



Corporate Governance and Credit Rating Services, Inc.

Corporate Governance Rating Report

**MiGROS**

30 December 2015

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## Rating and Executive Summary

### Migros Ticaret A.Ş. (MGROS)

 **SAHA**  
Corporate Governance Rating:

**9.46**



**MAIN SECTIONS: Avg. 94.55**

**Shareholders: 95.44**



**Public Disclosure & Transparency: 97.39**



**Stakeholders: 99.48**



**Board of Directors: 89.78**



0 10 20 30 40 50 60 70 80 90 100

## EXECUTIVE SUMMARY

This report on rating of Migros Ticaret A.Ş.'s ("MIGROS") compliance with Corporate Governance Principles is prepared upon conclusions following detailed analysis of the Company. Our rating methodology (page 6) is based on the Capital Markets Board's (CMB) "Corporate Governance Principles".

Migros is rated with **9.46** as a result of the Corporate Governance study done by SAHA. Migros's corporate governance rating has shaped up as above in consideration with the Company's determination to apply corporate governance principles, its willingness to manage this process continuously and dynamically and improvements which had been initiated in this direction.

Additionally, Migros takes place in Group 1 of the World Corporate Governance Index (WCGI) published by SAHA on August 7, 2015. Details of the World Corporate Governance Index (WCGI) published by SAHA can be accessed at <http://www.saharating.com>.

Migros is rated with **9.54** under the **Shareholders** heading. Exercise of shareholders' rights complies with the legislation, articles of association and other internal rules and regulations. Measures are in place to ensure the exercise of these rights. Investor relations obligations are carried out via the "Investor Relations" department. There is no upper limit or privileges on voting rights. All procedures prior to the general shareholders' meeting and the conduct of the meeting comply with the legislation and regulations. There is a consistent dividend policy and it is disclosed to the public. There are no restrictions on transfer of shares. On the other hand, the rate of minority rights in the Company's articles of association is adopted as prescribed for public joint stock companies (%5). A policy on donations and grants is in place and announced to the public on the corporate web site.

Migros attained **9.74** under the **Public Disclosure and Transparency** chapter. There is a comprehensive website that includes all information listed in the "Corporate Governance Principles" pertinent to public disclosure. Public announcements are made via all communications channels and are in accordance with the CMB and Borsa Istanbul (BIST) regulations. The annual report is also comprehensive and informative. Shareholding structure of Migros and the names of ultimate controlling individual shareholders as identified after being released from indirect or cross shareholding relationships between co-owners are disclosed to the public. Benefits provided to board members and senior management is mentioned collectively in the annual report, but a list on individual basis is essential as per the Principles.

On the topic of **Stakeholders**, Migros scored **9.95**. Migros guarantees the rights of stakeholders in line with the legislation and mutual agreements, and in case of violation, enables an effective and speedy compensation. A written compensation policy for the employees is disclosed to public on the corporate web site. The Company has an effective and comprehensive human resources policy. Certain mechanisms are developed to support the participation of stakeholders in the management of the Company. Code of ethics is publicly available on the corporate web site. Various social responsibility projects have been implemented. There is no lawsuit filed against the Company due to any damage to the environment.

From the perspective of the principles regarding the **Board of Directors**, Migros's tally is **8.98**. There is a well communicated Company mission and vision, and the board fulfills all duties duly. Chairman of the board and the CEO are not the same person. The board consists of 12 members of which 4 are independent. Each board member is entitled to a single vote. CMB criteria are complied with for the appointment of independent members who have each signed a declaration of independence. There are no female members on the board. The Company has not prepared a policy or set a timetable to reach the Corporate Governance Principles' advisory target of 25% female board membership rate. Corporate Governance, Audit, and Early Detection of Risk Committees are established from within the board. The working principles of the committees are disclosed to the public. Our observations will continue in order to have a more precise view of the activities and the degree of functionality of the committees. Principles of remuneration of board members and senior executives are available on the Company's web site. Losses that may be incurred by the Company as a result of not performing the executives' duties duly are insured. Remuneration of board members and executives with administrative responsibility as well as benefits provided are mentioned collectively in the annual report. Principles dictate reporting on an individual basis.

## Rating Methodology

SAHA's methodology for rating the degree of compliance with the Principles of Corporate Governance is based upon the CMB's "Corporate Governance Principles" released on January 2014.

The CMB based these principles on the leading work of The World Bank, The Organization of Economic Cooperation and Development (OECD), and the Global Corporate Governance Forum (GCGF) which has been established in cooperation with the representatives of the preceding two organizations and private sector. Experts and representatives from the CMB, Borsa Istanbul and the Turkish Corporate Governance Forum have participated in the committee that was established by the CMB for this purpose. Additionally; many qualified academicians, private sector representatives as well as various professional organizations and NGOs have stated their views and opinions, which were added to the Principles after taking into account country specific issues. Accordingly, these Principles have been established as a product of contributions from all high-level bodies.

Certain applications of the Principles are based on "comply or explain" approach and others are mandatory. However, the explanation concerning the implementation status of the Principles, if not detailed reasoning thereof, conflicts arising from inadequate implementation of these Principles, and explanation on whether there is a plan for change in the Company's governance practices in future should be mentioned in the annual report and disclosed to public.

The Principles consist of four main sections: shareholders, public disclosure and transparency, stakeholders, and the board of directors.

Based on these Principles, the SAHA Corporate Governance Rating methodology features around 330 sub-criteria. During the rating process, each criterion is evaluated on the basis of information provided by the Company officials and disclosed publicly. Some of these criteria can be evaluated by a simple YES/NO answer; others require more detailed analysis and examination.

SAHA assigns ratings between 1 (weakest) and 10 (strongest). In order to obtain a rating of 10, a company should be in full and perfect compliance with the Principles (see Rating Definitions, p.24).

To determine the total rating score for each main section parallel to the CMB's Corporate Governance Principles, SAHA allocates the following weights:

Shareholders: **25%**  
Public Disclosure and Transparency: **25%**  
Stakeholders: **15%**  
Board of Directors: **35%**

To determine the final overall rating, SAHA utilizes its proprietary methodology which consists of sub-section weightings and weightings for the criteria there under. A separate rating is assigned to each one of the main sections as well.

## Company Overview

<b>MİGROS Ticaret A.Ş.</b>	
<b>MİGROS</b>	<b>Chairman of the Board</b> Fevzi Bülent Özaydınlı <b>General Manager (CEO)</b> Ömer Özgür Tort
Atatürk Mah., Turgut Özal Bulvarı, No: 7 34758 Ataşehir, İstanbul	<b>Investor Relations Group Manager</b> Affan Nomak Tel: (0216) 579 30 00 <a href="mailto:investor_relations@migros.com.tr">investor_relations@migros.com.tr</a>

Migros Türk T.A.Ş. was established in 1954 at İstanbul as a joint venture of the Swiss-based Migros Cooperatives Society and the İstanbul municipality. Company shares were transferred to Moonlight Perakendecilik ve Ticaret A.Ş. on May 30, 2008. As a result of the merger of Migros Türk T.A.Ş. and Moonlight Perakendecilik ve Ticaret A.Ş. on April 30, 2009 the Company's name was changed as Migros Ticaret A.Ş.. Migros operates in the Turkish organized retailing sector.

During the course of 2014, Migros has opened 15 Mini Tansaş, 5 Macrocenter, 3 5M and 173 Migros (109 Migros Jet, 44 M, 16 MM and 4 MMM) stores. The Company also opened 3 Ramstores abroad, 1 in Macedonia and 2 at Kazakhstan. Thus, 199 new investments were put into service in 2014. As of December 31, 2014, the Company owned a total of 1,190 stores. 273 Migros Jet, 319 M, 213 MM, 79 MMM, 212 Tansaş, 28 Macrocenter and 24 5M stores are located in 7 geographical regions domestically and 27 Ramstores are at Kazakhstan and 15 are in Macedonia.

Migros has reported a profit in 2014, but did not distribute any dividends to strengthen the Company's balance sheet and to carry a healthier cash flow for the coming years.

The Company shares are traded under "MGROS" code at BIST Star Market and MIGROS is a constituent of BIST 100 (XU100), BIST All Shares (XUTUM), BIST 50 (XU050), BIST 100-30 (XYUZO), BIST Services (XUHIZ), BIST Sustainability (XUSRD), BIST Wholesale and Retail Trade (XTCRT), and BIST Star (XYLDZ) indices.

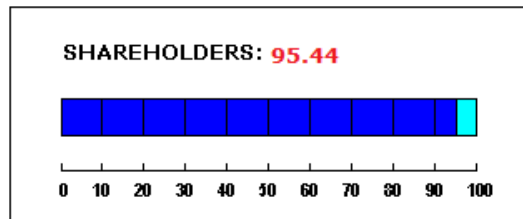
Migros's capital structure is as follows:

<b>Capital Structure</b>		
<b>Shareholder</b>	<b>Amount (TL)</b>	<b>Percentage %</b>
MH Perakendecilik ve Ticaret A.Ş.	89,015,000	50.00
Moonlight Capital S.A.	54,308,336	30.51
Other	34,706,664	19.49
<b>TOTAL</b>	<b>178,030,000</b>	<b>100.00</b>

The composition of the board of directors of Migros is as follows:

<b>MIGROS Board of Directors</b>	
<b>Name</b>	<b>Title</b>
Fevzi Bülent Özyaydınlı	Chairman
Tuncay Özilhan	Vice-chairman
Nikolaos Stathopoulos	Vice-chairman Corporate Governance Committee Member
Stefano Ferraresi	Board Member
Khalid Hilal Hamood Al Yahmadi	Board Member
Mehmet Hurşit Zorlu	Board Member Corporate Governance Committee Member Early Detection of Risk Committee Member
Salih Metin Ecevit	Board Member Early Detection of Risk Committee Member
Can Çaka	Board Member Corporate Governance Committee Member
Jacob Cornelio Adriano de Jonge	Independent Board Member Early Detection of Risk Committee Member Audit Committee Member Corporate Governance Committee Chairman
Tayfun Bayazıt	Independent Board Member Early Detection of Risk Committee Chairman
Hakkı Hasan Yılmaz	Independent Board Member Audit Committee Chairman
Aziz Bulgu	Independent Board Member

## SECTION 1: SHAREHOLDERS



### SYNOPSIS

+	Equal treatment of shareholders
+	Unrestricted shareholder rights to review and receive information
+	Voting rights are facilitated
+	No voting privileges
+	General shareholders' meetings are conducted in compliance with the legislation
+	No restrictions on transfer of shares
+	Policy on donations and grants approved at the general shareholders' meeting and disclosed to the public
+	A specific and consistent dividend distribution policy established
=	Minority rights are not recognized for shareholders who possess an amount less than one-twentieth of the share capital
-	Investment Relations Department Manager is not on the Corporate Governance Committee

#### 1.1. Facilitating the Exercise of Shareholders' Statutory Rights:

Migros's Investor Relations Department submits a report to the Corporate Governance Committee, Board of Directors and the CEO on the work carried under the name "Investor Relations Group Management". The Department is managed by the Investor Relations Group Manager, Dr. Affan Nomak. The Department manager is the holder of the Capital

Market Activities Advance Level and Corporate Governance Rating Specialist licenses. However, he has not yet taken part in the Corporate Governance Committee.

The Investor Relations Department plays an active role in protecting and facilitating shareholders' rights and in particular the right to obtain and review information. The unit fulfills the following duties:

- Ensure that the records relating to the written correspondence with the investors and other information are kept in a healthy, safe and updated manner.
- Respond to the queries of Migros shareholders requesting written information on the Company.
- Ensure that the general assembly meeting is held in compliance with the applicable legislation, articles of association and other Company by-laws.
- Prepare the documents that might be used by shareholders in the general shareholders' meeting.
- Supervise the fulfillment of the obligations arising from capital markets legislation including all corporate governance and public disclosure matters.

Requests for information are met and one-on-one meetings and teleconferences are held at the Company headquarters with foreign and domestic brokerage houses along with analysts and fund managers of portfolio management companies. Shareholders are able to request information either by directly



contacting the Investor Relations Department staff or by sending an e-mail to the Department using the contact form on the web site. In addition to investors' queries, the Department also responds to information requests and surveys sent within the scope of research conducted by universities and various public institutions, as well as detailed information requests received from brokerage houses at the time of their periodic valuation reviews. The Investor Relations Department maintains proper records of both the written and oral queries that it receives and of the responses given to them.

Information and explanations that may affect use of shareholders' rights are available and up to date on the corporate investor relations web site.

### **1.2. Shareholders' Right to Obtain and Evaluate Information:**

There is no evidence of any hindering process or application regarding the appointment of a special auditor at the request of shareholders and no such demand was received within the reporting period.

All kinds of information about the Company required by the legislation are provided in a complete, timely, honest, and diligent manner and there is no fine or warning received in this regard.

The Company has constituted a disclosure policy and submitted it to the attention of general shareholders' meeting and disclosed it to public on the corporate web site.

### **1.3 Minority Rights:**

Maximum care is given to the exercise of minority rights. However, minority rights are not recognized for shareholders who hold an amount less

than one-twentieth of the share capital and the Company has adopted exactly the rate foreseen in the legislation for listed companies.

There is no evidence of any conflict of interest between the majority shareholders and that of the Company.

### **1.4. General Shareholders' Meeting:**

In addition to the methods of invitation in the legislation and in order to ensure attendance of maximum number of shareholders, the invitation to the ordinary general shareholders' meeting held on April 9, 2015 is performed through all means of communication available to the Company on March 13, 2015 in accordance with the Corporate Governance Principles.

All announcements prior to the general shareholders' meeting included information such as the date and time of the meeting; without any ambiguity exact location of the meeting; agenda items of the meeting; the body inviting to the general shareholders' meeting; and the exact location where annual report, financial statements and other meeting documents can be examined. A descriptive disclosure document on agenda items has been prepared.

Commencing from the date of announcement of invitation for the general shareholders' meeting; the annual report, financial statements and reports, and all other related documents pertaining to the agenda items along with the dividend distribution proposition are made available to all shareholders for examination purposes in convenient locations including the headquarters of the Company, and the electronic media.

Shareholders are informed of the following issues prior to the general

shareholders' meeting via the corporate web site:

- a. The total number of shares and voting rights reflecting Migros's shareholding structure as of the date of disclosure, and that there are no privileged share groups within the Company capital.
- b. Information on changes in management and activities of the Company and its subsidiaries in the previous fiscal year, or planned for the upcoming fiscal period which can significantly affect the Company operations.
- c. Grounds for dismissal and replacement of board members, candidates' backgrounds and tasks carried out in the last decade, the nature and significance level of their relationship with the Company and its related parties, whether they are independent or not, and information on similar issues.

Agenda items were put under a separate heading and expressed clearly in a manner not to result in any misinterpretations. Expressions like "other" and "various" were not used. Information submitted to the shareholders prior to the conduct of the general shareholders' meeting was related to the agenda items.

Items on the agenda were conveyed in detail and in a clear and understandable way by the chairman of the meeting and shareholders were given equal opportunity to voice their opinions and ask questions. It has been declared that there were no questions asked in this regard at the general shareholders' meeting.

It is also declared that the members of the board of directors related with those issues of a special nature on the agenda, other related persons, authorized persons who are

responsible for preparing the financial statements and representatives of the external audit company were present to give necessary information and to answer questions at the general shareholders' meeting.

The Company has established a policy on donations and grants and submitted it to the general shareholders' meeting for approval. Shareholders are informed, with a separate agenda item, of amount and beneficiaries on all donations and grants effectuated during the reporting period.

Stakeholders and media are allowed to attend the general shareholders' meetings with no voting rights, but no such mention is included in the articles of association.

#### **1.5. Voting Rights:**

There are no voting privileges at Migros and all shareholders, including those who reside abroad, are given the opportunity to exercise their voting rights conveniently and appropriately.

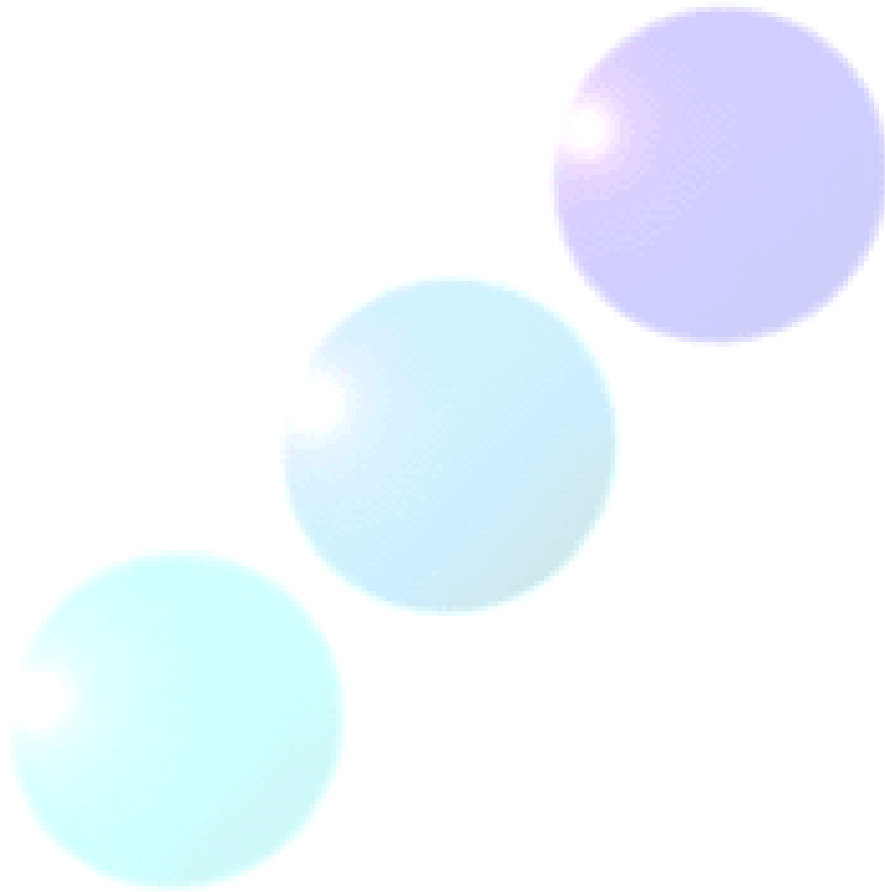
#### **1.6. Dividend Rights:**

The dividend policy of Migros is clearly defined and disclosed to public on the corporate web site. It is submitted to the shareholders at the general shareholders' meeting and is incorporated in the annual report.

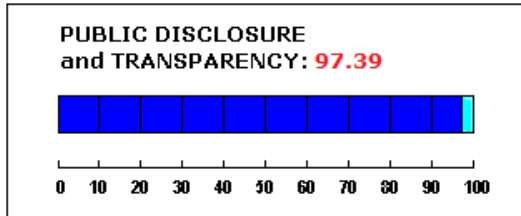
Company's dividend distribution policy contains minimum information clear enough for investors to predict any future dividend distribution procedures and principles. A balanced policy is followed between the interests of the shareholders and those of the Company. The dividend distribution proposal contained all necessary information. The articles of association contain a provision on advance dividend payments.

### **1.7. Transfer of Shares:**

Neither the articles of association nor any decisions adopted at the general shareholders' meeting contain any provisions that impede the transfer of shares.



## SECTION 2: PUBLIC DISCLOSURE AND TRANSPARENCY



### SYNOPSIS

+	Comprehensive Disclosure Policy, disclosed to public on the corporate web site
+	Comprehensive web site, actively used for public disclosure
+	Annual report complies with the legislation, comprehensive and informative
+	Important events and developments disclosed in accordance with the legislation
+	Ultimate controlling shareholders with a share higher than 5% within the shareholding structure are made public
+	English version of the web site for international investors
+	Remuneration policy established and disclosed to public on the corporate web site
+	Dividend distribution policy disclosed to public via corporate web site
=	Benefits provided to board members and senior executives are not mentioned on individual basis in the annual report

#### 2.1. Corporate Web Site:

Company's web site is actively used for disclosure purposes and the information contained therein is timely updated.

Along with the information required to be disclosed pursuant to the legislation, the corporate web site includes; trade register information, information about latest shareholder and management structure, the date and the number of the trade registry gazette on which the changes are published along with the final version of the Company's articles of association, publicly disclosed material information, periodical financial statements, annual reports, prospectuses and circulars and other public disclosure documents, agendas of the general shareholders' meetings and list of participants and minutes of the general shareholders' meeting, form for proxy voting at the general shareholders' meeting, disclosure policy, dividend distribution policy, ethical rules of the Company, frequently asked questions, and responses thereof.

In this context, information on at least the last five years can be reached on the web site.

The Company's shareholding structure; the names, amount and rate of the shares held by the Company's ultimate controlling individual shareholders over 5% as identified after being released from indirect or cross shareholding relationships between co-owners is disclosed to the public through the corporate web site.

The information contained on the web site exists also in English for the benefit of international investors and is identical to the Turkish content.

The Company's web site also includes; investor presentations, the donation policy, working principles of the committees, important board decisions

under the heading of material disclosures, the vision/mission of the Company established by the board, information on dividend payments and capital increases for the last 5 years, news, general shareholders' meeting internal guidelines, social responsibility activities, the sustainability report, information on senior management, financial data, main ratio analyses, corporate web site disclaimer, terms of use and privacy policy, timetable on events and developments which may interest investors, and the human resources policy.

## 2.2. Annual Report:

Annual report is prepared in detail by the board of directors to provide public access to complete and accurate information on the Company and it covers information such as;

- a. Period covered by the report, the title of the Company, contact information,
- b. The names of the chairman and members served on the board and the committees during the covered period,
- c. The sectors in which the Company operates and information on its position in these sectors,
- d. Qualifications of the Company's units, general explanations related to their activities and performances, and yearly developments,
- e. Progress on investments, the eligibility status on incentives,
- f. Changes and justifications on the articles of association during the period,
- g. Corporate Governance Principles Compliance Report,
- h. Information on related party transactions,
- i. Other issues not included in the financial statements, but are beneficial for users,
- j. Company's organization, capital and ownership structure,

- k. Benefits provided to staff and workers, information on number of personnel,
- l. The dividend distribution policy,
- m. Explanations on privileged shares,
- n. Basic ratios on the financial position, profitability and solvency,
- o. Company's financing resources and risk management policies,
- p. Information on major events occurred between the closing of the accounting period and the date of the general shareholders' meeting where financial statements are evaluated.

In addition to the content specified in the legislation, the following also took place in the annual report:

- a. External duties of board members and executives,
- b. Declaration of independence of the related board members,
- c. Members of the committees within the board,
- d. The number of board meetings held during the year and participation rate of the members,
- e. Major court cases against the Company and possible consequences,
- f. Information on the fact that there is no cross share Company in excess of 5% of the capital,
- g. Benefits and vocational training of employees, and other Company activities that give rise to social and environmental results,
- h. Application status of the corporate governance principles as required by the CMB communiqué, explanations on reasons behind any non-compliance.

On the other hand, the trade registered number is not included and benefits provided to board members and senior executives are mentioned collectively. Working principles of the committees along with the scope of their activities and the assessment of the board of directors on the

committees can also be included in the annual report.

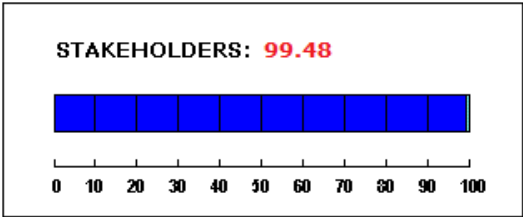
### **2.3. External Audit:**

The external audit of the Company is conducted by Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.

There has not been a situation during the reporting period where the external auditor avoided to express its opinion and not signed the audit report, nor has reported a qualified opinion. It has been declared by the Company officials that there has been no legal conflict between the Company and the external audit firm.

Independent audit firm and their audit staff did not provide consulting services for a price or free of charge during the audit period. No consulting company in which the external audit firm is in a dominant position either directly or indirectly in management or capital provided any consulting services during the same period.

# SECTION 3: STAKEHOLDERS



SYNOPSIS	
+	Measures to safeguard stakeholders' rights are facilitated
+	Efficient Human Resources policy
+	Stakeholders' views are taken on important decisions
+	Code of ethics disclosed to the public
+	Company is socially and environmentally sensitive and respectful
+	Existence of a trade union
+	Social responsibility projects implemented
+	There are written regulations regarding the participation of stakeholders in the management of the Company
+	A written employee compensation policy is established and disclosed to the public on the web site

### **3.1. Company Policy Regarding Stakeholders:**

Migros recognizes the rights of stakeholders established by law or through any other mutual agreement. In case the rights of the stakeholders are not regulated by the relevant legislation and protected by contracts, the Company protects the interest of stakeholders under good faith principles and within the capabilities of the Company. Effective and expeditious compensation is provided in case of violation of the rights.

The corporate web site of the Company is also actively used to provide adequate information on policies and procedures towards the protection of stakeholders' rights.

The corporate governance implementation of the Company ensures that its stakeholders, including its employees and representatives, report their concerns regarding any illegal or unethical transactions to the management.

Employees can convey any transaction that contradicts with the legislation and is ethically inappropriate to the Committee Responsible of Audit and to the Audit Unit. Stakeholders have the opportunity to directly contact via e-mail with members of the Corporate Governance Committee or the Audit Committee as well as individuals authorized to disseminate information as prescribed by the Company Disclosure Policy with regard to the Company's conduct or transactions in breach of applicable law and regulations or ethical norms.

In addition, a documented compensation policy for employees is established.

### **3.2. Stakeholders' Participation in the Company Management:**

Although there is no formal model established for direct participation of stakeholders other than employees in management, keeping all lines of communication open and eliminating all possible encumbrances are fundamental principles embraced to allow participation of the Company employees in management.

The Company maintains constant communication with employees, pays due regard to their needs, and creates various platforms and mechanisms by which employees can convey their opinions and comments.

Internal meetings are held, which are attended by the Company employees when necessary. These meetings play a significant role in the decision-making process of senior management. Expectations and demands from all stakeholders involved with the Company are addressed on the basis of code of ethics and resolved through mutual communication.

In addition, the aforementioned model is documented in the internal regulations as guidelines on supporting the participation of stakeholders in the Company management.

### **3.3. Company Policy on Human Resources:**

The Company has a documented human resources policy.

Recruitment and career planning are conducted on the basis of equality and transparency is ensured. The criteria for hiring employees are documented in writing and the Company complies with these criteria. All employees are treated with fairness and equality in terms of the benefits provided to them; training programs are provided to enhance employee knowledge, skills and conduct; and training policies are formulated.

Informative meetings are organized for employees about the Company's financial position as well as compensation, career, training and health related issues where opinions are exchanged.

Recruitment activities are carried out within the scope of Recruitment

Charter. Competencies required for each position are determined within the scope of the project conducted together with a human resources consulting firm and are used in all recruitment activities. Job descriptions are defined for all positions and their revisions are realized at regular intervals.

Job descriptions and distribution of the Company's employees as well as performance and rewarding criteria are announced to the employees. Productivity is a major criterion in determining the salary and other benefits provided to the employees.

Coordination meetings are organized on a regular basis with the participation of senior management to share information on issues such as financial position of the Company, remuneration, career, training and health. Following the meetings, senior managers inform their respective Groups on related issues on a regular basis.

Migros Retailing Academy (MRA) provides training on human resources policies and occupational safety. In addition, MRA employees are given training for professional and personal development. The Company receives feedback from the staff on human resources implementations and publishes them in the *Panoramik* magazine.

A Collective Bargaining Agreement covering the period between May 2014 and April 2017 is signed with the Tez-Koop-İş Union (Turkish Trade, Cooperatives, Education, and Fine Arts Office Workers Union).

### **3.4. Relations with Customers and Suppliers:**

Migros has taken all necessary precautions to attain customer



satisfaction in the sales and marketing of its products and services.

Correct and complete information is provided to customers in marketing and sale of the Company services. Care is taken for all related documents, printed and visual materials to reflect all features of the product to achieve customer satisfaction. Appointment of competent and relevant staff is secured to provide contact with customers for all matters pre-sales, during sales and after sales.

The Company complies with quality standards of products and services and strives to maintain these standards.

Within the framework of protection of trade secrets, care is taken on the confidentiality of information about customers and suppliers.

### **3.5. Ethical Rules & Social Responsibility:**

The ethical rules of Migros is publicly disclosed on the corporate web site.

The Company expends maximum effort to be sensitive to its social responsibilities in its operations. It complies with all regulations regarding the environment, consumers and public health, as well as ethical rules, and directs and supports its subsidiaries to behave in the same manner.

On April 29, 2014 Migros Group was awarded the prize of "ETIKA 2014 Turkey's Most Ethical Companies" given by the Ethical Values Center (EDMER).

### **3.6. Sustainability:**

By reporting on its sustainability performance, the Company aims to assess, monitor, measure and manage its potential impacts on its

stakeholders as well as on the environment in the course of conducting its daily operations. In this context, the Company is included in the Istanbul Stock Exchange (BIST) Sustainability Index, created in 2014.

Migros adheres to universal human rights and the International Labor Organization Standards. Since 1972 the Company has created a sound business environment with respect to the right of unionization. Constructive dialogue between the trade union and Migros covers such diverse topics like the elimination of forced labor and child labor, complying with all local rules and regulations and being fair and impartial.

Migros is a member of Environmental Protection and Packaging Waste Recovery and Recycling Trust (ÇEVKO). Studies to "Recover, Recycle and Reuse Packaging Waste" are conducted at the stores. Migros collaborates with ÇEVKO on an "Integrated Waste Management Plan".

Migros has brought a systematic approach to collection of "Vegetable Oil Waste" in its stores thus contributing to the cleaning of seas through the Clean Sea Foundation (TURMEPA).

To increase collection of battery waste, Migros located battery waste collection boxes in cooperation with TAP (Portable Battery Manufacturers & Importers Association) in stores. In support for recycling, these batteries are delivered to TAP with regular intervals.

The Company also conducts studies in the field of "Education". A total of 47 thousand books have been donated in all Migros stores located at 70 different provinces through collaboration with the *Books For Everybody Foundation*. Books collected under this project are distributed to schools and libraries.

In the field of Culture & Arts Migros is in cooperation with the State Theatres since 21 years. In this context, Migros buys the tickets of children's plays staged in Turkey's 11 provinces and distributes them free of charge through the week of April 23 National Sovereignty and Children's Day celebrations. Thanks to the project, it has been ensured so far half a million children can watch theatre for free.

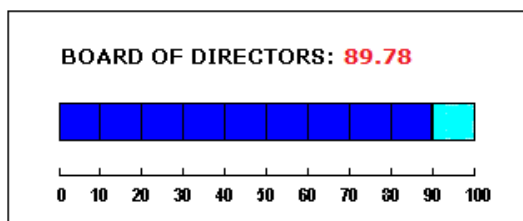
Under an agreement between Migros and the Animal Rights Federation (HAYTAP), products at some Migros stores that have passed their sell-by date are donated to the federation in support of its efforts to feed stray animals.

Migros is the holder of TS EN ISO 9001 Quality Management Systems, TS EN ISO 22000 Food Safety Management Systems, TS ISO 10002 Customer Satisfaction Management Systems and OHSAS 18001 Occupational Health and Safety Management Systems certifications issued by the Turkish Standards Institution.

Migros received the Bronze Effie Award on May 12, 2015 for the launch of *Only in Migros* project at the *Effie Turkey Advertising Efficiency* competition organized by the Association of Advertising Agencies and Advertisers Association.

Migros Group was awarded with the prize of Most Successful Social Media Use on November 27, 2014 issued by "Retail Sun Awards" for the application of "Social Media in 360 Degrees".

## SECTION 4: BOARD OF DIRECTORS



### SYNOPSIS

+	Vision, mission and strategic goals are defined
+	The board works efficiently and staffed with qualified members
+	4 independent board members
+	Audit, Corporate Governance and Early Detection of Risk Committees are established and functional
+	Principles of remuneration of board members and senior executives are established and disclosed to the public
+	Chairman of the board and the CEO are not the same person
+	Each member has a right to a single vote
+	The conduct of the board of directors meetings is defined in internal regulations and meeting and decision quorums have been included in the articles of association
+	Any potential losses incurred by the Company and third parties as a result of misconduct by executives are insured with an amount exceeding 25% of the company's capital
-	No female members on the board
-	No policy established, no target or timing set for a minimum 25% female board membership rate
-	Remuneration and benefits provided to board members and to managers with administrative

responsibility not made public on individual basis

#### 4.1. Functions of the Board of Directors:

Strategic decisions of the board of directors aim to manage the Company's risk, growth, and return balance at an appropriate level and conduct a rational and cautious risk management approach with a view to the long-term interests of Migros. The board administers and represents the Company within these parameters.

The board of directors has defined the Company's strategic goals and identified the needs in human and financial resources, and controls management's performance. The board also oversees that Company activities are managed in compliance with the legislation, articles of association, internal procedures and established policies.

#### 4.2. Principles of Activity of the Board of Directors:

Board of directors performs its activities in a transparent, accountable, fair and responsible manner.

Distribution of tasks between the members of the board of directors is explained in the annual report. The board of directors established internal control systems which are inclusive of risk management, information systems, and processes by also taking into consideration the views of the committees. In this context, the board reviews the effectiveness of risk management and internal control systems at least once a year.

The presence, functioning, and effectiveness of internal controls and internal audit are explained in the annual report. Chairman of the board and general manager's executive powers are separated and this separation is documented in the articles of association. There is no individual in the Company who has unlimited authority to take decisions on his/her own.

The board of directors plays a leading role in maintaining effective communication between the Company and the shareholders and settling any disputes which may arise and works in close coordination with the Corporate Governance Committee and "Investor Relations" department.

Defects and damages that may be caused by the board members during the execution of their duties have been insured and this matter is disclosed on the Public Disclosure Platform (KAP) via the annual report.

#### **4.3. Structure of the Board of Directors:**

Migros's board of directors is composed of twelve members and none of them are executive. There are four independent members who have the ability to execute their duties without being influenced under any circumstances.

No upper limit for the number of independent board members is mentioned in the articles of association. Tenure of office for independent members is designated as three years.

The Corporate Governance Committee have prepared a report on the candidates proposed by the board and shareholders, by taking into consideration of whether or not the candidate meets the independency criteria, and submitted this

assessment as a report to the board for its approval. CMB criteria are complied with in determining independent candidates. Independent candidates for the board of directors have signed a declaration of independence within the framework of the legislation, articles of association, and the CMB criteria.

There are no female members on the board. The Company has not yet prepared a policy or set a timetable to reach the Corporate Governance Principles' advisory target of minimum 25% female board membership rate.

#### **4.4. Conduct of the Meetings of the Board of Directors:**

Board meetings take place with sufficient frequency. It has been declared that 17 resolutions were passed during the last fiscal year. All members allocate sufficient time for all of the Company's business and show care to participate in each meeting.

Chairman of the board of directors sets the agenda for board meetings in consultation with other members and the general manager. Information on the agenda items of the board of directors is made available to the members in sufficient time prior to the meeting date.

Each member is entitled to a single vote.

The conduct of the board of directors meetings is documented in internal regulations and meeting and decision quorums have been included in the articles of association of the Company.

There are no certain rules or limitations for board members taking on additional duties as executives and/or board members outside the Company. The Company has declared that this does not lead to any conflict of interest.

Shareholders are informed of external duties of the board members through the annual report and Corporate Governance Compliance Report

#### **4.5. Committees Established Within the Board of Directors:**

Corporate Governance, Audit and Early Detection of Risk Committees are established from within the board of directors in order to fulfill its duties and responsibilities duly.

Functions of the committees, their working principles, and members are designated by the board of directors and disclosed to public on the corporate web site.

All members of the Audit Committee are elected among the independent board members. Also the chairmen of the Corporate Governance and Early Detection of Risk Committees are elected among the independent board members. The Corporate Governance Committee is composed of four, Early Detection of Risk Committee of five and the Audit Committee of two members. The general manager is not on the committees.

All necessary resources and support needed to fulfill the tasks of the committees are provided by the board of directors. Committees can invite any manager as they deem necessary to their meetings and obtain their views.

The frequency of committee meetings is sufficient, all activities are documented and records are kept. Reports containing information about the activities and the resolutions of the meetings are submitted to the board of directors.

Audit Committee supervises the operation and efficiency of the Company's accounting system, public disclosure, external audit and internal

audit systems, reviews complaints that are received by the Company regarding Company accounting, internal and external independent audit systems, within the framework of the principle of confidentiality and finalizes them, notifies the board in writing on findings related to their duties and responsibilities and the related assessment and recommendations, following taking the opinion of responsible managers of the Company and the external auditor notifies the board in writing on whether the annual and interim statements disclosed to the public is in accordance with the Company's accounting principles, true and accurate. The committee has convened four times during the course of the reporting period.

Audit Committee members possess the qualifications listed in the Corporate Governance Principles communiqué.

The annual report contains information on activities and meeting resolutions of the Audit Committee and that it has submitted reports covering findings and assessments to the board of directors in the reporting period.

The nomination and election process of the external audit firm, taking into account its competence and independence, starts with a proposal from the audit committee to the board.

The Corporate Governance Committee is established in order to determine whether or not the corporate governance principles are being fully implemented by the Company, if implementation of some of the principles are not possible, the reasons thereof, and assess any conflict of interests arising as a result of lack of implementation of these principles, and present remedial advices to the board of directors. In addition, it oversees the work of the "Investor

Relations" department. Manager of the Investor Relations Department is not in the Corporate Governance Committee. The Committee has convened four times during the period.

Since Nomination and Remuneration Committees are not established, their duties are carried out by the Corporate Governance Committee. The proposals for independent board membership candidacy are evaluated taking into consideration whether the candidates possess the criteria for independence under the applicable legislation and these assessments are documented.

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 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.

Revising, changing and re-evaluation of principles, as well as criteria and applications on remuneration, and submission of the views to the board in the upcoming reporting periods and when necessary, will be closely monitored by us.

The Early Detection of Risk Committee carries out its tasks towards early detection of risks which may jeopardize the Company's assets, its development and progression, and measures taken to mitigate and manage those risks. It reviews risk management systems every two months and finalizes relevant reports.

#### **4.6. Remuneration of the Board of Directors and Senior Management:**

The board of directors explained in the annual report whether the operational and financial targets disclosed to the public are met or not, along with reasons behind possible shortcomings. The principles of remuneration of board members and senior executives have been documented in writing and submitted to the shareholders as a separate item at the general shareholders' meeting. A remuneration policy prepared for this purpose can be found on the Company's web site.

Stock options or performance based payments are not included in the remuneration package of the independent board members. Their remuneration is designated at a level to maintain their independence

Migros does not lend any funds or extend any credits to a member of the board or to senior executives, or grant any personal loans through a third party, or extend any guarantees.

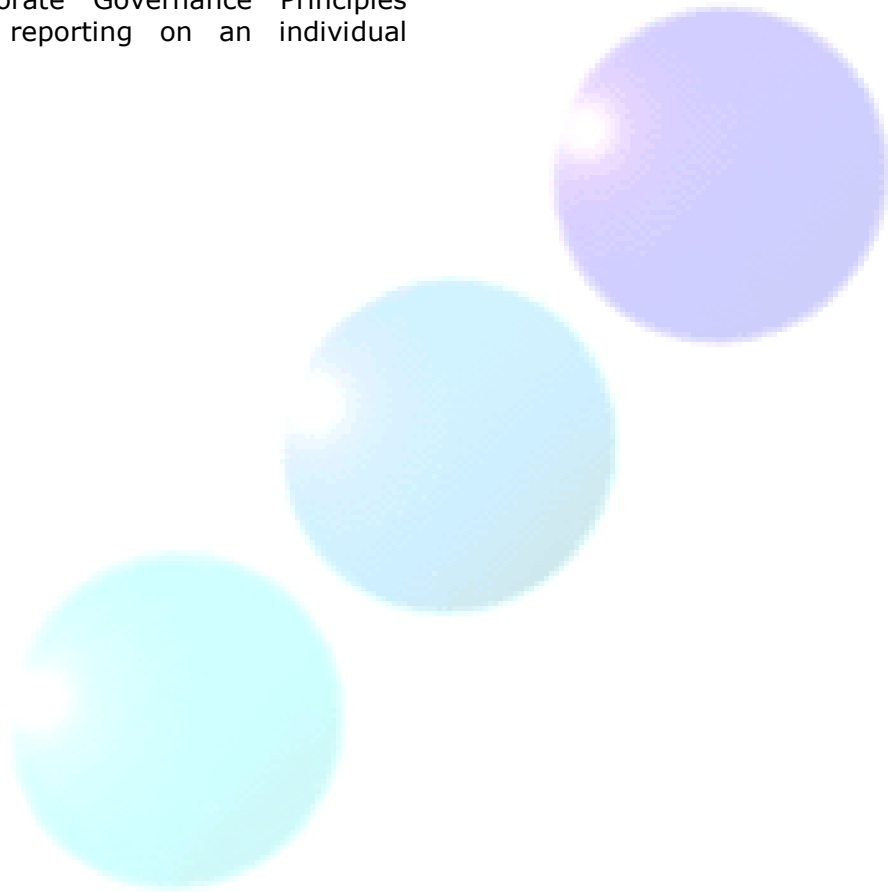
The executives have the required professional qualifications in order to perform the assigned duties. They comply with the legislation, articles of association, and in-house regulations and policies in fulfilling their duties.

There has been no cases where the executives used confidential and non-public Company information in favor of themselves or others. There are no executives who accepted a gift or favor directly or indirectly related to the Company's affairs, and provided unfair advantage.

Losses that may be incurred by the Company as a result of not performing the board members' and executives' duties duly are insured for an amount in excess of 25% of the Company capital.

Remuneration of executives is consistent with the Company's ethical values, inner balance, and strategic objectives, and it is not associated only with the Company's short-term performance.

Remuneration of board members and managers with administrative responsibility as well as benefits provided are mentioned collectively in the annual report. Full implementation of Corporate Governance Principles dictates reporting on an individual basis.



## Rating Definitions

Rating	Definition
9 - 10	The company performs <b>very good</b> in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified and actively managed all significant corporate governance risks through comprehensive internal controls and management systems. The company's performance is considered to represent best practice, and it had almost no deficiencies in any of the areas rated.
7 - 8	The company performs <b>good</b> in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified all its material corporate governance risks and is actively managing the majority of them through internal controls and management systems. During the rating process, minor deficiencies were found in one or two of the areas rated. Deserved to be included in the ISE Corporate Governance Index on the highest level.
6	The company performs <b>fair</b> in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified the majority of its material corporate governance risks and is beginning to actively manage them. Management accountability is considered in accordance with national standards but may be lagging behind international best practice. During the ratings process, minor deficiencies were identified in more than two of the areas rated.
4 - 5	The company performs <b>weakly</b> as a result of poor corporate governance policies and practices. The company has, to varying degrees, identified its minimum obligations but does not demonstrate an effective, integrated system of controls for managing related risks. Assurance mechanisms are weak. The rating has identified significant deficiencies in a number (but not the majority) of areas rated.
<4	The company performs <b>very weakly</b> and its corporate governance policies and practices are overall very poor. The company shows limited awareness of corporate governance risks, and internal controls are almost non-existent. Significant deficiencies are apparent in the majority of areas rated and have led to significant material loss and investor concern.



#### DISCLAIMER

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This report, conducted by SAHA A.Ş. analysts and based on their best intentions, knowledge base and experience, is the product of an in depth study of the available information which is believed to be correct as of this date. It is a final opinion about the degree of sensitivity of a company to its shareholders' and stakeholders' rights, its commitment to public disclosure and transparency, and conduct and credibility of its board of directors.

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