSIBILITY PRACTICES

"Good Living": A project from our employees to the community

2,035 employees benefited from **20** different applications within Good Living Practices

"Good Living Store Tours for Children" were organized in **205** Migros Stores, **65** cities

1.005 store employees supported the project voluntarily

We reached **81,000** families with Good Living Programme by telling out the importance of healthy nutrition and physical activity

"Migros Growing Up Healhty Guidebook" created with the Turkish Food Association, was distributed during the trainings

Other CSR Projects

In 13 years, with the support of **9 million** customers, **5,900** youngsters with special needs played sports

To date **48,194** books have been sent to children through associations

In last 10 years we have planted **543,350** trees to the burned and destroyed forestlands in Aegen region

More than **600,000** clothes donated to thousands of children to date

We removed the shopping obstacles in **48** stores in **12** cities

"Accessible Stores" are designed suitable for disabled chair with employees using sign language and shopping support service

OUR PRODUCT MANAGEMENT

Products Supporting "Good Living" Approach

1.192 "Good Living" products offered to customers

183 of them are private label products

48 Anatolian Tastes Products are produced by local seeds and century old recipes

11 Private label products reformulated by reducing their energy, salt or sugar

185 private label products display 7 key nutrients on their packages

In 7 years **530,941** fruits and vegetables with Good Agricultural Practices (GAP) are supplied

We helped **7,324** farmers to produce at GAP standards

We supply poultry meat and eggs in compliance with **317** GAP criteria

For the first time we produced **raw milk** with GAP standards

MIGET - We have the largest meat processing plant in Turkey with **60,000** tons of annual production

2,030,179 products are controlled according to quality standards in distrubition centers

2,889 uninformed audits to our stores

Our Customer Satisfaction Practices

In our call center:

We have solved **96%** of calls in 48 hours,

and had direct contact with **850,000** customers

"GOOD JOB GOOD FUTURE" FOR OUR EMPLOYEES

Our Employee Profile

Our human resources:

95% in stores

71% stationed out of Istanbul

Average seniority rate for white collar **10** years

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

Our Contribution to Employee Development

20 days of trainings per employee

26,784 employees got Human Rights and Equal Opportunity, Anti-Bribery and Anti-Corruption, Responsible Sourcing Policy trainings

MiGROS

To read the whole report:

www.migroskurumsal.com/en/

This report is printed on recycled paper

CORPORATE GOVERNANCE

2017 ORDINARY GENERAL ASSEMBLY MEETING AGENDA

MİGROS TİCARET A.Ş.
2017 ORDINARY GENERAL ASSEMBLY MEETING AGENDA

Date: 15 May 2018
Hour: 15:00
Venue: Atatürk Mahallesi Turgut Özal Bulvarı No: 7 34758 Ataşehir - İstanbul

1. Opening the meeting and electing the presiding committee; authorizing the presiding committee to sign the minutes of the annual general assembly meeting,

2. Reading and deliberating the annual report concerning the Company's 2017 activities and accounts,

3. Reading the independent auditor's report concerning the Company's 2017 activities and accounts,

4. Reading, deliberating, and voting on the financial statements for 2017,

5. Individually acquitting each of the members of the Company's board of directors of their fiduciary responsibilities for the Company's activities in 2017,

6. Discussing, approving, amending and approving, or rejecting the Board of Directors' proposal concerning dividend distribution,

7. Election and replacement of the independent Board members and other members of the Board of Directors nominated by the Corporate Governance Committee, and determination of their terms of office,

8. Determining the gross monthly fees and any kind of financial benefits including bonus, premium, attendance fee, etc. to be paid to the Board members,

9. Approval or rejecting of the proposal of the Board of Directors in relation to the amendment of the current content of article 7 titled "Share Capital" of Articles of Association of our Company provided that the necessary permissions of the Capital Markets Board and Republic of Turkey Ministry of Customs and Trade have been received and in the form which received the permission, and authorization of the Company Management to conduct all other transactions related to the amendment of the Articles of Association,

10. Providing information about the socially beneficial donations and assistance granted by the Company to foundations and associations in 2017; determining an upper limit on donations and assistance to be granted in 2018 as required by Capital Markets Board regulations and the Company's Articles of Association,

11. Voting on the Board of Directors' selection, upon the recommendation of the Audit Committee, of the Company's independent auditors as required by Communiqué on capital market independent auditing standards published by the Capital Markets Board and by the Turkish Commercial Code,

12. As required by Capital Markets Board regulations, providing information about collateral, pledges, and mortgages granted by the Company in favor of third parties in 2017,

13. Authorizing any shareholders who may be in control of the Company's management, Board of directors and senior managers – as well as their spouses and their relatives, whether by blood or marriage unto the third degree – to engage in business and transactions subject to the provisions of articles 395 and 396 of the Turkish Commercial Code and of Capital Markets Board regulations; providing shareholders information about such transactions made by these aforementioned persons and related parties in 2017.

BOARD OF DIRECTORS REPORT

Board of Directors		
Tuncay Özilhan	Chairman	
Nikolaos Stathopoulos	Vice-Chairman	
Salih Metin Ecevit	Member	
Talip Altuğ Aksoy	Member	
Kamilhan Süleyman Yazıcı	Member	
Stefano Ferraresi	Member	
Salim Abdullah Khalfan Al Ma'mari	Member	
Ömer Özgür Tort	Member and General Manager	
Jacob Cornelio Adriano de Jonge	Independent Member	
Tayfun Bayazıt	Independent Member	
Hakkı Hasan Yılmaz	Independent Member	
İzzet Karaca	Independent Member	

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

Corporate Governance Committee		
Jacob Cornelio Adriano de Jonge	Committee Chairman	Non-executive
Nikolaos Stathopoulos	Committee Member	Non-executive
Mehmet Hurşit Zorlu	Committee Member	Non-executive
İzzet Karaca	Committee Member	Non-executive
Affan Nomak	Committee Member	Investor Relations Group Manager

Early Detection of Risk Committee		
Tayfun Bayazıt	Committee Chairman	Non-executive
Hakkı Hasan Yılmaz	Committee Member	Non-executive
Erkin Yılmaz	Committee Member	Assistant General Manager (Finance)

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

Board of Directors

The Migros Board of Directors consisted of twelve members in 2017: Tuncay Özilhan (Chairman), Nikolaos Stathopoulos (Vice-Chairman), Salih Metin Ecevit, Talip Altuğ Aksoy, Kamilhan Süleyman Yazıcı, Stefano Ferraresi, Salim Abdullah Khalfan Al Ma'mari and Ömer Özgür Tort (members), Jacob Cornelio Adriano de Jonge, Tayfun Bayazıt, Hakkı Hasan Yılmaz and İzzet Karaca (independent members).

At the Company's annual general assembly meeting on 11 April 2017, Tuncay Özilhan, Nikolaos Stathopoulos, Salih Metin Ecevit, Talip Altuğ Aksoy, Kamilhan Süleyman Yazıcı, Stefano Ferraresi, Salim Abdullah Khalfan Al Ma'mari and Ömer Özgür Tort were elected to seats on the Board of Directors as board members while Hakkı Hasan Yılmaz, Tayfun Bayazıt, Jacob Cornelio Adriano de Jonge, and İzzet Karaca were elected to serve as independent board members until the general assembly meeting during which the Company's 2017 accounts will be discussed. According to the Board of Directors decision passed on 20 March 2017, Tuncay Özilhan was elected as the Chairman of the Board and Nikolaos Stathopoulos as the Vice-Chairman.

At a general assembly meeting held on 11 April 2017, shareholders voted to pay independent board members a monthly salary of TRL 8,000 (net), to pay independent board members residing abroad an additional attendance fee of TRL 8,000 (net) for each board meeting they attend, and not to pay any monthly salary or attendance fees to other board members.

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

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

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

In our Company's Board of Directors meeting dated 8 May 2017, it was decided that

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

Senior Management

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

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

Independent Auditing

At a meeting of the Board of Directors on 17 March 2017, the board, acting upon the recommendation of the Audit Committee and in compliance with the requirements of CMB Communique on capital market independent auditing standards (Serial: X, No: 22 and of the Turkish Commercial Code, decided to select PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. to be the Company's independent auditor for 2017 fiscal year subject to the provisions of capital market laws and regulations and of the Turkish Commercial Code. This decision was approved at the general assembly of shareholders on 11 April 2017.

Audit Committee

İzzet Karaca and Jacob Cornelio Adriano de Jonge 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 2017, the Audit Committee informed the Board of Directors of its opinion that the consolidated financial statements prepared in accordance with the CMB-published accounting principles pursuant to the provisions of the CMB Communiqué no. II-14.1 on Principles of Financial Reporting in the Capital Market presented a true and fair view of the financial position of the Company as of 31 December 2017 and of its operating results on the date.

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

Changes in the Articles of Association

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

Changes in Paid-in Capital during the Reporting Period

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

As stated in the material event disclosure dated 29 November 2017, Moonlight Capital S.A., one of the Company's shareholders, carried out an outright sales of Migros shares that it held with a total nominal value of TRL 13,000,000 at a price of TRL 26 per share to non-resident institutional investors. Following the said transaction, Moonlight Capital S.A. owns 8.07% of the shares in Migros, and BC Partners, through the funds it manages, holds 23.2% share in Migros in total.

Capital Structure

The Company's capital structure as of 31 December 2017 is as follows:

Migros' Position in the Sector and Investments in 2017

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

As of end-2017, the Company had 1,897 stores consisting of 563 M, 308 MM, 111 MMM, 632 Migros Jet, 21 5M,, 44 Macrocenter, 17 Migros Wholesale and through its subsidiary 162 Kipa stores located in all seven of Turkey's geographical regions and, through its international subsidiaries, 15 Ramstores and 1 Macrocenter in Kazakhstan and 23 Ramstores in Macedonia.

Shareholder structure

Shareholder	Share (%)	Share Amount (TRL)
MH Perakendecilik ve Ticaret A.Ş.	50.00	89,015,000
Kenan Investments S.A.	15.13	26,937,336
Moonlight Capital S.A.	8.07	14,371,000
Others	26.80	47,706,664
Total	100.00	178,030,000

In 2017, new openings consisted of 98 Migros (65 M, 25 MM, and 8 MMM), 79 Migros Jet, 2 Migros Wholesale, 2 5M and 6 Macrocenter stores in Turkey; in its international operations, 6 Ramstores opened. Thus a total of 193 new store investments went into service last year.

Financial Standing

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

In 2017, consolidated sales of Migros went up by 38.7% to TRL 15,344 million. Overseas sales registered in Kazakhstan and Macedonia where the Company operates through its subsidiaries accounted for 3% of Migros' consolidated sales.

While Migros stores displayed a satisfactory operational performance during 2017, intense efforts were spent to render Kipa stores profitable. Migros' domestic sales grew by 39.4% in 2017. Based on Nielsen's data, Migros increased its market share both in organized FMCG (Fast Moving Consumer Goods) and total FMCG.

Consolidated gross profit was up by 38.3% year-over-year and reached TRL 4,082 million in 2017. Consolidated gross profit margin, on the other hand, was 26.6%.

While consolidated EBITDA margin was registered as 5.7% in 2017, EBITDA was up by 28.7% to TRL 872 million. The EBITDA margin recorded in 2017 was above the range of 5.0-5.5% the Company targeted for the full year. EBITDA before rent costs was 32.8% higher in 2017 than it was the year before, while the EBITDA before rent costs margin was 10.7% in 2017.

In 2017, Migros achieved all of its targets it had set for store opening, consolidated sales growth and EBITDA.

On the other hand, the Company booked TRL 509 million in consolidated net profit in 2017, including profit from subsidiary acquisition, despite the negative effect of financing costs including currency translation differences.

Total liabilities correspond to 85% of total liabilities and equity (2016: 97%). 37% of the Company's total assets consist of current assets (2016: 39%) with non-current assets making up the remaining 63% (2016: 61%).

Sincerely,

Migros Ticaret A.Ş.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

Migros Ticaret A.Ş. ("Migros", "the Company", "our Company")

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

To have its corporate governance rating renewed, the Company executed a new contract covering 2 (two) rating terms on 20 October 2017 with SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş., a corporate governance rating company holding a license from the Capital Markets Board of Turkey (CMB) to perform rating in accordance with the Corporate Governance Principles in Turkey.

In the report issued by SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. on 29 December 2017, our Company's corporate governance rating was upgraded from 9.50 (95.01%) to 9.58 (95.77%) as of 30 December 2017, in view of the improvements carried out by Migros during the reporting period.

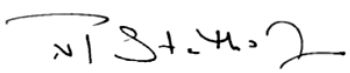
The individual scores assigned for each heading to our Company are presented below:

Included in Borsa İstanbul Corporate Governance Index on 4 January 2016, Migros was included in the Sustainability Index, which is also calculated by Borsa İstanbul, from the first day the index was introduced. For four consecutive years, Migros was the one and only company from the food retailing industry to take place in the "BIST Sustainability Index", which is based on a review of publicly-floated companies conducted by Borsa İstanbul.

On the back of its sustainability initiatives and efforts, Migros attained a remarkable improvement and upgraded its 'D' score received in its initial reporting to the Carbon Disclosure Project (CDP) in 2015 to 'A-' and has been named among the CDP Turkey Climate Leaders for two consecutive years. Migros' CDP score is in the "Leadership" status, which is the top level in the assessment.

Headings	Weight	Assigned Score (%)
Shareholders	25%	95.67
Public Disclosure and Transparency	25%	98.01
Stakeholders	15%	99.51
Board of Directors	35%	92.65
Average	100%	95.77

Nikolaos Stathopoulos



İzzet Karaca

Mehmet Hurşit Zorlu

Affan Nomak

Jacob C.A. de Jonge

PART I - STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

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

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

a) Fairness

b) Transparency

c) Responsibility

d) Accountability.

A corporate governance committee was formed within the Board of Directors in 2007 and charged with overseeing corporate governance matters throughout the Company and with supervising the Investor Relations Department. Capital market laws and regulations mandate that a corporate governance committee be set up and that its head be chosen from among the Company's independent board members. In a board resolution passed on 8 May 2017, Jacob Cornelio Adriano de Jonge, Nikolaos Stathopoulos, Mehmet Hurşit Zorlu, İzzet Karaca and Affan Nomak were elected to seats on the corporate governance committee and independent board member. Serving along with İzzet Karaca, the other independent Board member on the Committee, Jacob Cornelio Adriano de Jonge, independent Board member, functions as the Committee Chairman.

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

Within the scope of the efforts to achieve alignment with corporate governance principles in 2017;

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

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

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

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

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

PART II - SHAREHOLDERS

2. 1 Investor Relations

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

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

- Manage general assembly meeting-related matters in compliance with the requirements of laws and regulations and of the Company's articles of association;
- Conduct matters related to share capital increases;
- Conduct matters related to dividend payments;
- Handle shareholder requests and procedures related to general assembly meetings, share capital increases, and dividend payments;
- Represent the Company;
- Represent the Company before such agencies as the Capital Markets Board (CMB), Borsa İstanbul, the Central Registry Agency (CRA), and ISE Settlement and Custody Bank Inc. and liaise with them;
- Maintain records pertaining to the Board of Directors, to committees set up within the board, and to general assembly meetings;
- ,Provide the Public Disclosure Platform with information about material events as required by the Public Disclosure Communique (VII-128.6), the Material Events Communique (II-15.1), and other pertinent regulatory requirements;
- Keep track of all matters related to public disclosures covered by the Company's public disclosure policy;
- Prepare documents that may be useful to shareholders at general assembly meetings and ensure that shareholders have easy access to these documents;
- Keep track of the requirements of laws and regulations and of CMB legislation;
- Inform senior management of matters and issues with which the Company must be in compliance;
- Prepare the Company's quarterly and annual reports;
- Coordinate efforts and activities related to Corporate Governance in harmony with the Corporate Governance Committee;
- Prepare quarterly and annual informational presentations and bulletins;
- Provide investment banks/brokerage analysts, fund managers, shareholders, and other stakeholders with information about the Company;
- Propose changes to keep the articles of association in compliance with current laws and regulations;
- Maintain regular and up-to-date records of all communication with investors;
- Keep abreast of and analyze information about competitors and the sector;
- Respond to shareholders' queries and requests for information to the extent allowed by the Company's disclosure policy;
- Have shareholders' paper-form securities dematerialized;
- Coordinate the initiatives and efforts regarding sustainability.
- Coordinate the changes and developments in relation to Borsa İstanbul Corporate Governance and Sustainability Indices, in which the Company is included,
- The Investor Relations Department prepares and submits to the Board of Directors a report of its most recent activities monthly.

Additionally, the Corporate Governance Committee makes quarterly presentations on the Company's corporate governance practices and investor relations activities.

All shareholders who wish to obtain information about the Company may submit their requests by email to yatirimci@migros.com.tr and/or by calling 444 10 44 Customer Service Line. All other channels of communication are also available to shareholders.

Assistant General Manager for Finance:
Erkin Yılmaz
Address: Atatürk Mahallesi Turgut Özal Bulvarı No: 7 34758 Ataşehir / İSTANBUL
Email: erkiny@migros.com.tr
Finance Director: Ferit Cem Doğan
Email: cemdo@migros.com.tr

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

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

The dematerialization of securities is undertaken by Yapı Kredi Securities. During the reporting period, retroactive action was taken at the Company's headquarters concerning Migros Türk T.A.Ş. shareholders and Tansaş Perakende Mağazacılık T.A.Ş. shareholders who had not taken part in stock options, or had not received dividends to which they were entitled, or who applied to have their paper-form shares dematerialized. In addition, shareholders who called the 444 10 44 Customer Services Line were provided with information and also directed to go to any Yapı Kredi Bank branch in order to exercise their rights. More than 250 shareholders contacted the Investor Relations Department to obtain information on a variety of issues. They were informed in compliance with the requirements of corporate governance principles.

The activities of the Company in 2017 are itemized below.

- Teleconferences conducted during the year: 4
- Investor presentations concerning the Company's financial results: 4
- Financial press releases concerning the Company's financial results: 4
- Material event disclosures sent to the Public Disclosure Platform: 72
- Board of Directors resolutions passed: 27
- Domestic and international conferences and roadshows taken part in: 15
- Analysts and fund managers met with during the year: 240

2.2 Shareholders' Rights to Information

Disclosure

The Investor Relations Department endeavors to respond to requests for information about the Company that it receives as quickly as possible and without making any distinctions among shareholders. Mindful of shareholders' right to be informed and of their right to have simultaneous, convenient access to information, all announcements about the Company are also published on the Company's corporate website.

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

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

Auditing

At the meeting of the Board of Directors of Migros, held on 17 March 2017, it was decided according to the proposal by our Audit Committee that PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. be elected as the independent audit company for the 2017 fiscal year. This decision will be submitted to the General Assembly for approval, according to the Board's resolution.

The Migros general assembly of shareholders voted to approve, as the Company's independent auditor for 2017, the firm of PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., which had been selected by the Board of Directors upon the recommendation of the Audit Committee.

A two-member Audit Committee has been formed by the Board of Directors of Migros. Under article 4.5.3 of the CMB's "Communique concerning corporate governance principles (II-17.1)", all of the members of the Audit Committee must be selected from among the Company's independent board members. At a meeting of the Board of Directors on 8 May 2017, a resolution was passed to reconstitute the Audit Committee as a two-person body whose members are both independent board members and İzzet Karaca and Jacob Cornelio Adriano de Jonge were elected to fill these seats. As also required by Capital Markets Board regulations, İzzet Karaca was designated as the committee's chairman.

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

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

2.3 General Assembly Meetings

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

General assembly meetings are held physically at the Company's headquarters (Atatürk Mahallesi, Turgut Özal Bulvarı No: 7, 34758 Ataşehir, İstanbul) and are simultaneously conducted electronically through the electronic general assembly system. General assembly meetings are open to all stakeholders and are attended by media representatives.

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

A separate item concerning charitable donations provided to foundations and associations is included in general assembly meeting agendas and shareholders are provided with information about them.

Annual General Assembly Meeting

The annual general assembly meeting at which Migros' 2016 activities and accounts were examined took place on 11 April 2017 at 14:00 at the Company's head office building located at the address of Atatürk Mahallesi, Turgut Özal Bulvarı No: 7, 34758 Ataşehir, İstanbul for the convenience of those attending and it was also simultaneously conducted electronically through the CRA's e-GEM. The meeting was observed by ministry representative Ayşin Yazgan Bilgin, who had been charged with this duty by the Ministry of Customs and İstanbul Trade Directorate letter 24092540 dated 10 April 2017.

The 2015 balance sheet and income statement, the Board of Directors annual report, the independent auditors' report, and proposal for the distribution of the year's dividends were made available for the examination of shareholders at the Company's headquarters, on its corporate website at www.migroskurumsal.com, and at the electronic general assembly portal during the three weeks preceding the meeting.

An examination of the attendants list showed that 15,177,229,987.65 shares out of a possible 17,803,000,000 corresponding to TRL 151,772,299.88 of the Company's TRL 178,030,000 in capital were represented at the meeting.

Immediately after the meeting, its minutes and attendants list were reported to the Public Disclosure Platform and were also published under the "Information about general assembly meetings" heading of its corporate website at www.migroskurumsal.com and at the e-company portal. Additionally, the general assembly meeting's minutes were also announced in issue 9313 of Türkiye Ticaret Sicili Gazetesi on 25 April 2017. Prior to the meeting, no shareholders submitted any proposals for items to be included in the meeting's agenda.

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

Shareholders at the Company's annual general assembly meeting were informed about the donations and assistance provided by the Company during the year. The Company made donations totaling TRL 537,416.40 consisting of TRL 250,000 to the Ministry of Family and Social Policies, and TRL 287,416.40 to other associations and foundations.

In 2016 no company shareholder with a controlling stake, nor any board member, nor any manager with administrative responsibilities nor any spouse or relative (whether by blood or marriage unto the second degree) of any of these has engaged in any transaction with the Company or with any of its subsidiaries or affiliates that might be deemed to involve a conflict of interest; nor did any of them perform, on their own behalf or on behalf of another, any transaction of a business nature falling within the Company's own or its subsidiaries' or affiliates' object and scope; nor did they act as a partner with unlimited liability in another company engaged in the same kind of business.

2.4 Voting Rights and Minority Rights

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

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

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

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

2.5 Dividend Rights

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

Payment of dividends has always been an important matter for Migros, which always aimed to protect the interests of its

shareholders. The utmost attention is given to the fine balance between the growth strategy and dividend payment policy. A copy of the "Dividend Distribution Policy" formulated by the Board of Directors is sent to the Public Disclosure Platform system along with material event disclosures pertaining to dividend payments. The same information is provided to shareholders at general assembly meetings and is published on the Company's corporate website.

Dividend Policy

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

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

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

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

At an annual general assembly meeting of Migros held on 11 April 2017, it was proposed against distributing profit for 2016 fiscal year since the Company's consolidated financial statements for 2016, which were drawn up in accordance with the Turkish Commercial Code and CMB requirements, showed a net loss for the period, and the General Assembly passed a resolution to that effect.

2.6 Transfer of Shares

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

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

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

As stated in the material event disclosure dated 29 November 2017, Moonlight Capital S.A., one of the Company's shareholders, carried out an outright sales of Migros shares that it held with a total nominal value of TRL 13,000,000 at a price of TRL 26 per share to non-resident institutional investors. Following the said transaction, Moonlight Capital S.A. owns 8.07% of the shares in Migros and holds 23.2% share in Migros in total through the funds it manages via BC Partners.

PART III - PUBLIC DISCLOSURE AND TRANSPARENCY

3.1 The corporate website and its content

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

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

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

Our Company's shareholding structure as of 31 December 2017 is as follows:

Shareholder structure

Shareholder	Share (%)	Share Amount (TRL)
MH Perakendecilik ve Ticaret A.Ş.	50.00	89,015,000
Kenan Investments S.A.	15.13	26,937,336
Moonlight Capital S.A.	8.07	14,371,000
Other	26.80	47,706,664
Total	100.00	178,030,000

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

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

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

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

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

3.2 Annual Report

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

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

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

PART IV - STAKEHOLDERS

4.1 Informing Stakeholders

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

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

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

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

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

The responsibilities of Migros towards other companies

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

Social responsibilities of Migros

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

The responsibilities of Migros employees towards the Company

1. Migros employees categorically reject any pecuniary or non-pecuniary incentives which may come from any third parties within their areas of responsibility.
2. Migros employees inform their immediate superiors whenever they enter into a direct business relationship with a company in which a close relative is employed or he/she is a minority or majority partner.
3. Migros employees take utmost attention and care in their duties and they make every effort to ensure that the work they perform is higher in quality, faster and more efficient.
4. Migros employees are obliged to refrain from endangering the health and safety of themselves and of other employees who are affected by their actions and their jobs in line with the occupational health and safety training they received and with the employer's relevant instructions.
5. Migros employees are obliged to operate the machinery, equipment, devices, tools, dangerous materials, transportation equipment and other production machinery in the workplace in accordance with their respective guidelines, to properly use protective equipment, not to remove and change such protective equipment arbitrarily, and to cooperate with the employer and employee representatives to assure occupational health and safety in his/her respective job area, in accordance with the employer-provided training and instructions.
6. Migros employees refrain engaging in any action or behavior which would damage the image and reputation of the Company and during work hours they comply with the generally accepted code of conduct and the dress policy of the Company.
7. Migros employees do not remain indifferent or silent in any situation which runs counter to the interests of the Company and shall notify the concerned business units.
8. Migros employees avoid waste by putting all the fixtures, tools and equipment owned by the Company to use for their intended purposes. The employees do not use the resources and facilities of the Company for their own private benefit.
9. Migros employees do not divulge any confidential or private information which they might be privy to due to their position or the work they perform outside the Company and they do not give interviews or make statements of any kind to any media organization without the prior consent of the Company management.

The responsibilities of Migros employees towards other employees

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

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

General responsibilities

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

4.2 Stakeholders' Participation in the Company Management

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

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

4.3 Human Resources Policy

The Human Resources Department of Migros, in executing the Company's strategies, aims to develop systems which will ensure the continuous improvement, motivation and management of the human resources staff and implement these systems in line with the corporate principles of the Company. Our human resources are our most important asset. The quality of our products and services reflects the quality of our employees. In our endeavor to create a Company spanning generations, we choose attracting and employing the best and most competent people; taking maximum advantage of our people's abilities, strengths and creativity; increasing their individual productivity; providing them opportunities to develop themselves; and creating a workplace in which teamwork and solidarity flourish.

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

Our Principles

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

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

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

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

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

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

Participation and Transparency:
Managers and employees at Migros' domestic and overseas subsidiaries are the integral parts of human resources practices at Migros. Employees are updated on their roles and responsibilities regarding human resources policies and provided with guidance in fulfilling those responsibilities.

Human resources policies and processes are shared with employees on a regular

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

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

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

Commitment to Shared Values:
Our Corporate Culture is based on our shared values. These values are:

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

Actions of employees contradicting the Company's shared values are dealt with appropriately and impartially through the warning system and disciplinary committee procedures. Conducting relations with employees at Migros is the primary function of the Industrial Relations Department. The objectives of this Department are to ensure that all laws and regulations are fully complied with by the Company, oversee the legal and contractual rights of the employees and manage employee rights so as to maintain labor peace and fulfill all legal obligations.

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

4.4 Code of Ethics and Social Responsibility

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

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

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

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

The responsibilities of Migros towards its employees:

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

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

1. Migros strives to satisfy the service quality standards that its customers expect of it.
2. Migros seeks to fulfill its tax and other legally prescribed obligations in a complete and timely manner and to conduct itself in an exemplary manner in the public eye.
3. Migros makes no statements that could be deemed to be condescending, sarcastic or offensive concerning other companies or organizations, goods, or individuals.

4. Migros takes pains in the conduct of its activities to protect the natural environment, to avoid harm to the historical heritage, and to act in keeping with customs, habits, and traditions. Migros complies with the requirements of law on all such issues.

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

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

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

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

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

PART V - BOARD OF DIRECTORS

5.1 Structure and Composition of the Board of Directors

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

The Board of Directors identifies strategic objectives taking into account both the requirements of laws and regulations and the Company's articles of association and internal directives. The board formulates the most appropriate balance among 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.

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

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

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

The Corporate Governance Committee, which performs the duties of a nomination committee at Migros, has created a pool of prospective independent board members during 2017 and the nominees have been presented in a report to the Board of Directors on 16 March 2017.

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

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

Board of Directors	Title	Appointed on	Term
Tuncay Özilhan	Chairman (Non-executive)	11.04.2017	1 Year
Nikolaos Stathopoulos	Vice Chairman (Non-executive)	11.04.2017	1 Year
Salih Metin Ecevit	Member (Non-executive)	11.04.2017	1 Year
Talip Altuğ Aksoy	Member (Non-executive)	11.04.2017	1 Year
Kamilhan Süleyman Yazıcı	Member (Non-executive)	11.04.2017	1 Year
Stefano Ferraresi	Member (Non-executive)	11.04.2017	1 Year
Salim Abdullah Khalfan Al Ma'mari	Member (Non-executive)	11.04.2017	1 Year
Ömer Özgür Tort	Member and General Manager (Executive)	11.04.2017	1 Year
Jacob Cornelio Adriano de Jonge	Independent Member (Non-executive)	11.04.2017	1 Year
Tayfun Bayazıt	Independent Member (Non-executive)	11.04.2017	1 Year
Hakkı Hasan Yılmaz	Independent Member (Non-executive)	11.04.2017	1 Year
İzzet Karaca	Independent Member (Non-executive)	11.04.2017	1 Year

Resumes of the Board Members

Tuncay Özilhan

Born in Kayseri, Tuncay Özilhan graduated from Saint Joseph High School in İstanbul, and İstanbul University, Faculty of Economics, before obtaining his MBA from the Long Island University, USA. He started his career as the General Manager of Erciyas Biracılık in 1977. Mr. Özilhan became the Beer Group Coordinator and then General Coordinator at Anadolu Endüstri Holding. He still serves as the Chairman of the Board of Directors of Anadolu Group, a position he has taken over in May 2007. Mr. Özilhan also served as Anadolu Group Executive Chairman until February 2017, to which position he was appointed in 1984. Anadolu Group Chairman Mr. Özilhan also sits as the Chairman on the boards of directors of Anadolu Foundation and various Anadolu Group Companies.

Outside positions held

After serving as the Chairman of TÜSİAD (Turkish Industry and Business Association) from 2001 to 2003, Tuncay Özilhan currently functions as the President of TÜSİAD High Advisory Council, Member of the Board of Directors at DEİK (Foreign Economic Relations Board), Chairman of the Turkish–Russian Business Council of DEİK, Estonian Honorary Consul, and President of the Anadolu Efes Sports Club. Mr. Özilhan has also been honored with "The Order of the Rising Sun, Gold and Silver Star", one of the most important decorations conferred by the Japanese government, and with a medal by the Republic of Estonia, Ministry of Foreign Affairs.

Nikolaos Stathopoulos

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

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

Outside positions held

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

Salih Metin Ecevit

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

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

Outside positions held

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

Talip Altuğ Aksoy

Talip Altuğ Aksoy received his bachelor's degree in economics from Oglethorpe University in USA. He began his career as

Assistant Finance Specialist at Anadolu Group in 1995 and was appointed as a Finance Specialist in 1996. Mr. Aksoy worked as Human Resources and Treasury Specialist from 1998 to 2000. He served as Director of Sales and Marketing at Efes Invest from 2000 to 2003 and was appointed Director of Trade and Export at Efes Beer Group in January 2003. Continuing his career at the Group as the Director of Purchasing and Logistics from 2006, Mr. Aksoy was appointed Director of Supply Chain of Efes Beer Group in June 2008, in which position he served until 1 November 2011. In November 2011, he was appointed Efes Turkey Managing Director and served in this position until 1 January 2017. Mr. Aksoy still continues to serve as a Board Member in various Anadolu Group companies.

Kamilhan Süleyman Yazıcı

Kamilhan Yazıcı holds a bachelor's degree in business administration from Emory University in USA, an MBA degree from AIBEC (American Institute of Business and Economics) in Russia and has completed the GMP program at Harvard Business School. Having started his career in Anadolu Group Finance Department in 2000, Mr. Yazıcı later worked in Anadolu Efes Russia Marketing Department between 2003 and 2005, and was appointed New Product Development Manager in 2005. Having continued his career in Russia as Logistic Systems Manager from 2006 to 2008, Mr. Yazıcı was appointed Supply Chain Director in 2008 and Development Director in 2010. Mr. Yazıcı assumed the role of Anadolu Efes Moldova Managing Director from 2011, and was appointed Market Development Director in Anadolu Efes Headquarters in 2014, a position he held until April 2017. Mr. Yazıcı currently serves as a Board Member and Vice-Chairman in Anadolu Group companies.

Stefano Ferraresi

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

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

Outside positions held

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

Salim Abdullah Khalfan Al Ma'mari

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

Ömer Özgür Tort

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

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

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

Outside positions held

Sitting on the boards of directors of the subsidiaries of Migros Ticaret A.Ş., Ömer Özgür Tort serves as the Chairman of the Board of Sanal Merkez Ticaret A.Ş., and as a Board member and Chief Executive Officer of Kipa Ticaret A.Ş. He is also a board member at Trade Council of Shopping Centers and Retailers (in Turkish: AMPD).

Independent Board Members

Jacob Cornelio Adriano de Jonge

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

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

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

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

Tayfun 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 (MBA) from Columbia University.

Having started his career at Citibank in 1983, Bayazıt assumed Executive Vice President and Senior Executive Vice President positions at Yapı Kredi Bank from 1986 until 1995. He was President and CEO at Interbank from 1995 to 1996, and at Banque de Commerce et de Placements from 1996 to 1999. Having served as Vice Chairman at Doğan Holding from 1999 until 2001, Bayazıt was later appointed as CEO and Board member at Dışbank (2001-2005), Fortis Bank (2005-2007), and Yapı Kredi Bank (2007-2009), where he consequently served as Chairman from 2009 to 2011. He has been working as a consultant since 2011.

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

Outside positions held

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

Hakkı Hasan Yılmaz

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

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

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

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

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

Outside positions held

Hakkı Hasan Yılmaz is a member of the Advisory Board of Mudo A.Ş. He is also a faculty member at Koç University.

İzzet Karaca

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

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

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

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

Independent Board Members' Affidavit

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

Owing to my having been proposed as a candidate for a seat as an independent board member on your Company's Board of Directors at your Company's general assembly meeting for the year 2016 to be held on 11 April 2017, I hereby declare and wish it to be known by all Company organs, shareholders, and other interested parties that I am a candidate to serve as an independent board member at the Company within the framework of the Company's articles of association and the criteria of the Capital Markets Board's Corporate Governance Principles and that I possess the qualifications to do so and furthermore:

a) That neither I, nor my spouse, nor any relative of mine whether by blood or by marriage unto the second degree, have, within the most recent five years, entered into any employment relationship in an administrative capacity involving significant duties and responsibilities, owned more than 5% of the capital or voting rights or privileged shares either jointly or individually, or have established a significant commercial relation with the Company, or with corporations over which the Company holds management control or significant influence or with shareholders who hold management control over the Company or have significant influence over the Company, or with legal entities controlled by these shareholders,

b) That within the most recent five years, I have not been a shareholder (5% and more), not worked in an administrative capacity undertaking significant duties and responsibilities or not served as a member of the board of directors in any company, particularly companies involved in the Company's auditing (including tax audit, statutory audit, internal audit), rating, or consulting functions that the Company purchases or sells a substantial amount of goods or services within the framework of the contracts executed, during the period of such sale or purchase,

c) That, as may be seen from my resume, I am possessed of the professional training, knowledge, and experience necessary to duly fulfill the duties I shall undertake as an independent member of the Board of Directors;

d) That, as of the date on which my candidacy for board membership was proposed and this affidavit is submitted, I am not a full-time employee of any public agency or organization and that, if elected, I shall not be for the duration of my term of office;

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

f) That I am possessed of ethical standards and of professional repute and experience sufficient to enable me to make a positive contribution to the Company's affairs, to maintain my impartiality in any disputes that may arise among the Company's shareholders, and to come to decisions freely on the basis of all stakeholders' interests;

g) That I will be able to devote to the Company's affairs an amount of my time sufficient to keep track of the conduct of the Company's activities and to fully satisfy the requirements of the duties I will be undertaking

h) I have not served as a member on the Company's board of directors for more than six years within the last ten years,

i) I have not served as an independent board member in more than three companies over which the Company or the controlling shareholders of the Company hold management control and in more than five listed companies in total.

Jacob Cornelio Adriano de Jonge | Tayfun Bayazıt | Hakkı Hasan Yılmaz | İzzet Karaca

5.2 Operating Principles of the Board of Directors

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

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

During 2017 the Migros Board of Directors passed twenty-seven resolutions on a variety of subjects. Majority of the full membership were present at every meeting in which these decisions were taken and the decisions were passed by a majority of those in attendance. Under the articles of association, invitations to board meetings may be sent out by the chairman (or his deputy) at least three days in advance of the meeting date by means of fax, letter, or email. These invitations indicate the meeting date, time, place, and agenda. Whenever the board is convened, it may agree upon a schedule for the regular conduct of meetings during the year.

A secretariat is charged with organizing and conducting meeting-related matters both before and after meetings are held. This secretariat is also responsible for the regular maintenance of meeting-related records, for making entries in the Board of Directors Book of Resolutions, and for making this register accessible to board members for their inspection. Any and all manner of views may be expressed during board meetings. If any dissenting votes are cast against a particular resolution, information about this is included in the minutes along with the justifications for such dissent. No dissenting opinions were entered into the minutes of any board meetings that took place during 2017. Any questions that may be raised by board members and the answers given to them are also entered into the minutes. Issues pertaining to board meetings and decision quorums are governed by the Turkish Commercial Code.

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

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

Members of the Migros Board of Directors are covered by insurance against the risk that the Company may suffer a loss on account of misjudgment and errors in the performance of their duties. Liability insurance policies in the amount of USD 25 million have been taken out on board members and senior executives in 2017.

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

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

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

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

The activities of the board's Audit Committee, Corporate Governance Committee, and Early Detection of Risk Committee for 2017 have been reviewed and assessed by the board. It was ascertained that in the conduct of their operations these committees had been mindful of the requirements of laws and regulations and that their activities had a beneficial impact on the Company's practices.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

a. Audit Committee

At a meeting of the Board of Directors held on 8 May 2017, it was decided that the Audit Committee should consist of two independent board members and that İzzet Karaca and Jacob Cornelio Adriano de Jonge were elected to fill these seats. In compliance with CMB regulations, İzzet Karaca was chosen to serve as committee chairman.

Audit Committee			
İzzet Karaca	Committee Chairman	Not an Independent Member	Non-executive
Jacob Cornelio Adriano de Jonge	Member	Not an Independent Member	Non-executive

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

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

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

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

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

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

Operating Principles of the Audit Committee

Purpose and Scope

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

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

Authority

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

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

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

b. Corporate Governance Committee

The Migros Board of Directors has set up a corporate governance committee to oversee corporate governance practices at the Company and to coordinate the activities of the Investor Relations Department. At its meeting on 8 May 2017, the board decided to elect Jacob Cornelio Adriano de Jonge, Nikolaos, Stathopoulos, and Mehmet Hurşit Zorlu, İzzet Karaca and Investor Relations Group Manager Affan Nomak as the members of the Corporate Governance Committee. In compliance with CMB regulations, the board also decided to appoint Jacob Cornelio Adriano de Jonge to head the committee.

Corporate Governance Committee			
Jacob Cornelio Adriano de Jonge	Committee Chairman	Independent Member	Non-executive
Nikolaos Stathopoulos	Member	Not an Independent Member	Non-executive
Mehmet Hurşit Zorlu	Member	Not an Independent Member	Non-executive
İzzet Karaca	Member	Independent Member	Non-executive
Affan Nomak	Member	Not an Independent Member	Investor Relations Group Manager

It was decided that the Corporate Governance Committee should also fulfill the duties of both a nominating committee and a remuneration committee as is allowed by CMB Corporate Governance Communique II-17.1. Accordingly and in the fulfillment of its duties as a nominating committee, the Corporate Governance Committee is responsible for creating a transparent system capable of identifying, vetting, and training suitable candidates to fill seats on the Board of Directors and to undertake management positions that have administrative responsibilities and to develop policies and strategies for dealing with such issues. The Corporate Governance Committee also makes regular assessments of the structure and efficiency of the Board of Directors and submits to the board its recommendations for possible changes in such matters.

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

As defined by the Board of Directors in accordance with the same communique and other pertinent laws, regulations, and administrative provisions, the principal activities of this committee consist of determining whether or not corporate governance principles are being complied with and, if they are not being complied with, of identifying the reasons why and also any conflicts of interest arising from less than full compliance; of making recommendations to the Board of Directors to improve corporate governance practices; and of overseeing the activities of the Investor Relations Department. The goal of these efforts is to continuously improve the Company's corporate governance practices. The committee consists of five members and meets at least four times a year.

Operating Principles of the Corporate Governance Committee

Purpose and Scope

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

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

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

Authority

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

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

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

c. Early Detection of Risk Committee

At a meeting of the Board of Directors held on 8 May 2017, it was decided to elect Tayfun Bayazıt, Hakkı Hasan Yılmaz and Erkin Yılmaz to seats on an early detection of risk committee which had been set up in compliance with the requirements of Turkish commercial law, capital market laws and regulations, and corporate governance principles. As also required by Capital Markets Board regulations, Tayfun Bayazıt was designated as the committee's head.

Early Detection of Risk Committee			
Tayfun Bayazıt	Committee Chairman	Independent Member	Non-executive
Hakkı Hasan Yılmaz	Member	Independent Member	Non-executive
Erkin Yılmaz	Member	Not an Independent Member	Assistant General Manager (Finance)

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

Operating Principles of the Early Detection of Risk Committee

Purpose and Scope

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

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

Authority

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

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

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

5.4 Risk Management and Internal Control Mechanisms

Borrowings

As at 31 December 2017, TRL equivalent of the Company's loan payables is TRL 3,912,474 thousand.

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

It has been resolved to take out a loan for EUR 730 million and separately a TRL loan equivalent to EUR 100 million, and a credit agreement has been signed on 30 April 2015 by and between our Company and Garanti Bank, İşbank, Akbank, TSKB and Commercial Bank of Qatar (Q.S.C) with an 8-year maturity, involving interest and principal amount repayments at 6-month intervals. Within the frame of the same credit agreement, an additional "EUR 100 million facility has been allocated to our Company valid for 8 years" for any potential working capital requirements in the future.

(TRL thousand)	Tenge loan (TRL equivalent)	Euro loan (TRL equivalent)	TRL Loan	Total (TRL equivalent)	Share (%)
1 January 2018- 31 December 2018	-	279,227	590,082	869,309	22.3%
1 January 2019- 31 December 2019	1,271	426,572	37,100	464,943	11.9%
1 January 2020- 31 December 2020	12,164	523,517	45,532	581,213	14.9%
1 January 2021- 31 December 2021	13,719	620,494	53,967	688,180	17.6%
1 January 2022- 31 December 2022	13,580	736,821	64,084	814,485	20.9%
1 January 2023 - 24 October 2023	2,206	445,956	38,787	486,949	12.5%
	42,940	**3,032,587**	**829,552**	**3,905,079**	**100.0%**

Risk Management

Pursuant to the applicable provisions of the Turkish Commercial Code and the regulations of the Capital Markets Board of Turkey, there is an Early Detection of Risk Committee at the Company, which is charged with early diagnosis of risks that may threaten the existence, development and survival of the Company, and with ensuring that necessary actions are taken in relation to those risks.

Within the scope of the activities conducted with the Company employees, the Committee has identified the major types of risks that the Company may be exposed to. Various risk indicators have been created to monitor and measure the factors that make up these types of risks. These risk indicators are analyzed and followed up by the related Company units, and changes are monitored by the Risk Committee. In periodic meetings, the Risk Committee evaluates whether appropriate actions have been taken.

Internal Audit

In the conduct and performance of its financial and operational reviews, the Internal Audit Department adheres to the following principles.

- Effective utilization of the resources of the Company,
- Effectiveness of the internal control mechanisms on operations,
- Reliability of financial statements,
- Confirmation of Company assets
- Efficiency and effectiveness of business operations,
- Compliance of employees with the quality management documentation and administrative instructions approved by the management,

The fundamental duties of the Internal Audit Department consist, among other things, of investigating/examining activities and transactions which previously had been determined and reported as having elements of risk in order to ascertain the degree to which such risks have been eliminated or brought under control in line with management-approved recommendations; performing follow-up reviews in situations where more detailed investigations and examinations are necessary.

Any problems that may be discovered during the course of review activities are investigated in detail with the aim of allowing measures to be taken as necessary while recommendations are also made concerning what action should be taken to deal with any losses which the Company is ascertained to have suffered. In all of these efforts, altering processes in such a way as to prevent recurrences of similar incidents is an issue of fundamental concern.

In line with the risk based audit approach and the year's internal control plan, in 2017 the Internal Audit Department conducted financial and operational reviews of various departments and processes. Assessments and recommendations based on review results are submitted to company senior management along with the reports in which matters where improvements may be made in keeping with the philosophy of continuous development are also pointed out. Besides financial and operational reviews, the Internal Audit Department also conducts follow-up reviews on issues about which senior management was previously informed and it was agreed that measures needed to be taken.

5.5 Mission, Vision and Strategic Goals of the Company

The Company's vision is to be in tune with each and every consumer by providing a service in different formats in line with the strategy of expanding in the retail industry in Turkey and neighboring countries and always being ahead of consumer expectations.

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

In line with this mission, Migros structures its strategies to achieve sustainable quality and earn respect as the industry leader through an approach to customer satisfaction which raises the standards of retailing in the countries in which it is active.

The senior management of the Company develops strategies to achieve these objectives in accordance with the vision defined by the Board of Directors. Accordingly, our main strategy is to provide our customers with high quality, modern, reliable services at affordable prices. Targets set to achieve these strategies are shared with all the organizational units and supported by business plans. The Corporate Performance Management System in place facilitates monitoring and evaluation of these targets and business results as well as their assessment and revision whenever necessary.

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

Members are kept informed by means of annual meetings at which the most recent five-year plan is presented to the Board of Directors, by annual budget and review meetings, and by monthly meetings at which the Company's business results are presented and the board's feedback is solicited. Detailed monthly reports are also submitted to the board for its information. In this way, all of the members of the Board of Directors are able to track the Company's ongoing efforts to fulfill its targets and to immediately intervene and provide guidance when necessary.

5.6 Financial Rights Provided to Board Members and to Managers with Administrative Responsibilities

The financial rights to be provided to members of the Board of Directors are discussed as a separate agenda item at general assembly meetings.

At a general assembly meeting held on 11 April 2017, shareholders voted to pay independent board members a monthly salary of TRL 8,000 (net), to pay independent board members residing abroad an additional attendance fee of TRL 8,000 (net) for each board meeting they attend, and not to pay any monthly salary or attendance fees to other board members. The remuneration of independent board members involves neither company stock options nor company performance-based compensation plans. All of the benefits provided to senior executives are declared in the footnotes to the financial statements.

The Remuneration Policy applicable to members of the Board of Directors and senior executives was submitted for the attention of shareholders at the annual general assembly meeting of 11 April 2017, and published on the corporate website at www.migroskurumsal.com.

Benefits Provided to Senior Executives During the Reporting Period

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

Details concerning benefits provided to senior executives are presented below.

(TRL thousand)	01 Jan – 31 Dec 2017	01 Jan – 31 Dec 2016
Short-term benefits provided to employees	31,971	20,944
Total	31,971	20,944

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

Migros makes no loans and extends no credit to any senior executive. Neither does it extend any form of personal credit to senior executives through third parties or otherwise provide senior executives with any form of surety.

OTHER ISSUES

No administrative or criminal proceedings of a significant nature have been initiated against the Company or any of its board members on account of any violation of laws or regulations.

A number of lawsuits that have been filed against or in favor of the Company are currently being litigated. These suits are concerned primarily with receivable-, rent-, or business-related issues. At the end of each reporting period, the Company's management reviews and assesses the potential consequences and financial impact of such litigation and, based on its best judgment, provisions are set aside to cover likely losses or gains. Detailed information about such matters is provided in the consolidated financial statements. The Company is not a party to any mutual cross-shareholding.

According to the agreement signed by and between our Company and Tez-Koop trade union last year, the collective bargaining agreement covers the period between 1 May 2017 and 30 April 2019.

Other issues related to corporate governance principles are presented below.

a) Company Disclosure Policy

Material events are publicly disclosed in a truthful and timely manner as prescribed by CMB Communique II-15.1 concerning such matters. In addition, any and all manner of significant information that might influence shareholders' and other stakeholders' decisions is also publicly disclosed. In the public disclosure of such information, the following channels are used depending on the nature and particulars of the announcement:

- Material event disclosures sent to the Public Disclosure Platform,
- Financial reports sent to the Public Disclosure Platform,
- Annual and interim reports,
- The corporate website at www.migroskurumsal.com,
- Informational and presentation documents published for stakeholders,
- Prospectuses, circulars, notices and other documentation issued pursuant to capital market laws and regulations,
- Printed and visual media press releases,
- Notices and announcements published in Türkiye Ticaret Sicili Gazetesi and in daily newspapers.

In order to ensure that shareholders and other stakeholders have convenient access to public disclosures such as presentations, press releases, and press conferences, such materials are also published on the Company's corporate website at www.migroskurumsal.com. Information publicly disclosed through the Public Disclosure Platform is also sent to financial data providers and to printed and visual media. Statements about issues that may have an impact on the Company's future prospects are also publicly disclosed through the channels indicated above depending on their nature and as required by laws and regulations.

The identities of individuals who may have access to confidential company information before the public disclosure of material events are publicly disclosed. The names of the Company's board members and senior executives are published in the annual report along with that of the independent auditors. Information about any changes taking place in the Company's senior management during the reporting period was provided in the annual report.

In situations where CMB regulations require a public announcement concerning news, statements, and/or rumors about the Company which appear in the press, in other media, or on websites and of which the Company becomes aware, such disclosures are made, depending on the nature, through Public Disclosure Platform announcements, data providers, and/or written and visual media; similarly and in order to ensure that shareholders and other stakeholders have convenient access to such disclosures they are also published on the Company's corporate website at www.migroskurumsal.com.

The Migros Disclosure Policy is formulated by the Board of Directors and updated as circumstances and regulations dictate. This policy is presented to shareholders convened in a general assembly and then published on the Company's corporate website at www.migroskurumsal.com. The Investor Relations Department strives to respond to questions that shareholders ask the Company truthfully, completely, equitably, and within the framework of this disclosure policy.

The Migros Disclosure Policy requires that any and all manner of information must be provided upon request unless such information is in the nature of a trade secret or, if divulged, would give other individuals or organizations a competitive advantage over Migros or would have an adverse impact on the Company's activities.

Like its public disclosure policy, the Migros Dividend Policy is also formulated by the Board of Directors and publicly disclosed by being included in the Company's annual report, published on the Company's corporate website at www.migroskurumsal.com, and presented to shareholders convened in a general assembly.

When identifying individuals who will have administrative responsibility at the Company, the requirements and criteria stipulated in the Turkish Commercial Code (Statute 6102), the Capital Markets Law (Statute 6362), CMB communiques, and other applicable laws, regulations, and administrative provisions are taken into account.

b) Material Event Disclosures

During 2017 the Company submitted 72 material event disclosures to the Public Disclosure Platform. Whenever the Public Disclosure Platform demanded further information about such announcements or the Company's response to news appearing in the media, the Company responded to such requests urgently.

Periodic financial statements, notes, annual reports and interim annual reports are shared with the public to provide an accurate and complete view of the Company's financial position. Financial statements are prepared in compliance with national/international accounting standards in consolidated format in compliance with communiques issued by the CMB. The accounting policies of the Company are referred to in the notes to financial statements. The Company's annual reports are prepared in sufficient detail to allow all concerned parties to obtain the necessary information and are updated every fiscal year in line with the applicable legislation/needs.

After every public disclosure of the Company's quarterly financial statements in 2017, presentations and bulletins concerning them were published on the Company's corporate website at www.migroskurumsal.com to inform shareholders. The same information was simultaneously communicated to the Public Disclosure Platform.

The Company designates an independent audit firm each year and requires this independent audit firm to rotate after a given period. Consultancy services are not obtained from the firm designated as an independent auditor.

c) Disclosure of Ultimate Controlling Individual(s) Shareholder(s)

The shareholding structure of Migros is presented below.

Shareholder structure

Shareholder	Share (%)	Share Amount (TRL)
MH Perakendecilik ve Ticaret A.Ş.	50.00	89,015,000
Kenan Investments S.A.	15.13	26,937,336
Moonlight Capital S.A.	8.07	14,371,000
Others	26.80	47,706,664
Total	100.00	178,030,000

Legal and Real Persons Indirectly Holding an Interest in the Capital as per the Latest Situation

Shareholder	Share Amount (TRL)	Share (%)
BC Partners	32,901,781,93	18.48
S. Kamil Yazıcı	19,984,588,2	11.23
Tülay Aksoy	15,265,524,26	8.57
Tuncay Özilhan	15,006,303,72	8.43
DeA Capital	7,067,612,97	3.97
S. Vehbi Yazıcı	2,649,968,29	1.49
Vahit Yazıcı	1,996,551,89	1.12
Hidayet Yazıcı	1,897,594,44	1.07
Turkish Private Equity Fund II	1,338,941,11	0.75
AG Anadolu Grubu Holding A.Ş. Others	32,214,469,2	18.09
Total	130,323,336,00	73.2

There are no preferred shares.

Information about changes in the Company's capital structure taking place during the year was publicly disclosed immediately through the Public Disclosure Platform system. Such changes are also announced in the pertinent sections of the Company's 2017 annual report.

Under Material Events Communique II- 15.1, material event disclosures must be made by any company chairman, board member, general manager, or assistant general managers, by any individual with significant decision-making responsibilities and authorities, by any shareholder who directly or indirectly controls more than 5% of the Company's capital or voting rights, and by anyone acting in concert with any of these whenever they purchase or sell shares in Migros. No such dealings of this nature occurred during the reporting period.

d) Public Disclosure of Individuals Who Are In a Position to Access Inside Information

Names of the members of the Board of Directors and auditors of our Company and of those in senior management positions as well as any changes to the senior management during the year are presented in the Annual Report. Individuals who have access to insider information about the Company are identified below.

Board of Directors

Tuncay Özilhan	Chairman
Nikolaos Stathopoulos	Vice-Chairman
Salih Metin Ecevit	Member
Talip Altuğ Aksoy	Member
Kamilhan Süleyman Yazıcı	Member
Stefano Ferraresi	Member
Salim Abdullah Khalfan Al Ma'mari	Member
Ömer Özgür Tort	Member and General Manager
Jacob Cornelio Adriano de Jonge	Independent Member
Tayfun Bayazıt	Independent Member
Hakkı Hasan Yılmaz	Independent Member
İzzet Karaca	Independent Member

Ömer Özgür Tort	General Manager
Ahmet Fuat Yanar	Assistant General Manager
Erkin Yılmaz	Assistant General Manager
Demir Aytaç	Assistant General Manager
Cem Lütfi Rodoslu	Assistant General Manager
Hakan Şevki Tuncer	Assistant General Manager
Tarık Karlıdağ	Assistant General Manager
Mustafa Murat Bartın	Assistant General Manager

The Board of Directors consists of twelve members: Tuncay Özilhan (Chairman), Nikolaos Stathopoulos (Vice-Chairman), Salih Metin Ecevit, Talip Altuğ Aksoy, Kamilhan Süleyman Yazıcı, Stefano Ferraresi, Salim Abdullah Khalfan Al Ma'mari and Ömer Özgür Tort, Jacob Cornelio Adriano de Jonge, Tayfun Bayazıt, Hakkı Hasan Yılmaz and İzzet Karaca.

Detailed information about the members of the Migros Board of Directors is provided in the relevant section of the annual report.

As a consequence of its auditing functions, the Company's independent auditors PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. also has access to insider information.

e) Silent Period

The Chief Executive Officer, Chief Financial Officer, Finance Director, Corporate Communications Director, Investor Relations Group Head, and the Chairman and members of the Board of Directors and other Company executives designated by the Corporate Governance Committee are assigned to act as spokespeople to represent our Company in all contacts with shareholders, investors, brokerage analysts and other stakeholders through any communication channel, including the printed press, within the frame of the Company's disclosure policy.

Individuals designated as Company spokespeople are obliged to abide by the Silent Period practice, which starts one week before the disclosure of quarterly financial results and lasts until the date of such disclosure.

The beginning and ending dates of the Silent Period practice are published on the corporate website, under the heading Financial Calendar once the disclosure dates of financial statements are fixed. The disclosure dates of financial results and the corresponding Silent Periods are fixed before financial statements are disclosed, and announced by way of the Financial Calendar.

During the course of the Silent Period, Company spokespeople may not make comments regarding the Company's financial position, except for the information publicly disclosed in the name of the Company. In this period, analysts', investors' and similar individuals' questions about the financial position are left unanswered. Yet, people authorized to make public disclosures about the Company may participate in conferences, panels and similar events and deliver speeches during the Silent Period, strictly provided that they observe the confidentiality of inside information.

f) BIST Sustainability Index of Borsa İstanbul

Taking place in the BIST Sustainability Index since November 2014 – October 2015 period when the index was started to be calculated, and the only retail company in it, Migros continues to take place in the index in the November 2017– October 2018 period. The Company's sustainability activities can be reached under the Investor Relations tab on the corporate website.

g) Relations with Customers and Suppliers

Getting to know its customers and markets by monitoring and acting proactively on them and pioneering change are among the crucial factors behind the innovative business style of Migros. For this reason, a number of "firsts" such as consumer rights took hold in the retail industry only after they were introduced by Migros as early as in the 1960s and 1970s. By introducing the Migros Club system for the first time in Turkey, in 1998, Migros had an opportunity to become better acquainted with its customers and provide them with differentiated service. And through this system, the Company gained the opportunity to approach its customers not only collectively but also individually by conducting customer data analyses. Migros aims to fulfill the expectations of its customers as satisfactorily as possible through the stores it operates in different formats.

In the retail industry where any product seen in any store can be imitated quickly, Migros' experience and deep-rooted innovation embedded in its corporate culture, as well as investments in supporting technology, together create a competitive advantage that cannot be easily replicated.

In the 1990s, Migros became the first retail company to introduce the barcode system and electronic cash registers which reduced waiting times at the checkout counters and decreased the Company's operating costs dramatically. Thanks to the B2B system which has been set up jointly with suppliers, all the parties involved benefit from savings in both logistics and costs. This system benefits all the stakeholders, and especially the Company's customers.

Migros has conducted a Customer Satisfaction Survey regularly since 1994. In 2017 survey, many customers who shop at our stores were asked about their opinion. The analyses undertaken on the survey results help us to have an idea about the current and future expectations of our customers. Occasional surveys conducted at kiosks inside the stores on specific matters provide the Company with the chance to hear the customers and their expectations.

Customer Relationship Management (CRM) analysis of Migros Club data and the mystery shopper surveys which are aimed at improving the service levels are quality-based performance tools specific to Migros.

Some of the other activities undertaken to achieve customer satisfaction include:

- Migros was awarded ISO 9001 Quality Management System certification in August 2005.
- Migros was awarded TS EN ISO 22000 Food Safety Management System certification by the Turkish Standards Institution (TSI) in December 2006.
- Migros selects each of its suppliers after conducting appropriate due diligence. Suppliers are audited by reputable independent organizations and products are subjected to periodic quality audits.
- In November 2013, the perspective of the Company's integrated quality management system was expanded with the inclusion of ISO 10002 Customer Satisfaction Management System certification.
- Since the day it was founded, Migros has striven to surpass its customers' expectations and to respond immediately to their requests. ISO 10002 certification is evidence of the Company's commitment to the principle of customer satisfaction. The system makes improvements in service quality possible based on internal and external customer feedback.
- Migros obtained OHSAS 18001 Occupational Health and Safety Management System certification in July 2015.
- In 2016 Migros was awarded TS EN ISO 14001 Environmental Management System certificate, and thus became the first food retailer holding five certificates granted by the TSE (Turkish Standards Institution) within the scope of Quality Management Systems.

Migros has espoused "Good Agricultural Practices" expressed by the motto "GOOD AGRICULTURE = GOOD FUTURE", which is one of the Company's social responsibility initiatives in the area of "health", and an agricultural model that is designed to be socially viable, economically productive, while protecting human, animal and environmental health.

- •On 17 November 2009, Migros became the first retailer in Turkey to be awarded GAP group certification. The Company has continued to abide by GAP principles and its certification has been renewed every year since then.
- Having made internationally recognized food safety standards the touchstone of its practices and operations, Migros has adopted the mission of supplying wholesome products under safe conditions in order to guarantee the unreserved confidence of its customers. In line with this goal, food products are carefully and constantly monitored and controlled from initial procurement until they reach the consumer.
- Under Migros' Supplier Performance System, the production premises of all food suppliers are systematically inspected and monitored through food safety management systems. Products are randomly sampled and subjected to quality control analyses at regular intervals.
- Every new product to be put on sale at the Company's stores undergoes preliminary quality control performed by quality experts.
- Before they enter the Company's warehouses, goods received from suppliers are subjected to detailed organoleptic, chemical, and physical analysis based on many quality control parameters defined for each product by quality control experts. Goods that do not meet these stringent quality standards are rejected.
- Cold chain assurance, one of the most essential criteria in achieving food safety, is constantly monitored online at every stage from distribution center and storage, during shipment, and until it reaches the final consumer.
- Every food product that is put on Migros' shelves is randomly sampled and subjected to quality control analyses at regular intervals by accredited independent laboratories to ensure compliance with the Turkish Food Codex and with applicable laws, regulations, and administrative provisions.
- Non-food imported products such as toys, stationery, textiles etc. are subjected to strict controls. Prior to their importation, the Company has these goods analyzed at accredited independent laboratories to ensure that they are safe and contain no harmful substances such as phthalate plasticizers or azo compounds.
- Migros-labeled food and non-food items are subjected to even stricter controls. Such goods are not put on sale until and unless their places of production, labeling, and other applicable parameters have been checked and their compliance with laws and regulations has been established. Even after they appear on the shelves, Migros reviews product safety by means of analyses performed at regular intervals.
- Products on shelves are regularly checked by a team of store quality specialists. During such checks, attention is given not just to cold chain continuity, labeling, and expiration dates but also to compliance with food safety system requirements.
- Personnel employed at all the stores attend training programs on hygiene in order to ensure quality safety.

- The Company's stores are subjected to unannounced inspections performed by accredited independent agencies within the scope of integrated quality management systems, so as to ensure the safety of products sold to customers.
- In the promotional program of the Company we call "Aksiyon", products are offered for sale at discount prices for a period of 15 days.
- All customer suggestions received at the stores or the Call Center are evaluated and the results are communicated to customers as soon as possible. Customers can forward their complaints quickly and easily to company store managers via a toll-free customer line and by e-mail which can be sent to managers at all levels.
- In keeping with its objective of being a technological leader and making life easier through innovations, Migros has in place "self-checkout" solution "Jet kasa" in a large number of its stores. Customers who prefer to use "Jet kasa" avoid waiting in line and can check-out by themselves in three easy steps. As the number of customers using 'Jet kasa' increases by the day, so does the number of stores featuring this facility.
- Efforts to ensure full customer satisfaction are presented in the relevant section of the Annual Report.

Efforts to ensure full customer satisfaction are presented in the relevant section of the Annual Report.

h) Authorities and Responsibilities of Board Members and Managers

The duties and authorities of board members and managers are explicitly defined in the Company's articles of association, which may be found on the Company's corporate website at www.migroskurumsal.com.

The Migros Board of Directors is empowered to take decisions on all matters pertaining to whatever kinds of business and/or transactions are necessary for the Company to achieve its object and scope save for those that are exclusively reserved to the general assembly of shareholders by laws and regulations or by the Company's charter.

Managers' authorities and responsibilities are defined in their power of signature statements.

i) Prohibition on Doing Business with or Competing against the Company

No member engaged in any business transaction involving the Company or took part in any activity that could be deemed to be in competition with the Company.

j) Research & Development Activities

R&D costs incurred by the Company during 2017 amounted to TRL 15,297 thousand (2016: TRL 12,264 thousand).

Having received R&D Center certificate from the Ministry of Science, Industry and Technology, Migros Ticaret A.Ş. has continued with technical research and development activities in business development and software during 2017.

Under the Migros R&D center, Migros administrative units develop new initiatives for the improvement of processes in relation to retailing activities carried out at Store and Distribution Centers or for creation of new processes. Mostly entailing innovative solutions and smart systems integrated with technology, the applications also serve to touch our customers and suppliers.

k) Events after the Balance Sheet Date

Information on the events after the balance sheet date (subsequent events) is presented in the Consolidated Financial Statements and Independent Auditor's Report for the period 1 January - 31 December 2017.

CONVENIENCE TRANSLATION INTO ENGLISH OF INDEPENDENT AUDITOR'S REPORT ON THE BOARD OF DIRECTORS' ANNUAL REPORT ORIGINALLY ISSUED IN TURKISH

To the General Assembly of Migros Ticaret A.Ş.

1. Opinion

We have audited the annual report of Migros Ticaret A.Ş. (the "Company") and its subsidiaries (collectively referred to as the "Group") for the 1 January - 31 December 2017 period.

In our opinion, the financial information and the analysis made by the Board of Directors by using the information included in the audited financial statements regarding the Group's position in the Board of Directors' Annual Report are consistent and presented fairly, in all material respects, with the audited full set consolidated financial statements and with the information obtained in the course of independent audit.

2. Basis for Opinion

Our independent audit was conducted in accordance with the Independent Standards on Auditing that are part of the Turkish Standards on Auditing (the "TSA") issued by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities in the Audit of the Board of Directors' Annual Report section of our report. We hereby declare that we are independent of the Group in accordance with the Ethical Rules for Independent Auditors (the "Ethical Rules") and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.

3. Our Audit Opinion on the Full Set Consolidated Financial Statements

We expressed an unqualified opinion in the auditor's report dated 9 March 2018 on the full set consolidated financial statements for the 1 January - 31 December 2017 period.

CONVENIENCE TRANSLATION INTO ENGLISH OF INDEPENDENT AUDITOR'S REPORT ON THE BOARD OF DIRECTORS' ANNUAL REPORT ORIGINALLY ISSUED IN TURKISH

4. Board of Director's Responsibility for the Annual Report

The Group management's responsibilities related to the annual report according to Articles 514 and 516 of Turkish Commercial Code ("TCC") No. 6102 and Capital Markets Board's ("CMB") Communiqué Serial II, No:14.1, "Principles of Financial Reporting in Capital Markets" (the "Communiqué") are as follows:

a) to prepare the annual report within the first three months following the balance sheet date and present it to the general assembly;

b) to prepare the annual report to reflect the Group's operations in that year and the financial position in a true, complete, straightforward, fair and proper manner in all respects. In this report financial position is assessed in accordance with the financial statements. Also in the report, developments and possible risks which the Group may encounter are clearly indicated. The assessments of the Board of Directors in regards to these matters are also included in the report.

c) to include the matters below in the annual report:

- events of particular importance that occurred in the Group after the operating year,
- the Group's research and development activities,
- financial benefits such as salaries, bonuses, premiums and allowances, travel, accommodation and representation expenses, benefits in cash and in kind, insurance and similar guarantees paid to members of the Board of Directors and senior management.

When preparing the annual report, the Board of Directors considers secondary legislation arrangements enacted by the Ministry of Customs and Trade and other relevant institutions.

5. Independent Auditor's Responsibility in the Audit of the Annual Report

Our aim is to express an opinion and issue a report comprising our opinion within the framework of TCC and Communiqué provisions regarding whether or not the financial information and the analysis made by the Board of Directors by using the information included in the audited financial statements in the annual report are consistent and presented fairly with the audited consolidated financial statements of the Group and with the information we obtained in the course of independent audit.

Our audit was conducted in accordance with the TSAs. These standards require that ethical requirements are complied with and that the independent audit is planned and performed in a way to obtain reasonable assurance of whether or not the financial information and the analysis made by the Board of Directors by using the information included in the audited financial statements in the annual report are consistent and presented fairly with the audited consolidated financial statements and with the information obtained in the course of audit.

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.

Burak Özpoyraz, SMMM
Partner

Istanbul, 9 March 2018

MİGROS TİCARET A.Ş.

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017

INDEPENDENT AUDITORS' REPORT

To the General Assembly of Migros Ticaret A.Ş.

A. Audit of the Consolidated Financial Statements

1. Opinion

We have audited the accompanying consolidated financial statements of Migros Ticaret A.Ş. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017 and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements and a summary of significant accounting policies and consolidated financial statement notes.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with Turkish Accounting Standards ("TAS").

2. Basis for Opinion

Our audit was conducted in accordance with the Standards on Independent Auditing (the "SIA") that are part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority (the "POA"). Our responsibilities under these standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We hereby declare that we are independent of the Group in accordance with the Ethical Rules for Independent Auditors (the "Ethical Rules") and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.

3. Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. Key audit matters were addressed in the context of our independent audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	*How our audit addressed the key audit matter*
Impairment tests of indefinite-life intangible assets The carrying value of goodwill which is accounted for under indefinite-life intangible assets amounted to TRL 2.252.992 thousand in the consolidated financial statements as of 31 December 2017. In accordance with TAS, these indefinite-life intangible assets should be tested for impairment annually. Significant judgements and estimates are used in the impairment test performed by management. These are; earnings before interest, tax, depreciation and amortization ("EBITDA") growth forecasts, long term growth rates and discount rates. The outcome of such estimates is very sensitive to changes in market conditions. Therefore, this impairment test is key matters for our audit. Please refer to notes 2 and 13 to the consolidated financial statements for the relevant disclosures, including the accounting policy and sensitivity analysis.	We performed the following procedures in relation to the impairment test goodwill: - Evaluating the appropriateness of the Cash Generating Units ("CGUs") determined by management, - Evaluating management forecasts and future plans based on macroeconomic information by discussion with the Group management, - Comparing forecasted cash flows for each CGU with its historical financial performance, - Through involvement of our internal valuation specialists, assessing the reasonableness of key assumptions, including long term growth rates, discount rates and benchmarking these against rates used in the retail sector, - Testing of the setup of the discounted cash flow models and their mathematical accuracy, - Testing of the disclosures in the consolidated financial statements in relation to goodwill, and evaluating the adequacy of these disclosures for TAS' requirements. We had no material findings related to the impairment test of goodwill as a result of these procedures.

Key audit matters	*How our audit addressed the key audit matter*
Business Combination The Group took over the management of Kipa Ticaret A.Ş.'s ("Kipa") on 1 March 2017 as a result of the purchase agreement signed with Tesco Overseas Investments Limited (the "Seller") on 10 June 2016. The Group accounted this transaction in its consolidated financial statements in accordance with TFRS 3 "Business Combinations". Purchase price allocation study is performed by the Group management. Negative goodwill recognized as an output of this purchase transaction is material for consolidated financial statements. Furthermore purchase price allocation which was performed by the Group management includes significant estimations and judgements. These are; royalty rate, weighted average cost of capital ("WACC") rate and estimated cash-inflows of cash generating units. Please refer to notes 2 and 13 to the consolidated financial statements for the relevant disclosures, including the accounting policy.	We performed the following procedures in relation to the business combination: - Evaluation of share purchase agreement and purchase price, - Through involvement of our internal valuation specialists, assessing the reasonableness of key assumptions, such as WACC rate and royalty rate which are used in purchase price allocation study. - Evaluation of reasonableness of estimated cash flow of the cash generating units which is used in brand value calculation by comparing to the past financial performance results of these cash generating units, - and reviewing the consistency of the estimations used in the brand value projections with actual results as of 31 December 2017, - We had no material findings related to the business combination.

INDEPENDENT AUDITORS' REPORT

Key audit matters	*How our audit addressed the key audit matter*
Fair valuation of land, buildings and investment property The Group measured land, buildings and investment property in the consolidated financial statements at their fair value in accordance with TAS 16 "Property, plant and equipment" and TAS 40 "Investment property" standards. As a result of the valuation by independent professional valuation experts as of 31 December 2017, the increase in carrying amount and impairment of land, buildings and investment property is TRL 1.008.277 thousand and TRL 145.893 thousand by respectively. We considered the fair valuation of land, buildings and investment properties to be a key audit matter because the land, buildings and investment properties with a total carrying amount of TRL 2.813.876 thousand (27% of total assets) represents a material percentage of the Group's assets as of 31 December 2017, and the valuation methods applied incorporate important estimations and assumptions such as average equivalence value calculated per square meter, equivalent market rates, estimated occupancy rates and discount rates. Accounting policies related to measuring land, buildings and investment properties are stated in Notes 2, 10 and 11.	We performed the following procedures in relation to the fair valuation of land, buildings and investment properties: - the evaluation of the competency, efficiency and independence of the independent professional valuation experts assigned by the Group management, - the consistency of data such as rent revenue, discount rates and occupancy rates used by the independent professional valuation experts with the Group's records and with data selected on a sampling basis. - Testing of the disclosures in the consolidated financial statements in relation to fair valuation of land, buildings and investment properties. - We had no material findings related to the auditing the fair valuation of land, buildings and investment properties.

4. Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

The Group management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with TAS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

5. Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Responsibilities of independent auditors in an independent audit are as follows:

Our aim is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance expressed as a result of an independent audit conducted in accordance with SIA is a high level of assurance but does not guarantee that a material misstatement will always be detected. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an independent audit conducted in accordance with SIA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Assess the internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITORS' REPORT

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence. We also communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

B. Other Responsibilities Arising From Regulatory Requirements

1. No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code ("TCC") No.6102 and that causes us to believe that the Company's bookkeeping activities concerning the period from 1 January to 31 December 2017 period are not in compliance with the TCC and provisions of the Company's articles of association related to financial reporting.
2. In accordance with subparagraph 4 of Article 402 of the TCC, the Board of Directors submitted the necessary explanations to us and provided the documents required within the context of our audit.
3. In accordance with subparagraph 4 of Article 398 of the TCC, the auditor's report on the early risk identification system and committee was submitted to the Company's Board of Directors on 9 March 2018.

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.

Burak Özpoyraz, SMMM
Partner

İstanbul, 9 March 2018

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CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2017, 2016 AND 2015

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

	Notes	31 December 2017	*Restated* (*) 31 December 2016	*Restated* (*) 31 December 2015
ASSETS				
Current Assets:				
Cash and cash equivalents	4	1.617.380	1.155.942	839.424
Financial investments	5	10.596	714	4.085
Trade receivables				
Trade receivables from related parties	25	713	600	496
Trade receivables from third parties	6	96.197	57.838	49.349
Other receivables from third parties	7	42.512	8.258	5.924
Derivative instruments		-	602	-
Inventories	8	1.908.246	1.212.074	1.052.680
Prepaid expenses	9	50.673	34.792	31.465
Other current assets		5.890	527	407
Subtotal		3.732.207	2.471.347	1.983.830
Assets classified as held for sale		44.068	-	-
Total current assets		3.776.275	2.471.347	1.983.830
Non-current assets:				
Financial investments	5	1.165	1.165	1.165
Other receivables from third parties	7	3.596	2.280	2.035
Derivative instruments		10	18	422
Investment properties	10	342.731	144.719	146.405
Property, plant and equipment	11	3.740.288	1.268.333	1.220.623
Intangible assets				
Goodwill	13	2.252.992	2.252.992	2.251.427
Other intangible assets	12	160.687	107.038	84.689
Prepaid expenses	9	24.931	28.834	18.428
Total non-current assets		6.526.400	3.805.379	3.725.194
Total assets		10.302.675	6.276.726	5.709.024

(*) Note 2.3

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

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MİGROS TİCARET A.Ş.

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2017, 2016 AND 2015

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

	Notes	*Restated* (*) 31 December 2017	*Restated* (*) 31 December 2016	31 December 2015
LIABILITIES				
Current liabilities:				
Short term portion of long term borrowings	14	468.718	238.513	212.910
Short term borrowings	14	569.319	102.012	-
Trade payables				
Trade payables to related parties	25	182.490	175.170	146.099
Trade payables to third parties	6	3.771.651	2.488.489	2.081.705
Employee benefits payables	16	136.212	76.261	47.193
Other payables to third parties	7	135.349	65.017	41.442
Deferred income	9	47.670	32.416	24.397
Taxes on income	23	25.850	19.952	9.595
Short term provisions				
Short term provisions for employee benefits	16	110.855	93.105	75.970
Other short term provisions	15	63.144	27.672	83.283
Other current liabilities		4.838	2.153	3.077
Total current liabilities		5.516.096	3.320.760	2.725.671
Non-current liabilities:				
Long term borrowings	14	2.874.437	2.623.011	2.380.236
Other payables to third parties	7	8.778	3.629	3.181
Deferred income	9	2.500	4.592	850
Long term provisions Long term provisions for employee benefits	16	117.753	79.057	64.283
Deferred tax liabilities	23	255.963	53.064	60.171
Total non-current liabilities		3.259.431	2.763.353	2.508.721
Total liabilities		8.775.527	6.084.113	5.234.392
EQUITY				
Attributable to equity holders of parent	24	1.470.494	191.793	473.988
Share capital		178.030	178.030	178.030
Other capital reserves		(365)	(365)	(365)
Additional contribution to share capital		27.312	27.312	27.312
Share premium		-	678.233	678.233
Other comprehensive income/(expense) not to be classified to profit or loss				
- Defined benefit plans re-measurement (losses)		(8.684)	(9.180)	(8.350)
- Revaluation fund of property, plant and equipment		743.700	-	-
Other comprehensive income/expense to be classified to profit or loss				
- Currency translation differences		45.311	23.512	4.720
Restricted reserves		-	439.139	504.766
Accumulated losses		(27.516)	(844.731)	(533.831)
Net income/(loss)		512.706	(300.157)	(376.527)
Non-controlling interest		56.654	820	644
Total equity		1.527.148	192.613	474.632
Total liabilities and equity		10.302.675	6.276.726	5.709.024

(*) Note 2.3

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

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

MİGROS TİCARET A.Ş.

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2017 AND 2016

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

	Notes	2017	*Restated* (*) 2016
Revenue	17	15.344.047	11.059.224
Cost of sales (-)	17, 18	(11.262.081)	(8.106.667)
Gross Profit		**4.081.966**	**2.952.557**
General administrative expenses (-)	18	(535.230)	(348.982)
Marketing expenses (-)	18	(3.018.786)	(2.176.045)
Other operating income	19	157.060	108.694
Other operating expenses (-)	19	(382.187)	(205.054)
Operating profit		**302.823**	**331.170**
Income from investment activities	20	1.251.927	1.154
Expenses from investment activities (-)	20	(159.169)	(44.210)
Operating income before financial income/(expense)		**1.395.581**	**288.114**
Financial income	21	88.965	52.316
Financial expense (-)	22	(881.850)	(576.526)
Net profit/(loss) before tax from continuing operations		**602.696**	**(236.096)**
Tax expense from continuing operations		**(93.660)**	**(64.010)**
- Income tax expense (-)	23	(83.177)	(72.355)
- Deferred tax income/(expense)	23	(10.483)	8.345
Net loss		**509.036**	**(300.106)**
Net income loss attributable to:			
- Non-controlling interest		(3.670)	51
- Equity holders of parent		512.706	(300.157)
Profit/(Loss) per share (TRL)	26	**2,88**	**(1,69)**

(*) Note 2.3

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

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

MİGROS TİCARET A.Ş.

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017 AND 2016

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

	Notes	2017	*Restated* (*) 2016
Net profit/(loss) for the period		509.036	(300.106)
Other comprehensive income/(loss):			
Items not to be reclassified to profit or loss			
- Defined benefit plan re-measurement (losses)/gains	16	620	(1.037)
- Revaluation fund of property, plant and equipment	11	873.310	-
Tax effect of items not to be reclassified to profit or loss			
Defined benefit plan re-measurement (losses)/gains	23	(124)	207
- Revaluation fund of property, plant and equipment	23	(119.285)	-
Items to be reclassified to profit or loss			
Exchange differences on translation		21.985	18.917
Other comprehensive income/(loss), after tax		776.506	18.087
Total comprehensive income/(loss)		1.285.542	(282.019)
Total comprehensive loss attributable to:			
Non-controlling interests		6.841	176
Equity holders of parent		1.278.701	(282.195)

(*) Note 2.3

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

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MİGROS TİCARET A.Ş.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017 AND 2016

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

					Other comprehensive income/expenses not to be reclassified to profit or loss	Other comprehensive income/expenses to be reclassified to profit or loss
	Share capital	Other capital reserves	Additional contribution to share capital	Share premium	Defined benefit plans re-measurement (income)	Cumulative translation differences
Balances at 31 December 2015 (Previously reported)	178.030	(365)	27.312	678.233	(8.350)	4.720
Effect of restatement (Note 2.3)	-	-	-	-	-	-
Balances at 31 December 2015 (Restated)	178.030	(365)	27.312	678.233	(8.350)	4.720
Balances at 1 January 2016	178.030	(365)	27.312	678.233	(8.350)	4.720
Transfers	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	(830)	18.792
Net income for the period	-	-	-	-	-	-
Currency translation differences	-	-	-	-	-	18.792
Defined benefit plans re-measurement gains	-	-	-	-	(830)	-
Balances at 31 December 2016 (Restated)	178.030	(365)	27.312	678.233	(9.180)	23.512
Balances at 31 December 2016 (Previously reported)	178.030	(365)	27.312	678.233	(9.180)	23.512
Effect of restatement (Note 2.3)	-	-	-	-	-	-
Balances at 31 December 2016 (Restated)	178.030	(365)	27.312	678.233	(9.180)	23.512
Balances at 1 January 2017	178.030	(365)	27.312	678.233	(9.180)	23.512
Transfers	-	-	-	(678.233)	-	-
Acquisition of subsidiary (Note 13)	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	744.196	21.799
Net income/(loss) for the period	-	-	-	-	-	-
Currency translation differences	-	-	-	-	-	21.799
Defined benefit plans re-measurement gains	-	-	-	-	496	-
Revaluation fund of property, plant and equipment	-	-	-	-	743.700	-
Balances at 31 December 2017	178.030	(365)	27.312	-	735.016	45.311

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

	Retained earnings					
Restricted reserves	Accumulated losses	Net income /(loss) for the period	Attributable to equity holders of the parent	Non - controlling interests	Total equity
504.766	(498.600)	(370.404)	515.342	644	515.986
-	(35.231)	(6.123)	(41.354)	-	(41.354)
504.766	(533.831)	(376.527)	473.988	644	474.632
504.766	(533.831)	(376.527)	473.988	644	474.632
(65.627)	(310.900)	376.527	-	-	-
-	-	(300.157)	(282.195)	176	(282.019)
-	-	(300.157)	(300.157)	51	(300.106)
-	-	-	18.792	125	18.917
-	-	-	(830)	-	(830)
439.139	(844.731)	(300.157)	191.793	820	192.613
439.139	(803.377)	(292.969)	240.335	820	241.155
-	(41.354)	(7.188)	(48.542)	-	(48.542)
439.139	(844.731)	(300.157)	191.793	820	192.613
439.139	(844.731)	(300.157)	191.793	820	192.613
(439.139)	817.215	300.157	-	-	-
-	-	-	-	48.993	48.993
-	-	512.706	1.278.701	6.841	1.285.542
-	-	512.706	512.706	(3.670)	509.036
-	-	-	21.799	186	21.985
-	-	-	496	-	496
-	-	-	743.700	10.325	754.025
-	(27.516)	512.706	1.470.494	56.654	1.527.148

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

MİGROS TİCARET A.Ş.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017 AND 2016

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

	Notes	2017	Restated (*) 2016
Cash flows from operating activities:			
Profit/(Loss) for the period		509.036	(300.106)
Adjustments related to reconciliation of loss			
Adjustments for depreciation and amortisation expenses	18	269.956	199.516
Adjustments for impairment on receivables	6	4.116	1.709
Adjustments for impairment on property, plant and equipment	20	153.114	36.046
Adjustments for inventory provisions	8	20.246	636
Adjustments for impairment on other intangible assets			
Adjustments for impairment on investment properties	10, 20	(134.967)	-
Adjustments for provision for employee benefits	16	81.510	57.933
Adjustments for provision for litigation	15	1.310	5.169
Adjustments for other provisions		(867)	(36.737)
Adjustments for interest income	19, 21	(52.165)	(28.554)
Adjustments for interest expense	22	270.253	168.389
Adjustments for deferred finance expense from term purchases	19	303.056	178.324
Adjustments for unearned finance income from term sales	19	(62.617)	(40.931)
Adjustments for unrealized foreign currency translation difference		556.974	377.667
Adjustments for fair value losses arising from derivatives		832	166
Adjustments for income tax expense	23	93.660	64.010
(Income)/loss on sale of property plant and equipment	20	(60.459)	7.010
Adjustment for bargained acquisition profit	13	(1.050.446)	-
Changes in working capital		902.542	690.247
Adjustments for increase in trade receivables		(33.701)	(9.786)
Adjustments for increase in other receivables related with operations		(13.773)	(13.061)
Adjustments for increase in inventories		(508.702)	(160.030)
Adjustments for increase in trade payables		985.189	438.902
Adjustments for increase in other payables related with operations		73.934	63.488
Cash flows from operating activities		1.405.489	1.009.760
Interest received		109.121	65.206
Interest paid		(326.772)	(181.372)
Employee benefits paid	16	(46.129)	(27.061)
Taxes paid	23	(78.337)	(61.998)
Other provisions paid	15	(12.547)	(24.082)
Net cash provided by operating activities		1.050.825	780.453

(*) Note 2.3

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

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

MİGROS TİCARET A.Ş.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017 AND 2016

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

	Notes	2017	*Restated* (*) 2016
Cash outflows from the purchase of tangible and intangible assets	10, 11, 12	(399.222)	(297.207)
Cash outflows due to subsidiary acquisition		(178.792)	-
Cash inflows from the sale of tangible and intangible assets	11	137.618	2.145
Other cash inflows		49.167	-
Cash flows from investing activities		(391.229)	(295.062)
Proceeds from borrowings	14	210.776	121.974
Repayment of borrowings	14	(164.819)	(132.248)
Cash paid with respect to derivative instruments		(222)	(364)
Interest received	21	7.465	4.245
Interest paid	22	(253.878)	(165.392)
Cash flows from financing activities		(200.678)	(171.785)
Increase in cash and cash equivalents before effect of exchange rate changes		458.918	313.606
Effect of exchange rate changes on cash and cash equivalents		2.520	2.912
Net increase in cash and cash equivalents	4	461.438	316.518
Cash and cash equivalents at the beginning of period	4	1.155.942	839.424
Cash and cash equivalents at the end of period	4	1.617.380	1.155.942

(*) Note 2.3

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

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

MİGROS TİCARET A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

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

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

Migros Ticaret A.Ş., (collectively referred to as "Migros" or the "Company"), was established on 19 March 2008 and is registered in Istanbul, Turkey under the Turkish Commercial Code. (Migros Türk Ticaret Anonim Şirketi, which was established in 1954, merged with its parent company Moonlight Perakendecilik ve Ticaret Anonim Şirketi ("Moonlight Perakendecilik") on April 30, 2009 and the trade name of Moonlight Retailing was changed as Migros Ticaret A.Ş.)

The Company and its subsidiaries together will be referred as "the Group".

As of December 31, 2017, the direct and indirect total of Migros' capital shares of Moonlight Capital S.A. and Kenan Investments S.A. equal to 23.2% and the indirect share of Anadolu Group is 50%. Group jointly managed by Moonlight Capital S.A., Kenan Investments S.A. and AG Anadolu Grubu Holding A.Ş. ("Anadolu Group").

In regard of the 19,5% share of BC Partners managed Moonlight Capital S.A. (Moonlight Capital) in MH Perakendecilik ve Ticaret A.Ş. (MH Perakendecilik), which holds 50% shares of Migros, Anadolu Group retained a "buy option" and Moonlight Capital retained a "sell option", to be exercised within the May 1, 2017 and October 31, 2017 period.

In this context, Moonlight Capital has notified Anadolu Group on May 2, 2017 of its decision regarding the exercise of the aforementioned sale option. In regard of this transaction, Anadolu Group paid total amount of TRL 509.029.436 after deductions, for the purchase of 19,5% shares of MH Perakendecilik, based on per share price of TRL 30,2 for Migros, in line with the provisions of the Share Purchase Agreement dated 31 December 2014. The exercise of the option on 17 May 2017 pursuant to the transfer of purchase amount and shares, again along the provisions of the Share Purchase Agreement. Following the transaction, while Anadolu Group's share in MH Perakendecilik increased to 100% and accordingly its indirect share in Migros increased to 50,0%. Subsequently, on 29.11.2017, Moonlight Capital SA sold Migros shares with a nominal value of TRL 13.000.000 to foreign funds at a sales price of TRL 26 and its share in Migros had been 23.2% through the funds managed by BC Partners.

Through its Migros, 5M, Migros Jet, Macrocenter and Kipa banner stores in Turkey, shopping centers, Ramstores banner stores abroad and internet, the Company is mainly engaged in the retail sales of food and beverages, consumer and durable goods. The Company also rents floor space in the shopping malls to other trading companies. As of 31 December 2017, the Group operates in 1.897 stores in total (31 December 2016: 1.605) which comprise 1.406.344 m^2 from 1.880 retail stores (of which 162 stores acquired by Kipa acquisition) and comprise 10.011 m^2 from 17 wholesale stores with a total net space of 1.416.355 m^2 (31 December 2016: 1.078.761 m^2). As of 31 December 2017, the Group employed 26.779 people (31 December 2016: 21.438) on average. Retail is the main business segment of the Group and constitutes almost 97% of gross sales (31 December 2016: 97%).

The address of the registered office is as follows:

Atatürk Mah., Turgut Özal Blv.,

No: 7 Ataşehir İstanbul

These consolidated financial statements have been approved for issue by the Board of Directors ("BOD") on 9 March 2018 and signed by Ö. Özgür Tort, General Manager, and Erkin Yılmaz, Assistant General Manager, on behalf of the BOD. General Assembly of the Company and regulatories have the right to amend the consolidated financial statements after the issue in the General Assembly meeting of the Company.

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

MİGROS TİCARET A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

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

Subsidiaries

The Company has the following subsidiaries (the "Subsidiaries"). The nature of the business of the Subsidiaries and for the purpose of the consolidated financial statements, their respective geographical segments are as follows:

Subsidiaries	Country of incorporation	Geographical segment	Nature of business	December 2017 (%)	December 2016 (%)
Ramstore Bulgaria E.A.D. ("Ramstore Bulgaria")	Bulgaria	Bulgaria	Dormant	100,0	100,0
Ramstore Kazakhstan LLC ("Ramstore Kazakhstan")	Kazakhstan	Kazakhstan	Retailing	100,0	100,0
Ramstore Macedonia DOO ("Ramstore Macedonia")	Macedonia	Bulgaria	Retailing	99,0	99,0
Sanal Merkez Ticaret A.Ş. ("Sanal Merkez") (*)	Turkey	Turkey	Dormant	100,0	100,0
Kipa Ticaret A.Ş. ("Kipa")	Turkey	Turkey	Retailing	96,25	

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

In line with the Group's long term growth strategies, the Group signed a share purchase agreement with Tesco Overseas Investments Limited ("Seller") on 10 June 2016 for the purchase of Seller's shares representing approximately 95,50% of the total share capital of Tesco Kipa Kitle Pazarlama Ticaret Lojistik ve Gıda Sanayi A.Ş. ("Kipa"). In accordance with the share purchase agreement and the latest annual financial statements of Kipa dated 29 February 2016, the total price of shares was calculated as TRL 302.287 as of the agreement date (10 June 2016). In order to obtain the necessary legal permission, an application was made to the Competition Authority on 21 June 2016 and the related application was approved on 9 February 2017. Following the adjustments based on the estimated annual closing balance sheet of Kipa (28 February 2017) the total purchase price of shares was determined as TRL 199.012 and paid to the Seller on the transfer date (1 March 2017).

Furthermore, after the purchase of shares representing 95.50% of Kipa on 1 March 2017, a mandatory tender offer ("mandatory call") was conducted between 29 June 2017 and 26 July 2017 within the scope of the Communiqué on Takeover Bids of Capital Markets Board, No. II-26.1. As a result of the mandatory call, the Group's shares have increased to 96.25% as of 31 December 2017. And TRL 18.483 has been paid for the additional shares purchased, TRL 10.464 of the amount has been paid by Tesco Overseas Investments.

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

2.1.1 Basis of preparation and presentation of financial statements

The consolidated financial statements are prepared in accordance with Communiqué Serial II, No:14.1, "Principles of Financial Reporting in Capital Markets" (the Communiqué) published in the Official Gazette numbered 28676 on 13 June 2013. According to Article 5 of the Communiqué, consolidated financial statements are prepared in accordance with the Turkish Accounting Standards (TAS) issued by Public Oversight Accounting and Auditing Standards Authority (POAASA). TAS contains Turkish Accounting Standards, Turkish Financial Reporting Standards (TFRS) and its addendum and interpretations. The consolidated financial statements of the Group are prepared as per the CMB announcement of 7 June 2013 relating to financial statements presentations. Comparative figures are reclassified, where necessary, to conform to changes in the presentation of the current year's consolidated financial statements.

In accordance with the CMB resolution issued on 17 March 2005, listed companies operating in Turkey are not subject to inflation accounting effective from 1 January 2005. Therefore, the consolidated financial statements of the Group have been prepared accordingly.

The Company and its Turkish subsidiaries, associates and joint ventures maintain their books of accounts and prepare their statutory financial statements in accordance with the Turkish Commercial Code ("TCC"), tax legislation, the Uniform Chart of Accounts issued by the Ministry of Finance and principles issued by CMB. The foreign subsidiaries maintain their books of account in accordance with the laws and regulations in force in the countries in which they are registered. These consolidated financial statements have been prepared under historical cost conventions except for financial assets and financial liabilities which are carried at fair value. The consolidated financial statements are based on the statutory records, which are maintained under historical cost conventions, with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with TAS.

2.1.2 Changes in the accounting policies, estimates and errors

Significant changes in accounting policies and accounting errors are applied retrospectively and prior period financial statements are restated. The effect of changes in accounting estimates affecting the current period is recognised in the current period; the effect of changes in accounting estimates affecting current and future periods is recognised in the current and future periods.

2.1.3 Functional and reporting currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in TRL, which is the functional currency of Migros Ticaret A.Ş. and the reporting currency of the Group.

Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- Income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions),
- All resulting exchange differences are recognised in other comprehensive income.

2.2 Summary of significant accounting policies

Accounting policies applied by subsidiaries can be changed in order to convenience with the accounting policies applied by the Group. Accounting policies which applied to preparation of consolidated financial statements are summarized is as follows:

(a) Basis of consolidation

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Subsidiaries are companies over which Migros Ticaret has capability to control the financial and operating policies for the benefit of Migros Ticaret, through the power to exercise more than 50% of the voting rights relating to shares in the companies owned direct and indirect by itself having the power to exercise control over the financial and operating policies.

Intercompany transactions, balances and unrealised gains on transactions between the group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(b) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a basis within other operating income or other operating expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

(c) Revenue

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. The specific accounting policies for the group's main types of revenue are explained below:

Sales of goods - Retail

The Group operates in the retail sales of food and beverages, consumer and durable goods through its stores, shopping centers, Ramstores Banner abroad and internet sales. Sales of goods are recognised when a group entity sells a product to a customer. Retail sales are usually made against a cash or credit card payment.

Sales of goods – Wholesale

Revenue from the sales of goods is recognised when a group entity has delivered products to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products were shipped to the specified location, the risks of obsolescence and loss were transferred to the wholesaler, the wholesaler accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has an objective evidence that all criteria for acceptance are satisfied. Sales are recorded based on the price specified in the sales contracts, net of the discounts if available and returns at the time of sale.

Rent revenue

The Group recognises rent income on accrual basis based on the agreement.

(d) Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost is determined primarily on the basis of the weighted average cost method. For processed inventories, cost includes direct materials, direct labor and the applicable allocation of fixed and variable overhead costs based on a normal operating capacity. Revenues and discounts from suppliers, sales premiums and advertising participation fees are accounted on an accrual basis and booked against cost of inventories.

(e) Property, plant and equipment

Property, plant and equipment except lands and buildings are carried at cost less accumulated depreciation and impairment if exists. With respect to TAS 16 "Property, plant and equipment", the Group has decided to choose revaluation model for lands and buildings by using 2 January 2018 and 19 January 2018 dated valuation reports of CMB accredited real estate company, Nova Taşınmaz Değerleme ve Danışmanlık A.Ş. ("Nova Taşınmaz Değerleme") and TSKB Gayrimenkul Değerleme A.Ş. ("TSKB Gayrimenkul Değerleme") as of 31 December 2017.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. The land is not subject to depreciation.

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	5-8

(*) Leasehold improvements include the expenses made for the leased properties and are depreciated over the shorter of the lease term and their useful lives.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The increase in the carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

In property, plant and equipment, the increase in the revaluation reserve is credited after the deferred tax effect has been recognized in the revaluation fund account in the equity.

Expenses for repair and maintenance of property, plant and equipment are normally charged to the income statement. They are, however, capitalized and depreciated through the estimated useful life of the property, plant and equipment in exceptional cases if they result in an enlargement or substantial improvement of the respective assets.

(f) Intangible assets

Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Brands

Brands that are acquired separately are accounted for at their acquisition cost, and brands that are acquired as a part of business combination are accounted for at their fair value in the consolidated financial statements. The Group assessed the useful life of brand as indefinite since there is no foreseeable limit to the period over which a brand is expected to generate net cash inflows for the Group. A brand is not subject to amortisation as it is considered to have an indefinite useful life. A brand is tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount when the carrying amount of the brand exceeds its recoverable amount.

Rent agreements

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.

The evacuation cost paid by the Group to the real estate owners or previous renters relating to rented stores are presented under "other intangible assets". Related amortization expenses are recognised under the "general administrative expenses" in the statements of income.

Computer softwares (Rights)

Rights arising on computer software are recognised at its acquisition cost. Computer software is amortised on a straight-line basis over their estimated useful lives and carried at cost less accumulated amortization. The estimated useful life of computer software is 5 years.

Internally-generated intangible assets and development expenditures

Expenditure on research activities is recognized as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Computer software development costs are capitalized and depreciated over their estimated useful lives.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

(g) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(h) Financial assets

Classification

The group classifies its financial assets in the following categories:

- Financial assets at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

Reclassification

The group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- For financial assets at fair value through profit or loss' - in profit or loss within other income or other expenses
- For available-for-sale financial assets that are monetary securities denominated in a foreign currency - translation differences related to changes in the amortised cost of the security are recognised in profit or loss and other changes in the carrying amount are recognised in other comprehensive income
- For other monetary and non-monetary securities classified as available-for-sale - in other comprehensive income

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognised in profit or loss as part of revenue from continuing operations when the group's right to receive payments is established.

Interest income from financial assets at fair value through profit or loss is included in the net gains/(losses). Interest on available-for-sale securities, held-to-maturity investments and loans and receivables calculated using the effective interest method is recognised in the statement of profit or loss as part of revenue from continuing operations.

Details on how the fair value of financial instruments is determined are disclosed in Note 29.

Impairment

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Income recognition

Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Dividends

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits.

(ı) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See Note 2.2 (h) for further information about the group's accounting for trade receivables and impairment policies.

(j) Trade payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 90 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(k) Borrowings and borrowing costs

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(l) Earnings per share

Earnings per share presented in the consolidated statement of income are determined by dividing consolidated net income attributable to that class of shares by the weighted average number of such shares outstanding during the year concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issued without a corresponding change in resources by giving them retroactive effect for the year in which they were issued and for each earlier period.

(m) Subsequent events

Subsequent events are composed of any event between the balance sheet date and the publication date of the balance sheet, even if they arise after any announcements of profits or other financial data.

The Group restates its consolidated financial statements if such subsequent events arise.

(n) Provisions, contingent liabilities and contingent assets

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Contingent liabilities are assessed continuously to determine whether the possibility of an outflow of resources embodying economic benefits is probable. When the possibility of an outflow of resources embodying economic benefits is probable for the accounts classified as contingent liabilities, provision is provided in the financial statements for related contingent liabilities except for the situations there is not a reliable estimation.

The Group discloses the contingent liabilities that are probable but there is not a reliable estimation for the amount of resources embodying economic benefits.

Assets that result from previous events that cannot be controlled fully by the Group and depend on the realization of one or more uncertain events, is considered as a contingent asset. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(o) Leases

The Group as lessee

Operational lease

Leases where the lesser retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. These include rent agreements of premises, which are cancellable subject to a period of notice. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

The Group as lessor

Operational leases

The Group presents assets subject to operating leases in the balance sheets according to their nature. Lease income from operating leases is recognized in income on a straight-line basis over the lease term. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Operating leases are amortized based on their cost after deducting their residual values.

(p) Related parties

Parties are considered related to the Group if;

(a) directly, or indirectly through one or more intermediaries, the party:
  - (i) controls, is controlled by, or is under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries);
  - (ii) has an interest in the Company that gives it significant influence over the Company; or
  - (iii) has joint control over the Company;

(b) the party is an associate of the Company;

(c) the party is a joint venture in which the Company is a venture;

(d) the party is member of the key management personnel of the Company or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e);

(g) the party has a defined benefit plan for the employees of the Company or a related party of the Company.

Related party transactions are transfer of resources or obligations between related parties, regardless of whether a price is charged.

(r) Segment reporting

The operating segments are evaluated in parallel to the internal reporting and strategic sections presented to the organs or persons authorised to make decisions regarding the activities of the Group. The organs and persons authorised to make strategic decisions regarding the Group's activities with respect to the resources to be allocated to these sections and their evaluation are defined as the Group's senior managers of the Group. The Group's senior managers follow up the Group's activities on a geographical basis (Note 3).

(s) Investment properties

Buildings held for rental yields or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business are classified as "investment property". Investment properties are carried at fair value with revaluation report of Nova Taşınmaz Değerleme and TSKB Gayrimenkul Değerleme as of 31 December 2017. Fair value change of investment properties are accounted under profit and loss statements in consolidated financial statements.

(t) Income taxes

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes have been calculated on a separate-entity basis.

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The current income tax payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(u) Employee termination benefits

Defined Benefit Plan

In accordance with existing social legislation in Turkey, the Group companies operating in Turkey are required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

In the consolidated financial statements, the Group has reflected a liability using the Projected Unit Credit Method and based upon estimated inflation rates and factors derived using the Group's experience of personnel terminating their services and being eligible to receive such benefits and discounted by using the current market yield at the balance sheet date on government bonds.

Defined Contribution Plan

The Group pays contributions to the Social Security Institution of Turkey on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are accrued.

(v) Cash flow statement

Cash flows during the period are classified and reported by operating, investing and financing activities in the cash flow statements.

Cash flows from operating activities represent the cash flows of the Group generated from retailing activities.

Cash flows related to investing activities represent the cash flows that are used in or provided from the investing activities of the Group (fixed investments and financial investments).

Cash flows arising from financing activities represent the cash proceeds from the financing activities of the Group and the repayments of these funds.

Cash and cash equivalents comprise cash on hand and bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash with maturities equal or less than three months and which are subject to an insignificant risk of changes in value (Note 4).

(y) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(z) Dividend

Dividend income from investments is recognised when the shareholder's right to receive payment has been established. As a part of distribution of dividends, dividend liabilities are reflected to consolidated financial statements as liabilities, on the period of declaration.

(aa) 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.

(ab) 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 24).

(ac) Deferred finance income/charges

Deferred finance income/charges represent imputed finance income/charges on credit sales and purchases. Such income/charges calculated by using the effective interest method are recognised as financial income or expenses over the period of credit sale and purchases, and included under financial income and expenses.

2.3 Comparative information and restatement of prior period financial statements

The Group's consolidated financial statements have been prepared in comparison with the previous period in order to give accurate trend analysis regarding the financial position and performance. Where necessary, comparative figures have been reclassified to conform to the presentation of the current period consolidated financial statements and significant changes are explained.

In accordance with the systematical improvements, the Group has reviewed its prior years inventory valuation method and revaluated its inventory. Within the context of TAS 8 "Accounting Policies, Accounting Estimates and Errors", the Group has retrospectively restated its financial statements. TAS 1 (Revised) "Presentation of Financial Statements" requires when an entity makes a retrospective restatement of items in its financial statements, it shall present, as a minimum, three statements of financial position, two of each of the other statements, and related notes.

Accordingly, the Group has comparatively presented its consolidated balance sheets with the restated comparative financial information at 31 December 2016 and 31 December 2017.

The effects of restatement on accumulated losses and net income as of 31 December 2017 is as follows:

	31 December 2015		
	Previously reported	Effect of restatement	Restated
Inventories	1.104.373	(51.693)	1.052.680
Deferred tax liabilities	(70.510)	10.339	(60.171)
Accumulated losses	(498.600)	(35.231)	(533.831)
Net loss	(370.404)	(6.123)	(376.527)

	31 December 2016		
	Previously reported	Effect of restatement	Restated
Inventories	1.272.752	(60.678)	1.212.074
Deferred tax liabilities	(65.200)	12.136	(53.064)
Accumulated losses	(803.377)	(41.354)	(844.731)
Net loss	(292.969)	(7.188)	(300.157)

2.4 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 test

As explained in related accounting policy, the Group performs impairment tests on goodwill annually at 31 December. The recoverable amount of the cash generating unit has been determined based on the fair value less costs to sell calculations. Those calculations are based on discounted net cash flow after tax projections which are based on the Group's eight-year business plans. Those projections are calculated in terms of TRL and the growth rate expected to be realized after ten years is assumed to be nil. Discount rate used to calculate the present value of net cash flows is 10,1% (2016: 9,09%) annually, after tax, and includes the Group's specific risk factors as well (Note 13).

(b) Impairment on leasehold improvements

As explained in related accounting policy, property, plant and equipment are carried at the cost less accumulated depreciation and, if any, impairment. The Group evaluates its operational performance on a store-by-store basis and each store's continuity depends on the discounted net cash flow projections. Those cash flow projections are calculated, on a consistent basis to the Group's five year business plans and on a store-by-store basis by taking into consideration the remaining useful life of each store. In this context, the Group executed an impairment estimate on the leasehold improvements on stores by considering the continuity of each store.

(c) Fair Value Measurement

The Group has chosen revaluation method as of 31 December 2017 by discarding cost method mentioned in TAS 16 for lands and building and TAS 40 for investment properties. Revaluation studies of lands, building and investment properties have been performed by Nova Taşınmaz Değerleme and TSKB Gayrimenkul Değerleme, which are CMB accredited professional valuation Companies.

Lands and building and investment properties in assets of the Group which are located in Turkey have been revaluated in 2 January 2018 and 19 January 2018 valuation reports of CMB accredited real estate companies, Nova Taşınmaz Değerleme and TSKB Gayrimenkul as of 31 December 2017 by using "Sample comparison approach analysis", and "Income approach analysis".

Lands and building and investment properties in assets of the Group which are located in Kazakhstan and Macedonia have been revaluated in 19 January 2018 dated valuation report of CMB accredited real estate company, TSKB Gayrimenkul as of 31 December 2017 by using "Income approach analysis".

As a result of revaluation study made by the experts, positive difference for lands and building amounting to TRL 873.310 is accounted as TRL 743.700 after net-off tax and minority effect "Revaluation Funds" under equity.

As a result of the fair value studies made by independent experts, positive difference amounting to TRL 134.967 regarding from investment property is accounted under "Income from investing activities" and negative difference amounting to TRL 145.893 regarding from property, plant and equipment accounted under "Expense from investing activities" in the income statement.

2.5 New and Revised Turkish Accounting Standards

a) Standards, amendments and interpretations applicable as at 31 December 2017:

Amendments to IAS 7, 'Statement of cash flows'; on disclosure initiative effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

Amendments IAS 12, 'Income Taxes'; effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets.

Annual improvements 2014-2016, effective from annual periods beginning on or after 1 January 2017:

- IFRS 12, 'Disclosure of interests in other entities'; regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017. This amendment clarifies that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale except for summarized financial information.

- IFRS 9, 'Financial instruments'; effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model. The Group does not expect that this standard will have a material impact on the financial position or performance of the Group.

b) Standards, amendments and interpretations effective after 1 January 2018:

IFRS 15, 'Revenue from contracts with customers'; effective from annual periods beginning on or after 1 January 2018. IFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. In the scope of the new standards, contract with customers has been analysed and performance obligations are defined as performance liability, limited with delivering of goods and is not required to allocate the sales price for performance obligations. The Group does not expect that this standard will have a material impact on the financial position or performance of the Group.

Amendment to IFRS 15, 'Revenue from contracts with customers', effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

Amendments to IFRS 4, 'Insurance contracts' regarding the implementation of IFRS 9, 'Financial Instruments'; effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach.

Amendment to IAS 40, 'Investment property' relating to transfers of investment property; effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

Amendments to IFRS 2, 'Share based payments' on clarifying how to account for certain types of share-based payment transactions; effective from annual periods beginning on or after 1 January 2018. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

IFRIC 22, 'Foreign currency transactions and advance consideration'; effective from annual periods beginning on or after 1 January 2018. The Group does not expect that this interpretation will have an impact on the financial position or performance of the Group.

Amendment to IFRS 9, 'Financial instruments'; effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.

Amendment to IAS 28, 'Investments in associates and joint venture'; effective from annual periods beginning on or after 1 January 2019. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

IFRS 16, "Leases"; effective from annual periods beginning on or after 1 January 2019, this standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group's study related with such standards is still in process.

IFRIC 23, 'Uncertainty over income tax treatments'; effective from annual periods beginning on or after 1 January 2019. The Group does not expect that this interpretation will have an impact on the financial position or performance of the Group.

IFRS 17, 'Insurance contracts'; effective from annual periods beginning on or after 1 January 2021. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The Group does not expect that this standard will have a material impact on the financial position or performance of the Group.

2.6 Going concern

The consolidated financial statements of the Group have been prepared assuming that the Company and subsidiaries will continue as a going concern on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.

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" and Earning Before Interest, Tax, Depreciation, Amortisation and Rent, "EBITDAR". The Group calculates the EBITDA by deducting general administrative expenses and selling, marketing and distribution expenses and adding depreciation expenses, unused vacation liability paid in current period, employee termination benefit provision expense, unused vacation liability expense on gross profit amount in consolidated statements of income.

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The segment information provided to the board of directors as of 31 December 2017 and 2016 is as follows:

a) Segment analysis as of 31 December 2017:

	Turkey	Other countries	Combined total	Eliminations	Total
External revenues	14.945.612	398.435	15.344.047	-	15.344.047
Inter segment revenues	174.337	-	174.337	(174.337)	-
Sales revenue	15.119.949	398.435	15.518.384	(174.337)	15.344.047
Cost of sales	(11.133.319)	(303.099)	(11.436.418)	174.337	(11.262.081)
Gross profit	3.986.630	95.336	4.081.966	-	4.081.966
Marketing expenses	(2.951.774)	(67.012)	(3.018.786)	-	(3.018.786)
General administrative expenses	(496.141)	(39.089)	(535.230)	-	(535.230)
Addition: Depreciation and amortisation expenses	250.962	18.994	269.956	-	269.956
Addition: Provision for employment termination benefits	20.143	344	20.487	-	20.487
Addition: Employment termination benefits paid	38.615	-	38.615	-	38.615
Addition: Unused vacation pay liability	14.894	-	14.894	-	14.894
EBITDA	863.329	8.573	871.902	-	871.902
Addition: Rent expenses	737.883	24.491	762.374	-	762.374
EBITDAR	1.601.212	33.064	1.634.276	-	1.634.276

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b) Segment analysis as of 31 December 2016:

	Turkey	Other countries	Combined total	Eliminations	Total
External revenues	10.723.229	335.995	11.059.224	-	11.059.224
Inter segment revenues	5.448	-	5.448	(5.448)	-
Sales revenue	10.728.677	335.995	11.064.672	(5.448)	11.059.224
Cost of sales	(7.859.913)	(252.202)	(8.112.115)	5.448	(8.106.667)
Gross profit	2.868.764	83.793	2.952.557	-	2.952.557
Marketing expenses	(2.120.690)	(55.355)	(2.176.045)	-	(2.176.045)
General administrative expenses	(314.346)	(34.636)	(348.982)	-	(348.982)
Addition: Depreciation and amortisation expenses	181.874	17.642	199.516	-	199.516
Addition: Provision for employment termination benefits	13.737	-	13.737	-	13.737
Addition: Employment termination benefits paid	19.474	-	19.474	-	19.474
Addition: Unused vacation pay liability	17.135	-	17.135	-	17.135
EBITDA	665.948	11.444	677.392	-	677.392
Addition: Rent expenses	535.187	18.204	553.391	-	553.391
EBITDAR	1.201.135	29.648	1.230.783	-	1.230.783

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

	2017	2016
EBITDAR reported segments	1.634.276	1.230.783
Rent expenses	(762.374)	(553.391)
EBITDA reported segments	871.902	677.392
Depreciation and amortisation	(269.956)	(199.516)
Provision for employee termination benefits	(20.487)	(13.737)
Termination benefits paid	(38.615)	(19.474)
Unused vacation provision	(14.894)	(17.135)
Other operating income	157.060	108.694
Other operating expense (-)	(382.187)	(205.054)
Operating profit	302.823	331.170
Income from investing activities	1.251.927	1.154
Expense from investing activities (-)	(159.169)	(44.210)
Operating profit before finance income/(expense)	1.395.581	288.114
Financial income	88.965	52.316
Financial expense (-)	(881.850)	(576.526)
Income/(loss) before tax	602.696	(236.096)

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.

	2017	2016
Turkey	10.191.829	6.046.586
Other countries	466.120	312.671
Segment assets	10.657.949	6.359.257
Less: Eliminations	(355.274)	(82.531)
Total assets per consolidated financial statements	10.302.675	6.276.726

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	2017	2016
Turkey	8.675.732	5.980.425
Other Countries	194.702	122.595
Segment liabilities	8.870.434	6.103.020
Less: Eliminations	(94.908)	(18.907)
Total liabilities per consolidated financial statements	8.775.526	6.084.113

Segment information of capital expenditures as of 31 December 2017 and 2016:

	2017	2016
Turkey	350.768	280.981
Other countries	48.454	16.226
	399.222	297.207

NOT 4 - CASH AND CASH EQUIVALENTS

	2017	2016
Cash	100.531	63.438
Banks		
- demand deposit (*)	156.087	110.003
- time deposit	686.734	434.666
Cheques in collection	207	137
Other cash and cash equivalents	673.821	547.698
	1.617.380	1.155.942

(*) The Group transfers the cash in its stores registers to the bank on a daily basis. In accordance with the bank agreements, transfered cash amounts have temporary blockages for a certain period of time. As of 31 December 2017, a cash amount of TRL 91.051 in bank accounts is temporarily blocked due to the mentioned cash transfer. (2016: TRL 84.719)

Weighted average effective interest rates on TRL and EURO denominated time deposits as of 31 December 2017 are 14,5% and 1,2% respectively (2016: 11,1% and 2,0%)

Other cash and cash equivalents consist of credit card receivables. Credit card receivables with a maturity of less than one month are discounted at 31 December 2017 with annual rate of 13,4% (2016: 8,4%)

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The maturity analysis of time deposits at 31 December 2017 and 2016 is as follows:

	2017	2016
1 - 30 days	635.032	359.617
31 - 90 days	51.702	75.049
91 - 180 days (*)	1.104	714
Over 180 days (*)	9.492	-
	697.330	435.380

(*) Related amount indicating the bank deposits with over 90 days maturity recognised as cash fund by the Group (Note 5).

NOT 5 - FINANCIAL INVESTMENTS

Short term financial investments

	2017	2016
Time deposit (*)	10.596	714
	10.596	714

(*) Related amount indicating the bank deposits with 90-180 days maturity recognised as cash fund by the Group.

Long term financial investments

	2017	2016
Long term available for sale investments Financial assets - (Unlisted financial assets)	1.165	1.165
	1.165	1.165

Unlisted financial assets

	2017		2016	
	TRL	Share (%)	TRL	Share (%)
Sanal Merkez Ticaret A.Ş.	1.165	100,00	1.165	100,00

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NOTE 6 - TRADE RECEIVABLES AND PAYABLES

Trade receivables:

	2017	2016
Receivables from tenants and wholesale activities	90.716	55.511
Doubtful receivables	54.825	36.966
Notes receivables	1.300	585
Due from related parties (Note 25)	713	600
Less: Provision for doubtful receivables	(48.614)	(34.998)
Less: Unearned finance income on term sales	(2.030)	(226)
	96.910	58.438

The maturity of trade receivables are generally less than one month as of 31 December 2017 and they were discounted with the annual rate of 13,4% (2016: 8,4%).

Movement of provision for doubtful receivables is as follows:

	2017	2016
1 January	34.998	31.057
Current year charge	4.116	1.709
Collections and reversals	(1.115)	(252)
Acquisition effect	1.073	2.484
Additions from acquisition of subsidiaries	9.542	-
31 December	48.614	34.998

Trade payables:

	2017	2016
Supplier current accounts	3.789.526	2.492.767
Due to related parties (Note 25)	182.490	175.170
Expense accruals	33.234	23.137
Unincurred finance cost on term purchases	(51.109)	(27.415)
	3.954.141	2.663.659

The maturity of trade payables is generally less than three months and they are discounted with annual rate of 11.9% as of 31 December 2017 (2016: 9,2%)

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NOTE 7 - OTHER RECEIVABLES AND PAYABLES

Short term other receivables

	2017	2016
Receivables from sales of fixed assets	29.596	-
Receivables from personnel	8.957	7.106
Receivables from insurance companies	1.307	863
Other	2.652	289
	42.512	8.258

Long term other receivables

	2017	2016
Deposits and guarantees given	3.596	2.280
	3.596	2.280

Other short term payables

	2017	2016
Other taxes and funds payable	39.127	25.586
Value added tax payables ("VAT")	46.218	24.067
Credit card bills collection account (*)	17.747	15.364
Other	32.257	-
	135.349	65.017

(*) Majority of the payables above consist of related banks' credit card bill collections made in the stores. The collections have the maturity of less than one month.

Long term other payables

	2017	2016
Deposits and guarantees received	8.778	3.629
	8.778	3.629

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NOTE 8 - INVENTORIES

	31 December 2017	31 December 2016	31 December 2015
Raw materials	12.517	7.276	7.191
Work in progress	10.314	8.762	5.244
Merchandise stocks	1.918.916	1.211.036	1.054.491
Other	2.952	1.207	1.325
Less: Provision for net realiazable value	(36.453)	(16.207)	(15.571)
	1.908.246	1.212.074	1.052.680

NOTE 9 - PREPAID EXPENSES AND DEFERRED REVENUES

Short term prepaid expenses

	2017	2016
Prepaid rent expenses	31.917	17.690
Prepaid insurance expenses	17.271	10.160
Advances given	1.405	3.197
Prepaid other expenses	80	3.745
	50.673	34.792

Long term prepaid expenses

	2017	2016
Prepaid rent expenses	20.771	8.593
Advances given for property, plant and equipment	4.160	20.241
	24.931	28.834

Short term deferred revenues

	2017	2016
Customer cheques	42.747	27.805
Deferred revenues	4.923	4.611
	47.670	32.416

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Long term deferred revenues

	2017	2016
Deferred revenues	2.500	4.592
	2.500	4.592

NOTE 10 - INVESTMENT PROPERTY

	1 January 2017	Additions	Disposal	Impairment	Revaluation	Transfers	Currency translation difference	31 December 2017
Cost								
Land and buildings	208.120	35.894	-	-	134.967	(47.339)	11.089	342.731
Accumulated depreciation								
Buildings	(63.401)	(4.294)	-	-	-	69.975	(2.280)	-
Net book value	144.719	31.600	-	-	134.967	22.636	8.809	342.731

	1 January 2016	Additions	Disposal	Impairment (*)	Transfers (**)	Currency translation difference	31 December 2016
Cost							
Land and buildings	193.943	3.170	(4.600)	-	11.361	4.246	208.120
Accumulated depreciation							
Buildings	(47.538)	(4.572)	1.558	(8.136)	(5.171)	458	(63.401)
Net book value	146.405	(1.402)	(3.042)	(8.136)	6.190	4.704	144.719

Depreciation expenses of investment property the period have been accounted for under general administrative expenses.

Investment properties of the Group consist of rented area to other retailers in Samal shopping mall, Tastak store in Kazakhstan and Skopje shopping mall in Macedonia. At 31 December 2017, total investment property of Kazakhstan and Macedonia are 4.303 and 9.686 m^2 respectively (2016: Kazakhstan 2.857 m^2, Macedonia 9.364 m^2).

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The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounted to TRL 86.205 (2016: TRL 21.228). Direct operating expenses arising on the investment property in the period include maintenance and repair costs which amounted to TRL 14.507 (2016: TRL 4.151).

There is no mortgage or pledge on the investment properties of the Group as of 31 December 2017.

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT

Movement of property, plant and equipments period ended at 31 December 2017 is as follows;

	1 January 2017	Additions for Acquisition of Subsidiary	Additions	Disposals	Impairment	Revaluation	Transfers (*)	Currency translation differences	31 December 2017
Cost									
Lands	153.996	1.003.040	-	(38.503)	(107.734)	486.740	(42.750)	-	1.454.789
Buildings	235.851	725.760	6.077	(22.571)	(41.081)	386.570	(283.333)	9.083	1.016.356
Leasehold improvements	573.618	164.133	51.654	(4.476)	(38.960)	-	24.844	2.029	772.842
Machinery and equipments	715.722	184.221	85.922	(34.630)	(1.205)	-	66.311	3.519	1.019.860
Motor vehicles	2.600	7.896	1.212	(2.198)	-	-	-	338	9.848
Furniture and fixtures	360.645	301.754	38.616	(19.516)	(518)	-	23.433	5.973	710.387
Construction in progress	27.418	2.101	148.071	(4)	-	-	(144.631)	556	33.511
	2.069.850	2.388.905	331.552	(121.898)	(189.498)	873.310	(356.126)	21.498	5.017.593
Accumulated depreciation									
Buildings	(97.971)	(143.570)	(23.534)	87	2.566	-	265.234	(2.812)	-
Leasehold improvements	(254.984)	(58.042)	(62.417)	2.739	32.166	-	-	(805)	(341.343)
Machinery and equipments	(292.767)	(161.349)	(85.965)	25.715	1.137	-	(112)	(2.753)	(516.094)
Motor vehicles	(954)	(6.053)	(614)	1.508	-	-	-	(124)	(6.237)
Furniture and fixture	(154.841)	(220.410)	(50.137)	15.004	515	-	(93)	(3.669)	(413.631)
	(801.517)	(589.424)	(222.667)	45.053	36.384	-	265.029	(10.163)	(1.277.305)
Net book value	1.268.333								3.740.288

(*) Land and buildings amounting to TRL 44.068 are classified as assets held for sale, amounting to TRL 24.393 is transferred to intangible assets and amounting to TRL 22.636 is transferred to investment properties which are stated at transfers line.

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Movement of property, plant and equipments for the period ended at of 31 December 2016 is as follows;

	1 January 2016	Additions	Disposals	Impairment (*)	Transfers	Currency translation differences	31 December 2016
Cost							
Land and buildings	382.910	6.396	(336)	-	(7.936)	8.813	389.847
Leasehold improvements	516.389	44.268	-	(12.528)	22.504	2.985	573.618
Machinery and equipments	617.634	78.070	(24.253)		38.918	5.353	715.722
Motor vehicles	2.173	818	(920)	-	348	181	2.600
Furniture and fixtures	317.621	29.821	(5.195)	-	13.352	5.046	360.645
Construction in progress	22.579	98.769	-	-	(95.753)	1.823	27.418
	1.859.306	258.142	(30.704)	(12.528)	(28.567)	24.201	2.069.850
Accumulated depreciation							
Buildings	(68.658)	(5.447)	15	(24.608)	5.044	(4.317)	(97.971)
Leasehold improvements	(207.794)	(54.819)	-	9.226	-	(1.597)	(254.984)
Machinery and equipments	(234.987)	(73.394)	19.677	-	127	(4.190)	(292.767)
Motor vehicles	(1.158)	(417)	677	-	-	(56)	(954)
Furniture and fixture	(126.086)	(30.232)	4.222	-	-	(2.745)	(154.841)
	(638.683)	(164.309)	24.591	(15.382)	5.171	(12.905)	(801.517)
Net book value	1.220.623						1.268.333

(*) The Group has performed impairment analysis for its property, plant and equipment and concluded that carrying amount of investment properties exceed its net recoverable amount by TRL 24.608. As a result, provision for impairment has been accounted for under expenses from investment activities. Furthermore impairment loss amounting to TRL 3.302 consists of leasehold improvements of the stores closed in 2016 (Note 20).

As at 31 December 2017 and 2016, there are no mortgages on property, plant and equipment. Depreciation charges on property, plant and equipment are included in general administrative expenses.

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NOTE 12 - INTANGIBLE ASSETS

Movement of intangible assets period ended at 31 December 2017 is as follows;

	1 January 2017	Business combinations	Additions	Disposals	Transfers	Currency translation differences	31 December 2017
Cost							
Trademark (*)	2.787	14.442	-	-	-	-	17.229
Rent agreements	32.982	6.149	-	-	-	-	39.131
Rights	155.890	92.698	30.186	(894)	24.481	755	303.116
Other intangible assets	91.649	-	1.590	-	-	-	93.239
	283.308	113.289	31.776	(894)	24.481	755	452.715
Accumulated amortisation							
Rent agreements	(31.106)	-	(637)	-	-	-	(31.743)
Rights	(83.007)	(72.741)	(31.472)	580	(88)	(514)	(187.242)
Other intangible assets	(62.157)	-	(10.886)	-	-	-	(73.043)
	(176.270)	(72.741)	(42.995)	580	(88)	(514)	(292.028)
Net book value	107.038						160.687

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Movement of intangible assets period ended at 31 December 2016 is as follows;

	1 January 2016	Business Combinations (**)	Additions	Transfers	Currency translation differences	31 December 2016
Cost						
Trademark (*)	-	2.787	-	-	-	2.787
Rent agreements	32.982	-	-	-		32.982
Rights	109.205	3.082	25.200	17.206	1.197	155.890
Other intangible assets	87.214	-	4.435	-	-	91.649
	229.401	5.869	29.635	17.206	1.197	283.308
Accumulated amortisation						
Rent agreements	(30.147)	-	(959)	-	-	(31.106)
Rights	(54.471)	-	(27.613)	-	(923)	(83.007)
Other intangible assets	(60.094)	-	(2.063)	-	-	(62.157)
	(144.712)	-	(30.635)	-	(923)	(176.270)
Net book value	84.689					107.038

Amortisation expenses related to intangible assets have been accounted under general administrative expenses.

(*) TFRS 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 Group determined the value of Kipa Brand which is identified as intangible asset by using "Relief from Royalties" method as of March 1, 2017, which is acquisition date and accounted as intangible asset amounting to TRL 14.442 in the consolidated financial statements. Since the brand value is not predictable and has a certain life expectancy and the cost to be related to the profit or loss table is estimated every year for the protection of its value, it is considered as an intangible asset whose useful life is unlimited and amortization account is not applied for this asset. As stated in accounting policies, for the intangible assets whose useful life is determined to be unlimited, the impairment test is performed every year.

(**) In order to increase Macrocenter's structure and operational experience, on 22 November 2016, the Group has acquired the intangible assets' of Tazedirekt A.Ş. ("Tazedirekt"), an online food retailer firm. As of the transaction date, the fair value of the acquired trademark based on cost model amounting to TRL 2.787, has been accounted for under intangible assets in the consolidated financial statements. Since the trademark does not have a definite useful life and it is foreseen that certain expenses will be incurred each year in order to maintain its value, it is considered as an intangible asset with an indefinite useful life and therefore has not been amortised. Besides, as of the transaction date, the fair value of acquired software based on cost model amounting to TRL 3.082 has been accounted for under intangible assets in the consolidated financial statements.

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NOTE 13 - GOODWILL

	2017	2016
Opening balance	2.252.992	2.251.427
Additions	-	1.565
Closing balance	2.252.992	2.252.992

Impairment tests for goodwill:

The whole amount of goodwill is related to the acquisition of Migros, the Group management considers the synergy to be created by the important domestic market position as the main reason for the goodwill. Accordingly, the Group management allocated the above mentioned goodwill amount to Turkish domestic operations which is the main cash generating unit, considering its market share and importance of the total turnover of the domestic operations in the Group consolidation.

The recoverable amount of cash-generating unit was determined based on value-in-use calculations. These value-in-use calculations include the discounted after tax cash flow projections, which are based on TRL budgets approved by management covering an eight year period. The growth rate expected to be realized after eight years is assumed to be nil and in the preparation of these analysis it has been assumed by the management that existing profitability of the Company will be maintained.

Subsequent projected cash flows over a ten year period were calculated without regard to any growth rate, and the analysis predicted that the existing profitability structure would be preserved.

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 10,01% 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 9,1% or 11,1% instead of 10,01%) causes a decrease/increase of TRL 694.200 (2016: TRL 648.516) in the fair value calculations for which sales costs are deducted, as of 31 December 2017. Within the context of analysis performed by the Management, above mentioned changes in the key assumptions on which recoverable amount is based would not cause carrying amount to exceed its recoverable amount.

The acquisition of Kipa has been accounted for in accordance with TFRS 3 - 'Business Combinations'. The fair value of identifiable assets and liabilities acquired within the context of the said business combination as of 31 December 2017 has been stated as a draft and these items were reported at their provisional value in summary consolidated financial statements. The period determined to carry out additions and adjustments concerning the fair value of the assets, liabilities and contingent liabilities is 12 months from the date of purchase.

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	1 March 2017 Kipa Temporary Fair Value
ASSETS	
Cash and cash equivalents	49.166
Trade receivables	10.691
Other receivables and assets	32.854
Inventories	207.716
Current Assets	300.427
Property, plant and equipment, and Intangible assets	1.840.029
Other non-current assets	15.436
Total non-current assets	1.855.465
Total assets	2.155.892
LIABILITIES	
Short term borrowings	329.631
Trade payables	329.012
Other current payables and liabilities	97.005
Total current liabilities	755.648
Other long term provisions	20.915
Deferred tax liabilities	72.859
Total non-current liabilities	93.774
Total liabilities	849.422
Net Asset	1.306.470
Purchase price	207.031
Non – controlling interest	48.993
Negative Goodwill	1.050.446

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NOTE 14 - FINANCIAL LIABILITIES

	31 December 2017		
	Effective interest rate (%)	In original currency	Total TRL equivalent
Short term borrowings			
With fixed interest rate - TRL	15,88	569.319	569.319
Total short term borrowings			569.319
Current portion of long term borrowings			
With floating interest rate - EUR	5,25	91.719	414.156
With fixed interest rate - TRL	13,93	53.746	53.746
With fixed interest rate - Tenge	11,97	71.861	816
Total current portion of long term bank borrowings			468.718
Total short term bank borrowings			1.038.037
Non-current bank borrowings			
With floating interest rate - EUR	5,25	580.106	2.619.469
With fixed interest rate - TRL	13,93	212.028	212.028
With fixed interest rate - Tenge	11,97	3.783.265	42.940
Total non-current bank borrowings			2.874.437
Total financial liabilities			3.912.474

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The redemption schedule of bank borrowings with effective interest rate at 31 December 2017 is as follows:

	Tenge loan TRL equivalent	Euro loan TRL equivalent	TRL Loan	Total (TRL equivalent)
1 January 2018- 31 December 2018	816	414.156	623.065	1.038.037
1 January 2019- 31 December 2019	1.271	514.665	54.649	570.585
1 January 2020- 31 December 2020	12.164	554.019	50.284	616.467
1 January 2021- 31 December 2021	13.719	583.655	45.394	642.768
1 January 2022- 31 December 2022	13.580	620.512	41.279	675.371
1 January 2023 - 24 October 2023	2.206	346.618	20.422	369.246
	43.756	3.033.625	835.093	3.912.474

The fair value of bank borrowings at 31 December 2017 is TRL 3.994.286.

The redemption schedule of principal amounts of bank borrowings at 31 December 2017 is as follows:

	Tenge loan TRL equivalent	Euro loan TRL equivalent	TRL Loan	Total (TRL equivalent)
1 January 2018- 31 December 2018	-	279.227	590.082	869.309
1 January 2019- 31 December 2019	1.271	426.572	37.100	464.943
1 January 2020- 31 December 2020	12.164	523.517	45.532	581.213
1 January 2021- 31 December 2021	13.719	620.494	53.967	688.180
1 January 2022- 31 December 2022	13.580	736.821	64.084	814.485
1 January 2023 - 24 October 2023	2.206	445.956	38.787	486.949
	42.940	3.032.587	829.552	3.905.079

The Group has the obligation to comply with the various credit commitments in the loan agreement in the interest of the said bank credits. The financial ratios calculated on the financial statements as of 31 December 2017 are in line with the provisions of the bank loan agreement.

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The movement schedule of borrowings as of 31 December 2017 is as follows;

Opening	2.963.536
Proceeds of borrowings	210.776
Payments	(164.819)
FX Losses	556.974
Interest accrual	16.376
Acquisition of subsidiary	329.631
Closing	3.912.474

	31 December 2016		
	Effective interest rate (%)	In original currency	Total TRL equivalent
Short term borrowings			
With fixed interest rate - TRL	14,34	102.012	102.012
Total short term borrowings			102.012
Current portion of long term borrowings			
With floating interest rate - EUR	5,25	53.336	197.873
With fixed interest rate - TRL	13,93	40.312	40.312
With fixed interest rate - EUR	15,00	31.086	328
Total current portion of long term bank borrowings			238.513
Total short term bank borrowings			340.525
Non-current bank borrowings			
With floating interest rate - EUR	5,25	638.317	2.368.091
With fixed interest rate - TRL	13,93	233.274	233.274
With fixed interest rate - Tenge	15,00	2.050.000	21.646
Total non-current bank borrowings			2.623.011
Total financial liabilities			2.963.536

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The redemption schedule of bank borrowings with effective interest rate at 31 December 2016 is as follows:

	Tenge loan TRL equivalent	Euro loan TRL equivalent	TRL Loan	Total (TRL equivalent)
1 January 2017- 31 December 2017	328	197.873	142.324	340.525
1 January 2018- 31 December 2018	1.031	323.296	47.173	371.500
1 January 2019- 31 December 2019	4.123	401.754	47.966	453.843
1 January 2020- 31 December 2020	4.123	432.475	44.135	480.733
1 January 2021- 31 December 2021	4.123	455.609	39.843	499.575
1 January 2022- 31 December 2022	4.123	484.381	36.231	524.735
1 January 2023 - 24 October 2023	4.123	270.576	17.926	292.625
	21.974	2.565.964	375.598	2.963.536

The fair value of bank borrowings at 31 December 2016 is TRL 2.987.487.

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

	Tenge loan TRL equivalent	Euro loan TRL equivalent	TRL Loan	Total (TRL equivalent)
1 January 2017- 31 December 2017	-	76.479	108.096	184.575
1 January 2018- 31 December 2018	1.031	229.411	24.285	254.727
1 January 2019- 31 December 2019	4.123	350.468	37.100	391.691
1 January 2020- 31 December 2020	4.123	430.117	45.532	479.772
1 January 2021- 31 December 2021	4.123	509.793	53.967	567.883
1 January 2022- 31 December 2022	4.123	605.367	64.084	673.574
1 January 2023 - 24 October 2023	4.123	366.394	38.786	409.303
	21.646	2.568.029	371.850	2.961.525

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NOTE 15 - PROVISIONS, COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions	2017	2016
Provision for litigation	61.594	27.105
Customer loyalty programs	538	567
Other	1.012	-
	63.144	27.672

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.

Lawsuit provisions	2017	2016
1 January	27.105	30.172
Increase during period	1.310	5.169
Payments (-)	(12.547)	(8.236)
Business combination effect	45.726	-
31 December	61.594	27.105

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Collaterals, Pledges, Mortgages

2017:

	Total TRL amount	TRL	USD	Euro
A. CPM given on behalf of the Company's legal personality	155.796	146.193	2.546	-
B. CPM given on behalf of fully consolidated subsidiaries	212.939	170.000	11.384	-
C. CPM given for continuation of its economic activities on behalf of third parties	-	-	-	-
D. Total amount of other CPM	-	-	-	-
i. Total amount of CPM given behalf of the majority shareholder	-	-	-	-
ii. Total amount of CPM given behalf of other group companies which are not in scope of B and C	-	-	-	-
iii. Total amount of CPM given behalf of third parties which are not in scope of C	-	-	-	-
Total collaterals, pledges and mortgages	368.735	316.193	13.930	-
Proportion of the other CPM's to equity (%)	0,0			

2016:

	Total TRL amount	TRL	USD	Euro
A. CPM given on behalf of the Company's legal personality	86.092	84.378	487	-
B. CPM given on behalf of fully consolidated subsidiaries	-	-	-	-
C. CPM given for continuation of its economic activities on behalf of third parties	-	-	-	-
D. Total amount of other CPM	-	-	-	-
i. Total amount of CPM given behalf of the majority shareholder	-	-	-	-
ii. Total amount of CPM given behalf of other group companies which are not in scope of B and C	-	-	-	-
iii. Total amount of CPM given behalf of third parties which are not in scope of C	-	-	-	-
Total collaterals, pledges and mortgages	86.092	84.378	487	-
Proportion of the other CPM's to equity (%)	0,0	-	-	-

Contingent assets and liabilities

Guarantees given at 31 December 2017 and 2016 are as follows:

	2017	2016
Letter of guarantees given	368.735	86.092
	368.735	86.092

Guarantees received at 31 December 2017 and 2016 are as follows:

	2017	2016
Guarantees obtained from customers	146.693	88.356
Mortgages obtained from customers	17.866	26.825
	164.559	115.181

The future aggregate minimum lease payments under non-cancellable operating leases of land and stores are as follows. Amounts are expressed in the total amount to be paid by the end of the lease term although the time periods specified in the contracts in line with the vast majority of our stores early release have a right to give notice of the condition.

	2017	2016
Payable within 1 year	77.746	40.843
Payable in 1 to 5 years	29.337	10.017
	107.083	50.860

NOTE 16 - EMPLOYEE BENEFITS

	2017	2016
Due to personnel	73.742	41.644
Social security deductions	62.470	34.617
	136.212	76.261

	2017	2016
Provision for unused vacation	110.855	93.105
Provision for employment termination benefits	117.753	79.057
	228.608	172.162

Movement of provision for unused vacation is as follows:

	2017	2016
1 January	93.105	75.970
Increase during period	22.408	24.722
Payments during period	(7.514)	(7.587)
Effect of business combinations	2.856	-
31 December	110.855	93.105

Provision for employment termination benefits

Under the Turkish Labour Law, the Company is required to pay termination benefits to each employee who has completed one year of service and who reaches the retirement age, whose employment is terminated without due cause, is enlisted for military service or passed away. The termination benefit to be paid is one month wage per a service year up to the maximum employment termination benefit limit.

In the consolidated financial statements as of 31 December 2017 and 2016, the Group reflected a liability calculated using the projected unit credit method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds.

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:

	2017	2016
Discount rate (%)	4,21	3,77
Turnover rate to estimate the probability of retirement (%)	87,24 - 100,00	82,88 - 100,00

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. As the maximum liability is revised once every six months, the maximum amount of TRL 5.001,76 effective from 1 January 2018 (1 January 2017: TRL 4.426,16) 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 87,24% and 100% for the employees working 0-14 years and 15 years and above, respectively.

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Movements in the provision for employment termination benefits are as follows:

	2017	2016
1 January	79.057	64.283
Increase during period	59.102	33.211
Payment	(38.615)	(19.474)
Business combinations effect	18.829	-
Actuarial (gain)/loss	(620)	1.037
31 December	117.753	79.057

NOTE 17 - REVENUE

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

	2017	2016
Domestic sales	15.253.852	10.979.857
Foreign sales	396.374	335.065
Other sales	18.132	14.492
Gross sales	15.668.358	11.329.414
Discounts and returns (-)	(324.311)	(270.190)
Sales revenue, net	15.344.047	11.059.224
Cost of sales	(11.262.081)	(8.106.667)
Gross profit	4.081.966	2.952.557

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

	2017	2016
Retail sales revenue	15.112.677	10.931.238
Rent income	379.725	297.591
Wholesale revenue	157.824	86.093
	15.650.226	11.314.922

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NOTE 18 - EXPENSE BY NATURE

Total	2017	2016
Staff costs	1.546.040	1.078.928
Rent	762.374	553.391
Depreciation and amortisation	269.956	199.516
Energy	191.232	137.402
Transportation	147.065	99.625
Porterage and cleaning	97.884	77.094
Advertising	98.425	71.139
Warehouse	84.642	69.352
Repair and maintenance	61.497	43.299
Mechanisation	57.436	28.879
Security	32.256	26.678
Taxes and other fees	21.452	14.727
Communication	14.827	10.408
Other	168.930	114.589
	3.554.016	2.525.027

Marketing expenses	2017	2016
Staff costs	1.345.172	959.255
Rent	761.423	552.760
Energy	189.295	136.118
Transportation	147.065	99.625
Advertising	98.241	71.139
Porterage and cleaning	94.876	74.749
Warehouse	84.642	69.352
Repair and maintenance	59.856	42.700
Mechanisation	40.301	26.033
Security	30.327	25.640
Taxes and other fees	19.706	13.453
Communication	12.549	8.932
Other	135.333	96.289
	3.018.786	2.176.045

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General administrative expenses	2017	2016
Depreciation and amortisation	269.956	199.516
Staff costs	200.868	119.673
Other	64.406	29.793
	535.230	348.982

Expenses by nature in cost of sales for the year ended at 31 December 2017 and 2016 are as follows:

	2017	2016
Cost of goods sold	11.218.785	8.075.058
Cost of service rendered	43.296	31.609
	11.262.081	8.106.667

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

NOTE 19 - OTHER OPERATING INCOME AND EXPENSES

Other operating income	2017	2016
Interest income on term sales	62.617	40.931
Interest income from operating activities	44.700	24.309
Cancelled tax penalty provision	-	36.968
Other	49.743	6.486
	157.060	108.694

Other operating expenses	2017	2016
Interest expense on term purchases	303.056	178.324
Litigation provision	1.310	5.169
Bad debt provision expense	4.116	1.709
Other	73.705	19.852
	382.187	205.054

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NOTE 20 - REVENUES AND EXPENSES FROM INVESTMENT ACTIVITIES

Income from investing activities	2017	2016
Negative goodwill	1.050.446	-
Investment property valuation	134.967	-
Gain on sale of property, plant and equipment	66.514	1.154
	1.251.927	1.154

Expense from investing activities	2017	2016
Losses from impairment provision property, plant and equipment	145.893	32.744
Loss on sale of property, plant and equipment	6.055	8.164
Losses from leasehold improvements of closed stores	7.221	3.302
	159.169	44.210

NOTE 21 - FINANCIAL INCOME

	2017	2016
Foreign exchange gains	81.490	47.469
Interest income on bank deposits	7.465	4.245
Financial income on derivatives	10	602
	88.965	52.316

NOTE 22 - FINANCIAL EXPENSES

	2017	2016
Foreign exchange losses	568.635	391.350
Interest expense on bank borrowings	270.253	168.389
Financial expense on derivatives	842	768
Other	42.120	16.019
	881.850	576.526

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NOTE 23 - TAX ASSETS AND LIABILITIES

	2017	2016
Income tax payable	84.235	72.355
Less: Prepaid current income taxes	(58.385)	(52.403)
Taxes on income	25.850	19.952

	31 December 2017	31 December 2016	31 December 2015
Deferred tax assets	73.819	63.324	54.293
Deferred tax liabilities	(329.782)	(116.388)	(114.464)
Deferred tax liabilities, net	(255.963)	(53.064)	(60.171)

General Information

The Group is subject to taxation in accordance with the tax regulations and the legislation effective in the countries in which the Group companies operate. In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

In Turkey, corporate tax rate is 20% (December 31, 2016 - 20%). In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017, corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of 31 December 2017 are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

The Group calculates deferred income tax assets and liabilities based on the temporary difference between the financial statements prepared in accordance with TFRS and the financial statements prepared in accordance with TFRS. Future periods to deferred tax assets and liabilities are calculated based on the liability method on temporary differences for the rates used as of December 31, 2017 Turkey, Kazakhstan, Bulgaria and respectively 20% for Macedonia, 20%, 10% and 10% (2016: 20%, 20%, 10% and 10%).

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	2017	2016
Loss before tax	602.696	(236.096)
Calculated tax income according to parent company tax rate (20%)	(120.539)	47.219
Differences in tax rate of subsidiaries	4.243	87
Expected tax expense of the Group	(116.296)	47.306
Effect of non-deductable expenses	(200.819)	(111.381)
Effect of exemptions for R&D	5.018	1.875
Effect of non-taxable incomes	42	444
Temporary differences which deferred tax not calculated	20.003	-
Business combination effect	210.089	-
Effective tax rate difference	(15.468)	-
Other	3.771	(2.254)
Tax expense	(93.660)	(64.010)

The details of taxation on income for the periods ended 31 December 2017 and 2016 are as follows:

	2017	2016
Current period income tax expense	(83.177)	(72.355)
Deferred tax income	(10.483)	8.345
Current period tax expense	(93.660)	(64.010)

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	Cumulative temporary differences			Deferred tax assets/(liabilities)		
	2017	2016	2015	2017	2016	2015
Deferred tax assets:						
Short term provisions	166.847	131.094	106.142	35.980	26.219	21.228
Inventories	63.125	103.046	94.919	13.879	20.610	18.984
Provision for employee termination benefits	117.753	79.057	64.283	23.516	15.811	12.857
Unincurred interest income	2.030	226	237	444	45	47
Other	-	3.194	5.886	-	639	1.177
				73.819	63.324	54.293
Deferred tax liabilities:						
Fair value change of derivative financial instruments	10	620	422	(2)	(124)	(84)
Property, plant and equipment, intangible assets and investment properties	2.246.786	580.921	578.929	(308.477)	(108.959)	(108.762)
Business combinations effect	12.862	-	-	(2.572)		
Unincurred interest expense	43.975	27.415	24.345	(9.675)	(5.483)	(4.869)
Other	45.824	9.108	3.745	(9.056)	(1.822)	(749)
				(329.782)	(116.388)	(114.464)
Total deferred tax liability, net				(255.963)	(53.064)	(60.171)

	2017	2016
1 January	(53.064)	(60.171)
Deferred tax expense/(income) from continuing operations	(10.483)	8.345
Additions from business combinations	(72.859)	(1.174)
Accounted for under equity	(119.409)	207
Currency translation difference	(148)	(271)
31 December	(255.963)	(53.064)

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NOTE 24 - CAPITAL, RESERVES AND OTHER EQUITY ITEMS

The Company's authorised and issued capital consists of 17.803.000.000 shares at 1 shares of Kr1 nominal value as of 31 December 2017 (31 December 2016: 17.803.000.000 shares). All shares are paid-in and no privileges are given to different share groups and shareholders.

	2017		2016	
	TRL	Share (%)	TRL	Share (%)
MH Perakendecilik ve Ticaret A.Ş.	89.015	50,00	89.015	50,00
Moonlight Capital S.A.	14.371	8,07	27.371	15,37
Kenan Investments S.A.	26.937	15,13	26.937	15,13
Other	47.707	26,80	34.707	19,49
Total	178.030	100,00	178.030	100,00

Reserves

The legal reserves consist of first and second legal reserves in accordance with the TCC. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the Company's restated share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the Company's restated share capital.

Dividend paid

The Group did not distribute any dividend in 2017 (2016: The Group did not distribute any dividend).

NOTE 25 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a) Balances with related parties

Due from related parties	2017	2016
Anadolu Isuzu Otomotiv Sanayi ve Tic. A.Ş.	332	301
Çelik Motor Ticaret A.Ş.	196	153
Anadolu Motor Üretim ve Pazarlama A.Ş.	82	89
Other	103	57
	713	600

Due to related parties	2017	2016
Anadolu Efes Pazarlama ve Dağıtım Ticaret A.Ş.	92.000	86.990
Coca Cola Satış ve Dağıtım A.Ş.	60.497	43.799
Adel Kalemcilik Ticaret ve San. A.Ş.	13.216	5.303
AEH Sigorta Acenteliği A.Ş.	10.551	5.458
AEH Anadolu Etap Penkon Gıda ve Tarım Ürünleri San. ve Tic. A.Ş.	6.111	3.279
Ana Gıda İhtiyaç Maddeleri San. ve Tic. A.Ş. (*)	-	30.337
Other	115	4
	182.490	175.170

(*) Ana Gıda İhtiyaç Maddeleri San. ve Tic. A.Ş. is excluded from the related parties since Anadolu Group sold all its shares as of 21 February 2017.

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b) Transactions with related parties

Inventory purchases	2017	2016
Anadolu Efes Paz. ve Dağıtım Ticaret A.Ş.	295.738	251.157
Coca Cola Satış ve Dağıtım A.Ş.	200.713	151.049
Ana Gıda İhtiyaç Maddeleri San. ve Tic. A.Ş.	20.042	98.737
AEH Anadolu Etap Penkon Gıda ve Tarım Ürünleri San. ve Tic. A.Ş.	42.678	17.972
Adel Kalemcilik Ticaret ve San. A.Ş.	11.412	3.938
	570.583	522.853

Other transactions	2017	2016
Rent revenue	1.148	624
Rent expenses	(6.100)	(2.975)
Other income	321	361
Other expenses	-	(80)
Other transactions, net	(4.631)	(2.070)

c) Key management compensation

The Group has determined key management personnel as chairman, members of Board of Directors, general manager and vice general managers.

Total compensation provided to key management personnel by Group for the period ended 31 December 2017 and 2016 is as follows:

	2017	2016
Short term benefits	31.971	20.944
	31.971	20.944

Key management compensation paid or payable consists of benefits, salaries, premiums, individual pension premiums, vehicle rents and SSI and employer shares.

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NOTE 26 - EARNINGS/(LOSSES) PER SHARE

Basic earnings/(losses) per share is calculated by dividing net income/(loss) for the period by the weighted average number of ordinary shares outstanding during the related period. The Company has no diluted instruments.

	2017	2016
Net profit/(loss) attributable to shareholders	512.706	(300.157)
Weighted average number of shares with Kr1 face value each ('000)	17.803.000	17.803.000
Profit/(Loss) per share	2,88	(1,69)

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 the Group's financial liabilities that are sensitive to interest is 5,25%. (2016: 5,25%). As of 31 December 2017, if interest rates on TRL, USD and Euro denominated borrowings had been 100 base point higher/lower with all other variables held constant, pre-tax profit for the year would have been TRL 2.998 (2016: TRL 2.464) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Interest rate positions of the Group at 31 December 2017 and 2016 are as follows:

	2017	2016
Financial instruments with fixed interest rate		
Time deposits	697.330	435.380
Financial liabilities	878.849	397.572
Financial instruments with floating interest rate		
Financial liabilities	3.033.625	2.565.964

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 2017, the Group's financial debt with a maturity longer than 1 year is TRL 2.874.437 (2016: TRL 2.623.011).

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The maturity analysis of the Group's financial liabilities as of 31 December 2017 is as follows:

Financial liabilities:

	Carrying value	Contractual cash outflows	Up to 3 months	3 months - 12 months	1 years - 5 years	Over 5 years
Financial payables	3.912.474	4.587.619	84.039	1.049.811	2.956.083	497.686
Trade payables	3.954.141	4.005.250	3.477.944	527.306	-	-
Other payables	271.561	274.352	271.561	310	2.481	-
	8.138.176	8.867.221	3.833.544	1.577.427	2.958.564	497.686

	Carrying value	Contractual cash outflows	Up to 3 months	3 months - 12 months	1 years - 5 years	Over 5 years
Financial payables	2.963.536	3.689.059	4.101	354.475	2.183.930	1.146.553
Trade payables	2.663.659	2.691.051	2.194.567	496.484	-	-
Other payables	141.278	141.278	141.278	-	-	-
	5.768.473	6.521.388	2.339.946	850.959	2.183.930	1.146.553

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Credit risk

The Group is exposed to credit risk due to its sales other than retail sales. Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. These risks are monitored by credit ratings and by limiting the aggregate risk from any individual counterparty. The credit risk is generally highly diversified due to the large number of entities comprising the customer base.

The risk details of credits and receivables as of 31 December 2017 and 2016 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 2017			
	Trade r eceivables		Other receivables	
	Related party	Other	Other	Deposits in bank
Maximum risk exposed credit risk as of reporting date (A+B+C)	713	96.197	46.108	853.417
Secured portion of maximum credit risk by guarantees	35	8.046	-	-
A. Net book value of financial assets				
either are not due or not impaired	713	87.118	46.108	853.417
secured portion by guarantees	35	5.860	-	-
B. Financial assets with renegotiated conditions	-	-	-	-
secured portion by guarantees	-	-	-	-
C. Net book value of the expired				
or not impaired financial assets	-	7.131	-	-
secured portion with guarantees	-	238	-	-
D. Impaired assets				
net book value	-	1.948	-	-
overdue (gross book value)	-	50.562	-	-
impairment (-)	-	(48.614)	-	-
secured portion of the net value by guarantees etc.	-	1.948	-	-

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	31 December 2016			
	Trade receivables		Other receivables	
	Related party	Other	Other	Deposits in bank
Maximum risk exposed credit risk as of reporting date (A+B+C)	600	57.838	10.538	545.383
Secured portion of maximum credit risk by guarantees	28	9.261	-	-
A. Net book value of financial assets				
either are not due or not impaired	600	54.785	10.538	545.383
secured portion by guarantees	28	7.113	-	-
B. Financial assets with renegotiated conditions	-	-	-	-
secured portion by guarantees	-	-	-	-
C. Net book value of the expired				
or not impaired financial assets	-	1.085	-	-
secured portion with guarantees	-	180	-	-
D. Impaired assets				
net book value	-	1.968	-	-
overdue (gross book value)	-	36.966	-	-
impairment (-)	-	(34.998)	-	-
secured portion of the net value by guarantees etc.	-	1.968	-	-

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.

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Aging of the receivables which are overdue but not impaired

	2017	2016
0-1 months	6.475	581
1-3 months	345	462
3-12 months	279	41
1-5 year	32	1
	7.131	1.085

Risky Position of Capital:

Net debt ratio as of 31 December 2017 and 2016 is as follows;

	2017	2016
Total liabilities	8.775.526	6.084.113
Less: Cash and cash equivalents	(1.617.380)	(1.155.942)
Deferred tax liabilities	(255.963)	(53.064)
Net debt	6.902.183	4.875.107
Equity attributable to holders of parent	1.470.494	191.793
Equity + net debt	8.372.677	5.066.900
	82,44%	96,21%

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Foreign currency risk

The Group is exposed to foreign exchange risk primarily arising from the borrowings denominated in foreign currencies. Aforementioned foreign exchange risk is monitored and limited with derivative instruments. At 31 December 2017, if Euro had appreciated against TRL by 10% and all other variables had remained constant, the income 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 in the amount of TRL 266.483 (31 December 2016: 238.137 higher).

NOTE 28 - EXCHANGE RATE RISK AND FOREIGN CURRENCY POSITION

	FOREIGN CURRENCY POSITION							
	31 December 2017				31 December 2016			
	Total TRL equivalent	USD	Euro	Other TRL equivalent	Total TRL equivalent	USD	Euro	Other TRL equivalent
Trade receivables	273	72	-	-	765	217	-	-
Monetary financial assets	383.343	2.673	82.518	652	200.705	3.669	50.520	369
Other	1.813	481	-	-	2.246	638	-	-
Current assets	385.429	3.226	82.518	652	203.716	4.524	50.520	369
Total assets	385.429	3.226	82.518	652	203.716	4.524	50.520	369
Trade payables	1.307	100	127	355	6.394	1.817	-	-
Financial liabilities	414.156	-	91.719	-	197.873	-	53.336	-
Non-monetary other liabilities					-	-	-	-
Current liabilities	415.463	100	91.846	355	204.267	1.817	53.336	-
Financial liabilities	2.619.469	-	580.106	-	2.368.091	-	638.317	-
Non-monetary other liabilities	3.536	80	716	-	2.828	-	762	-
Non-current liabilities	2.623.005	80	580.822	-	2.370.919	-	639.079	-
Total liabilities	3.038.468	180	672.668	355	2.575.186	1.817	692.415	-

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	FOREIGN CURRENCY POSITION							
	31 December 2017				31 December 2016			
	Total TRL equivalent	USD	Euro	Other TRL equivalent	Total TRL equivalent	USD	Euro	Other TRL equivalent
Net asset/(liability) position of off-balance sheet derivatives (A-B)	-	-	-	-	-	-	-	-
A. Total amount of off-balance sheet derivative financial assets	-	-	-	-	-	-	-	-
B. Total amount of off-balance sheet derivative financial liabilities	-	-	-		-	-	-	-
Net foreign currency asset/(liability) position	(2.653.039)	3.046	(590.150)	297	(2.371.470)	2.707	(641.895)	369
Net foreign currency asset/(liability) position of monetary items	(2.651.317)	2.646	(589.435)	297	(2.370.888)	2.070	(641.133)	369
Fair value hedge funds of foreign currency	-	-	-	-	602	-	-	602
Hedge amount of foreign currency assets	-	-	-	-	-	-	-	-
Hedge amount of foreign currency liabilities	-	-	-	-	22.259	-	6.000	-
Export	-	-	-	-	-	-	-	-
Import	43.205	11.959	-	-	70.988	24.054	-	-

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Foreign currency sensitivity analysis as of 31 December 2017 and 2016 is as follows:

2017

	Gain/Loss	
	Foreign exchange appreciation	Foreign exchange depreciation
10% change in Euro exchange rate		
Euro net asset/liability	(266.483)	266.483
Portion secured from Euro risk	-	-
Euro net effect	(266.483)	266.483

2016

	Gain/Loss	
	Foreign exchange appreciation	Foreign exchange depreciation
10% change in Euro exchange rate		
Euro net asset/liability	(238.137)	238.137
Portion secured from Euro risk	-	-
Euro net effect	(238.137)	238.137

NOTE 29 - 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.

- 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).

	Fair Value Level as of reporting period			
	31 December 2017	Level 1 TRL	Level 2 TRL	Level 3 TRL
Lands	1.454.789	-	1.454.789	-
Buildings	1.016.356	-	1.016.356	-
Investment properties	342.731	-	342.731	-

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