

MİGROS



MİGROS TİCARET A.Ş.

01.01.2018 – 31.03.2018 INTERIM ANNUAL REPORT
PREPARED PURSUANT TO THE CMB SERIES:II NO:14.1

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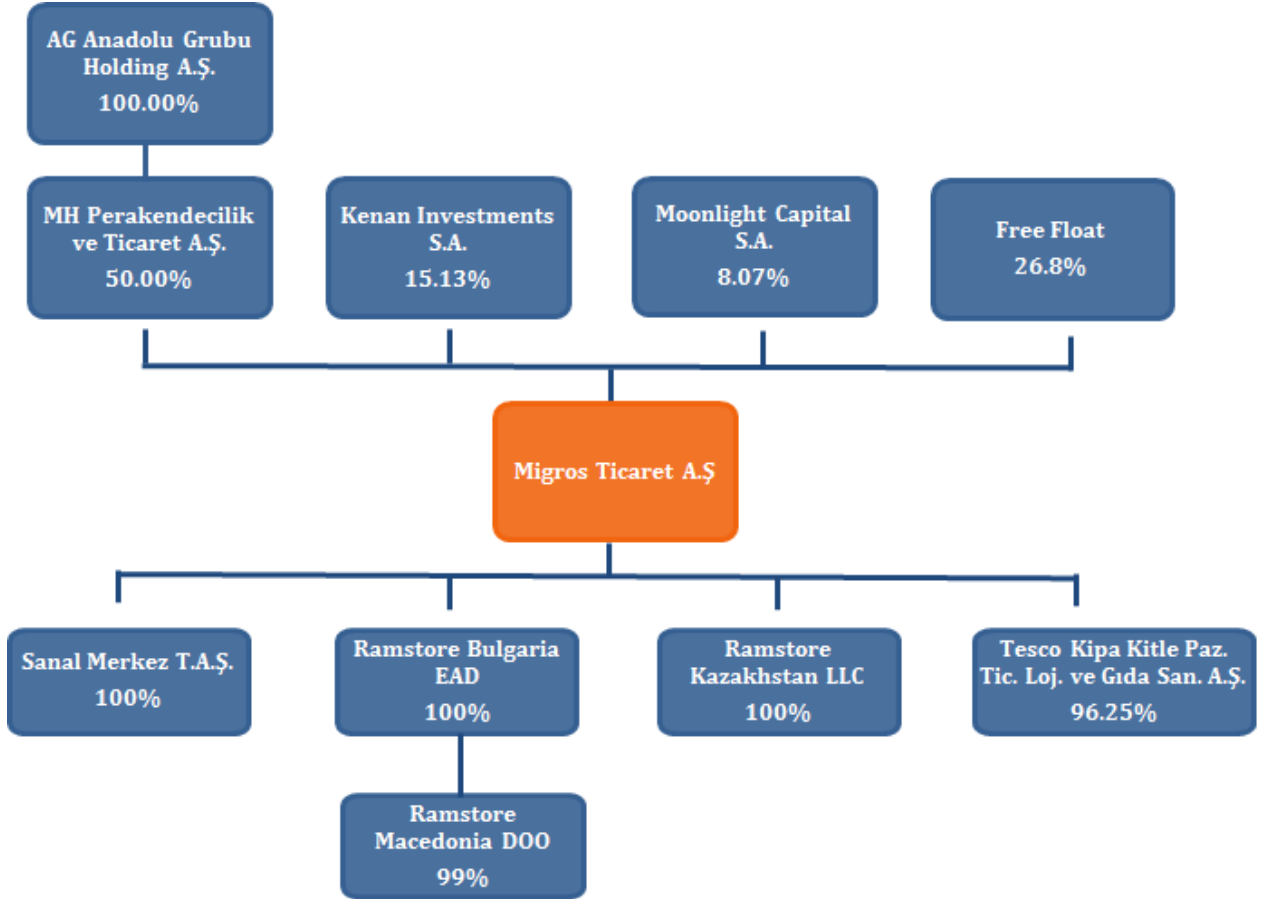
CORPORATE PROFILE

Company	: Migros Ticaret A.Ş.
The Date of Foundation*	: 19.03.2008
Trade Registry Office	: Istanbul Trade Registry Office
Trade Registry Number	: 659896
Tax Administration	: Büyük Mükellefler Vergi Dairesi
Tax ID	: 6220529513
Address	: Atatürk Mahallesi Turgut Özal Bulvarı No: 7 34758 Ataşehir - İstanbul
Phone	: 0216 579 30 00
Fax	: 0216 579 35 00
Corporate Web Site	: www.migroskurumsal.com
E-mail	: malimigros@migros.com.tr
Capital	: TL 178,030,000
Stock Exchange	: Borsa İstanbul
Listing Year at the Stock Exchange**	: 2009
Symbol	: MGROS.IS

(*): Migros Türk T.A.Ş. and Moonlight Perakendecilik ve Ticaret A.Ş., established in March 19, 2008, were merged on April 30, 2009. Moonlight changed its name to Migros Ticaret A.Ş. subsequent to the merger.

(**): It is the first listing date of Migros Ticaret A.Ş. in ISE following the merger with Migros Türk T.A.Ş.

Migros Ticaret A.Ş. Current Ownership Structure and Its Subsidiaries



As stated in the material event disclosure dated 29 November 2017, Moonlight Capital S.A., carried out an outright sales of Migros shares with a nominal value of TRL 13,000,000. 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.

INTRODUCTION: AN ECONOMIC REVIEW AND RETAIL MARKET

Gross Domestic Product (GDP) grew by 7.4% in 2017 in real terms. The consumption expenditure of households increased by 6.1% during the same period.

The CPI, which was 11.92% in 2017, grew by 10.23% in March 2018 versus the same month of the previous year. The prices of food and non-alcoholic beverages rose by 10.37% in comparison to last year. According to the latest Inflation Report of the Central Bank of Turkey (CBRT), the annual CPI is expected to be between 7.2% and 9.6% (mid-point of 8.4%) by the end of 2018.

SECTION 1: CORPORATE INFORMATION

Board of Directors

The Board of Directors of Migros Ticaret A.Ş. consists of 12 members, of which four are independent members. All the board members except Ömer Özgür Tort are non-executives. The current Board members of our Company are shown below.

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

At the ordinary general assembly meeting held on April 11, 2017, Tuncay Özilhan, Nikolaos Stathopoulos, Salih Metin Ecevit, Talip Altuğ Aksoy, Kamilhan Süleyman Yazıcı, Stefano Ferraresi, Salim Abdullah Khalfan Al Ma'mari, Ömer Özgür Tort were elected as members of the Board of Directors and Jacob Cornelio Adriano de Jonge, Tayfun Bayazıt, Hakkı Hasan Yılmaz and İzzet Karaca were elected as independent members of the Board of Directors until the General Assembly Meeting of the Company's for the year of 2017. According to the Board decision dated 20 April 2017, Tuncay Özilhan was elected as the Chairman of the Board and Nikolaos Stathopoulos as the Vice-Chairman.

Information on external positions held by Board members and Independent Board Members' Affidavit is provided at the Company corporate website at www.migroskurumsal.com. 10 Board resolutions were taken in the first quarter of 2018.

Authorities, Duties and Term of Office of the Board of Directors

According to the Articles of Association of the Company, the Board of Directors have the authority to take any decision with the exception of matters that needs the resolution of the General Assembly in accordance with the laws and Company's Articles of Association. The Board of Directors of the Company were appointed at the 2016 Ordinary General Assembly Meeting dated April 11, 2017 until the General Assembly Meeting in which the Company's 2017 accounts are to be discussed .

Committees of Board of Directors

In accordance with the Board of Directors resolution dated May 8, 2017, it was resolved that, within the scope of the Communiqué on Corporate Governance (II-17.1) of the Capital Markets Board ("CMB"), the Corporate Governance Committee shall be responsible for the duties of the Nomination Committee and Remuneration Committees and that the committees of our Company shall comprise of the following members.

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

Corporate Governance Committee		
Jacob Cornelio Adriano de Jonge	President	Non-executive
Nikolaos Stathopoulos	Member	Non-executive
Mehmet Hurşit Zorlu	Member	Non-executive
İzzet Karaca	Member	Non-executive
Affan Nomak	Member	Head of Investor Relations

Early Recognition of Risk Committee		
Tayfun Bayazıt	President	Non-executive
Hakkı Hasan Yılmaz	Member	Non-executive
Erkin Yılmaz	Member	CFO

Working Principles of Committees

Working Principles of the Audit Committee

Scope and Objective

The Audit Committee, which was formed under the framework of the Capital Markets legislation, is continuing its activities under the auspices of the Board of Directors.

The objective of the Audit Committee is to oversee the operation of the Company's accounting and reporting system in line with the relevant law and regulatory framework, the audit and disclosure to the public of financial information, the operation and effectiveness of the independent audit and internal control systems are monitored.

Authority

The Audit Committee is formed and authorized by the Board of Directors. The Board of Directors determines the scope of the Audit Committee's duties as well as the working principles applicable thereto. The Audit Committee may make use of independent expert opinions on matters it may deem necessary with regards to its activities and the cost of such consultancy service shall be covered by the Company.

The committee acts within the scope of its own authority and responsibility and may advise the Board of Directors but ultimately the responsibility for making decisions lies with the Board of Directors at all times.

The detailed information on the structure of the Committee and its meetings, its duties and responsibilities, its basis and its effectiveness are provided in our corporate website (www.migroskurumsal.com) under the Investor Relations tab.

Working Principles of the Corporate Governance Committee

Scope and Objective

The Corporate Governance Committee, which was formed under the framework of the Capital Markets legislation, is continuing its activities under the auspices of the Board of Directors.

The objective of the Corporate Governance Committee, in line with the Communiqué on Corporate Governance (II.17.1) of the Capital Market Board, is to ascertain whether or not the corporate governance principles are being implemented at our Company, if not, the reason for such failure and the conflict of interests arising from this failure to fully comply with these principles, to advise the Board of Directors on improving corporate governance implementation and monitoring the efforts of the Investor Relations Department.

Pursuant to the Communiqué on Corporate Governance, the Corporate Governance Committee also carries out the duties of the Nomination Committee and the Remuneration Committee.

Authority

The Corporate Governance Committee is formed and authorized by the Board of Directors. The Board of Directors determines the scope of the Corporate Governance Committee's duties as well as the working principles applicable thereto. The Corporate Governance Committee may make use of independent expert opinions on matters it may deem necessary with regards to its activities and the cost of such consultancy service shall be covered by the Company.

The committee acts within the scope of its own authority and responsibility and may advise the Board of Directors, but ultimately the responsibility for making decisions lies with the Board of Directors at all times.

The detailed information on the structure of the Committee and its meetings, its duties and responsibilities, its basis and its effectiveness are provided in our corporate website (www.migroskurumsal.com) under the Investor Relations tab.

Working Principles of The Early Detection Of Risk Committee

Scope and Objective

The Early Detection of Risk Committee, which was formed under the framework of the Capital Markets legislation and article 378 of the Turkish Commercial Code, is continuing its activities under the auspices of the Board of Directors.

The objective of the Early Detection of Risk Committee is to determine risks that could endanger the existence, development and continuity of the Company, the implementation of precautions necessary in relation to the risks that have been identified and the management of those risks.

Authority

The Early Detection of Risk Committee is formed and authorized by the Board of Directors. The Board of Directors determines the scope of the Early Detection of Risk Committee's duties as well as the working principles applicable thereto. The Early Detection of Risk Committee may make use of independent expert opinions on matters it may deem necessary with regards to its activities and the cost of such consultancy service shall be covered by the Company.

The committee acts within the scope of its own authority and responsibility and advises the Board of Directors, but ultimately the responsibility for making decisions lies with the Board of Directors at all times.

The detailed information on the structure of the Committee and its meetings, its duties and responsibilities, its basis and its effectiveness are provided in our corporate website (www.migroskurumsal.com) under the Investor Relations tab.

Senior Management

Senior Management	
Ömer Özgür Tort	CEO
Ahmet Fuat Yanar	COO (Chief Operations Officer)
Erkin Yılmaz	CFO (Chief Financial Officer)
Demir Aytaç	CHRO (Chief Human Resources Officer)
Cem Lütfi Rodoslu	CMO (Chief Marketing Officer)
Hakan Şevki Tuncer	CPO (Chief Expansion & Property Officer)
Tarık Karlıdağ	CCO (Chief Construction Officer)
Mustafa Murat Bartın	CASO (Chief Alternative Sales Channels Officer)

Senior management compensation

The Company has determined senior management personnel as chairman, members of Board of Directors, general manager and vice general managers.

Total compensation provided to key management personnel by the Company for the periods ended 31 March 2018 and 31 March 2017 has been provided at Note 19 of Condensed Consolidated Financial Statements for the Interim Period 1 January – 31 March 2018 of the Company.

Key management compensation paid or payable consists of benefits, salaries, premiums, individual pension premiums, vehicle rents and social security insurance employer shares.

Number of Employees

As of 31 March 2018, the Company employs an average of 26,992 employees including its subsidiaries in Turkey and abroad (31 December 2017: 26,779).

Subsidiaries

The Company has the following 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:

As of March 31, 2018;

Subsidiaries	Country of incorporation	Geographical segment	Nature of business	Mar. 2018 (%)	Dec. 2017 (%)
Ramstore Bulgaria E.A.D.	Bulgaria	Bulgaria	Dormant	100.0	100.0
Ramstore Kazakhstan LLC	Kazakhstan	Kazakhstan	Retailing	100.0	100.0
Ramstore Macedonia DOO	Macedonia	Bulgaria	Retailing	99.0	99.0
Sanal Merkez Ticaret A.Ş. (*)	Turkey	Turkey	Dormant	100.0	100.0
Kipa Ticaret A.Ş.	Turkey	Turkey	Retailing	96.25	96.25

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

The shareholding structure of Migros Ticaret A.Ş.

As stated in the Company's Articles of Association, there are no privileges in voting rights. All votes are equal. Shareholders may exercise their voting rights during the General Assembly pro rata the total nominal value of their shares. There are no shareholders with whom there is a cross-shareholder relationship. The groups specified in the Articles of Association do not hold any privileged rights to be represented on the Board of Directors and/or any other similar special rights. The Company doesn't hold its own Company shares.

The names of shareholders, shareholding amounts and percentages of the shareholders holding more than 5% of the TL 178,030,000 capital, are as follows:

As of March 31, 2018;

Migros Ticaret A.Ş.		
Shareholder	Share (%)	Amount (TL)
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	26.8	47,706,664
Total	100.00	178,030,000

Information About the Most Recent Capital Increase

No increase was made in the capital during January 01 – March 31, 2018.

Information on General Assembly Meeting

General Assembly Meeting

Meeting Minutes and List of Attendees pertaining to 2016 Ordinary General Assembly Meeting of our Company dated April 11, 2017 were disclosed in our corporate web site (www.migroskurumsal.com). In the Ordinary General Assembly Meeting, the statutory and the consolidated financial statements dated 31.12.2016, which was prepared in accordance with TFRS and the other agenda articles were duly accepted.

The Ordinary General Assembly Meeting of our Company for 2017 will convene on May 15, 2018. Information regarding the General Assembly Meeting was posted in the Turkish Trade Registry Gazette, the company's corporate website at www.migroskurumsal.com, Public Disclosure Platform and the Electronic General Assembly Portal of Central Registry Agency.

Amendments in the Articles of Association

As declared in the material event disclosure dated March 21, 2018, it was resolved in the Board of Directors meeting that our company, which is currently subject to the Share Capital system, would switch to the registered capital system and to set the registered capital ceiling at TL 500,000,000 (Turkish Liras).

The necessary Capital Markets Board and Ministry of Customs and Trade permissions required for the Articles of Association amendment were obtained. The referred Articles of Association amendments shall be submitted to the General Assembly's approval on May 15, 2018.

If approved at the General Assembly Meeting, the Company shall switch to the registered capital system and its registered capital ceiling shall be set at TL 500,000,000 (Turkish Liras).

The amendment of the article "Share Capital" of the Articles of Association was posted in the form of "Old Article - New Article" in the attachment of the public disclosure dated March 21, 2018.

The final copy of the Articles of Association is posted to the Investor Relations page of the corporate website of the Company (www.migroskurumsal.com).

Authorities and Duties of the Auditors

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

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

At the Company's 2016 Ordinary General Assembly Meeting dated April 11, 2017, PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. was elected as auditor for 2017 fiscal year.

PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. will be submitted for the approval of the general assembly to be elected as auditor for 2018 fiscal year, at the Company's 2017 Ordinary General Assembly Meeting which will convene on May 15, 2018.

The Dividend Policy of Migros

As it was submitted to shareholders at the Ordinary General Assembly Meeting on March 23, 2016;

In line with the Company's long-term strategies, investments and financing plans and profitability, the amount of dividend, which determined by the Board of Directors and submitted for the approval of the General Assembly, computed in accordance with the CMB communiqués and regulations, can be distributed in cash or in the form of bonus shares of stock, or some combination of the two, or retain in the Company.

If General Assembly approves dividend distribution; due dates for distribution will be either decided individually by the General Assembly or General Assembly may authorize Boards of Directors. In any case, distribution should start the latest by the end of the fiscal year, in which the General Assembly approves the dividend distribution. Additionally, distribution is complied with all other requirements stated in Capital Market Law and CMB communiqués.

There are no preferred stocks and any individual to take part in the profits other than shareholders in the Company.

This is the Company's policy for the next three years. Any change in this policy will be publicly disclosed.

Merger of Migros and Kipa

In the public disclosure dated January 09, 2018, it was stated that Kipa and Migros were targeted to be merged 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.

In the public disclosure dated April 18, 2018, it was declared that it was resolved that Kipa will 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, pursuant to the Capital Markets Board ("CMB") Communiqué on Merger and Demerger numbered II-23.2 and the other relevant legislation as well as Articles 136-158 and 191-194 of the Turkish Commercial Code numbered 6102 ("TCC") and Articles 19 and 20 of the Corporate Tax Law numbered 5520 which regulate transfer of corporations,

In the same disclosure, it was said that the merger will be carried out by way of "simplified merger process" as set out under Article 155 and 156 of the TCC and Article 13 of the CMB Communiqué on Merger and Demerger numbered II-23.2 since Migros holds Kipa's 96.25% of shares having voting rights.

As it was stated in the public disclosure dated April 25, 2018, the application to the Capital Markets Board of Turkey was made on April 25, 2018 for the merger of Migros and Kipa under Migros.

SECTION 2: FINANCIAL INFORMATION

Sales

(Thousand TL)	Jan. 01 – Mar. 31, 2018	Jan. 01 – Mar. 31, 2017
Domestic sales	3,932,051	3,076,271
Foreign sales	108,543	98,658
Other sales	3,231	5,391
Gross sales	4,043,825	3,180,320
Less: Discounts and returns	-103,689	-66,685
Sales revenue, net	3,940,136	3,113,635

Financial Statements

Migros - IFRS Consolidated Income Statement Summary (Thousand TL)	Jan. 01 – Mar. 31, 2018	(%)	Jan. 01 – Mar. 31, 2017	(%)
Net Sales	3,940,136	100.0	3,113,635	100.0
Cost of sales (-)	-2,863,052	-72.7	-2,296,306	-73.8
Gross Profit	1,077,084	27.3	817,329	26.2
Operating Expenses	-962,543	-24.4	-742,082	-23.8
Other Operating Income / (Expense)	-59,662	-1.5	-44,082	-1.4
Operating Profit	54,879	1.4	31,165	1.0
Income / (Expense) from investment activities	-3,319	-0.1	1,067,997	34.3
Operating Income Before Financial Income / (Expense)	51,560	1.3	1,099,162	35.3
Financial Income / (Expense)	-283,020	-7.2	-185,268	-6.0
Income/Loss Before Tax	-231,460	-5.9	913,894	29.4
Tax Income / (Expenses)	-15,300	-0.4	-753	0.0
Deferred Tax Income	6,117	0.2	-7,108	-0.2
Net Profit / Loss	-240,643	-6.1	906,033	29.1
<i>Non-controlling Interest</i>	-2,219	-0.1	-982	0.0
<i>Equity holders of Parent</i>	-238,424	-6.1	907,015	29.1

EBITDA	211,029	5.4	155,796	5.0
EBITDAR	423,313	10.7	317,266	10.2

Migros IFRS Consolidated Balance Sheet Summary (Thousand TL)	March 2018	(%)	December 2017	(%)
Current Assets	3,251,675	33.2	3,776,275	36.7
Non-current Assets	6,539,612	66.8	6,526,400	63.3
Total Assets	9,791,287	100.0	10,302,675	100.0
Current Liabilities	4,988,597	50.9	5,516,096	53.5
Non-current Liabilities	3,514,169	35.9	3,259,431	31.6
Total Liabilities	8,502,766	86.8	8,775,527	85.2
Equity Attributable to Owners of Parent	1,234,079	12.6	1,470,494	14.3
Non-controlling Interest	54,442	0.6	56,654	0.5
Total Equity	1,288,521	13.2	1,527,148	14.8
Total Liabilities and Equity	9,791,287	100.0	10,302,675	100.0

Financial Structure and Profitability Ratios

LIQUIDITY RATIOS	March 2018	December 2017
Current Ratio	0.65	0.68

FINANCIAL STRUCTURE RATIOS	March 2018	December 2017
Financial Leverage (Total Liabilities / Total Liabilities & Equity)	0.87	0.85
Total Liabilities / Equity	6.60	5.75
Financial Liabilities / Total Assets	0.40	0.38
Net Cash Position (Thousand TL)	-2,751,015	-2,302,244

PROFITABILITY RATIOS (%)	Jan. 1 – Mar. 31, 2018	Jan. 1 – Mar. 31, 2017
Gross Profit Margin	27.3%	26.2%
Operating Profit Margin	1.4%	1.0%
EBITDA Margin	5.4%	5.0%
EBITDAR Margin	10.7%	10.2%
Net Profit / Loss Margin	-6.1%	29.1%

SHARE PERFORMANCE RATIOS	March 2018	December 2017
Market Cap (Thousand TL)	4,233,553	4,906,507
Share Price (TL)	23.78	27.56
Earnings Per Share (EPS) (TL)	-1.34	5.09

Financial Evaluation

Kipa's financial results have been consolidated since 01 March 2017.

In the first quarter of 2018, Migros' consolidated sales, exceeded TL 3.9 billion with a yearly sales growth of 26.5%. The domestic sales growth was 27.1% in 1Q 2018.

The consolidated gross profit increased by 31.8% in 1Q 2018 and the gross margin was 27.3% in the first quarter of 2018.

EBITDA (Earnings Before Interest, Depreciation, Tax and Amortization) grew by 35.5% to TL 211 million in 1Q 2018 with a margin of 5.4%. In the first three months of 2018, EBITDA before rent expenses increased by 33.4% versus the same period of the previous year, representing a margin of 10.7%.

The Company's operational profitability is undermined by mostly non-cash FX losses and one-off charges resulting in a consolidated net loss of TL 241m in 1Q 2018. The Company's shareholders' equity was TL 1,289 million as of March 31, 2018.

Migros aims to open between 120 and 150 new stores in 2018. After a strong top-line growth of 2017, the consolidated sales growth of Migros is expected to be between 15-18% in 2018. Migros aims to reach the consolidated EBITDA margin range of 5.5-6.0% this year.

The Dividend Distribution

At the Ordinary General Assembly Meeting dated April 11, 2017, within the Communiqué of Capital Markets Board (CMB) No. II-19.1 and in accordance with our articles of association and dividend distribution policies that were disclosed to public by our company, it was decided not to distribute dividends for 2016 fiscal year as the company recorded net loss at the 2016 consolidated financial statements prepared in accordance with the Turkish Commercial Code and CMB legislation.

Within the Communiqué of Capital Markets Board (CMB) No. II-19.1 and in accordance with our articles of association and dividend distribution policies that were disclosed to public by our company, the Company recorded TL 509,036,463.45 (equity holders of parent: TL 512,706,101.23) net profit in 2017 consolidated financial statements prepared in accordance with the Turkish Commercial Code and CMB legislation. It was resolved to submit no dividend distribution to the approval of General Assembly for 2017 fiscal year and to retain net profit for the extraordinary legal reserves. Since the legal limit has been reached, the allocation of primary reserve is not required.

The dividend distribution has not been proposed in order to provide a robust balance sheet structure and to manage the cash flow more efficiently for the upcoming years. The Company plans to use this profit to finance the working capital and capital expenditure requirements of the Company in the future.

The financial resources and the risk management policies

Loans

As of March 31, 2018, the outstanding bank loans of the Company stand at TL 3,935,373 thousand.

The redemption schedule of principal amounts of bank borrowings at 31 March 2018:

(Thousand TL)	Tenge Loan TL Equivalent	Euro Loan TL Equivalent	TL Loan	Total TL Equivalent	Percentage (%)
1 April 2018 - 31 March 2019	-	102,213	566,314	668,527	17.0%
1 April 2019 - 31 March 2020	4,561	459,806	37,100	501,467	12.8%
1 April 2020 - 31 March 2021	13,701	564,304	45,532	623,537	15.9%
1 April 2021 - 31 March 2022	15,453	668,837	53,967	738,257	18.8%
1 April 2022 - 31 March 2023	13,219	794,226	64,084	871,529	22.2%
1 April 2023 - 26 May 2023	-	480,701	38,786	519,487	13.2%
	46,934	3,070,087	805,783	3,922,804	100.0%

Risk Management and Internal Control Mechanism

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.

The company's exposure to the fluctuations in foreign exchange rates and interest rates is mainly due to the foreign exchange denominated loans in its Balance Sheet. Foreign exchange risk from loans and fluctuations in Euribor rates are continuously monitored and limited by hedging derivative instruments. Detailed information has been provided at Note 21, titled Exchange Rate Risk and Foreign Currency Position, of Condensed Consolidated Financial Statements for the Interim Period 1 January – 31 March 2018 of the Company.

Risk management is implemented by each subsidiary within the framework of policies decided by the Board of Directors.

The Early Recognition of Risk Committee, which convenes 6 times a year, coordinates to take precaution against predictable risks that the company might face as a result of its financial structure and reports regularly to the Board of Directors about its practices. As mentioned above, the maturity of the Company's current Euro debt is extended via refinancing and some portion of the debt is converted to Turkish Lira. Thus, the currency risk is limited. Reducing the Company's financial indebtedness is one of the priorities of the senior management.

Risks pertaining to the overall economy such as the increase in unemployment can be listed among the non-financial risks.

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. Similar risk analysis and audits were conducted in the first 3 months of 2018.

The quality and amount of the capital market instruments that have been issued

No capital market instruments were issued during the period of 01 January – 31 March 2018.

SECTION 3: OPERATIONAL ACTIVITIES

Position of Migros in the Sector and Investments

Operating in the food and consumer goods sector, Migros Ticaret A.Ş. is engaged in the retail sale of all types of food products and consumer goods, as well as their wholesale for retail consumption. The Company also operates shopping malls in Turkey and abroad through its subsidiaries.

During January 01 – March 31, 2018, Migros Ticaret A.Ş. opened 51 new stores - 50 supermarkets and 1 Ramstore abroad - and made TL 77,409 thousand capital expenditures. The fact that Migros offers fresh and high quality products to customers at affordable prices has ensured that customers are more likely to prefer the brand in the sector.

The Company operates a network of 1,933 stores in total at the end of March 31, 2018, of these 1,647 Migros, 21 5M, 17 Wholesale stores, 46 Macrocenter and 162 Kipa stores in seven geographical regions throughout Turkey, as well as 15 Ramstores and 1 Macrocenter in Kazakhstan and 24 Ramstores in Macedonia operated through its subsidiaries abroad.

Stores opened in Turkey:

48 Migros stores			
<u>M (17 stores)</u>	<u>MM (8 stores)</u>	<u>MMM (1 stores)</u>	<u>Migros Jet (22 stores)</u>
Ardahan (1) Batman (1) Bursa (1) Gümüşhane (1) Hakkari (1) Isparta (1) Kayseri (6) Kilis (1) Sivas (1) Tunceli (1) Zonguldak (2)	Bingöl (1) Diyarbakır (1) Hatay (1) Kayseri (2) Konya (1) Samsun (1) Şırnak (1)	İstanbul (1)	Antalya (3) Bilecik (1) Bursa (1) Diyarbakır (1) Hatay (1) İstanbul (3) İzmir (2) Karabük (1) Kayseri (2) Manisa (1) Muğla (1) Ordu (1) Rize (1) Sakarya (1) Samsun (2)

2 Macrocenter stores
İstanbul (2)

Stores opened abroad:

1 Ramstore
Macedonia (1)

SECTION 4: CORPORATE GOVERNANCE

SAHA Corporate Governance and Credit Rating Services, Inc. ("SAHA"), rated our Company in 2017 in accordance with the Corporate Governance Principles issued by the Capital Markets Board.

The Corporate Governance Rating of our Company was disclosed as 9.58 (95.77%) as of December 29, 2017 by SAHA in their report made public.

The breakdown of the corporate governance rating of our Company by sub-categories is stated in the table below.

Sub Sections	Weight	Rating (%)
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

SAHA will continue to provide rating services to our Company in the next two years as agreed on 20 October 2017.

Statement of Compliance with Corporate Governance Principle

Migros Ticaret A.Ş. complies with the “**Communiqué on Corporate Governance (II-17.1)**”, which were announced by the Capital Markets Board of Turkey (CMB) and always aims to improve the principles therein. The application of the main principles of Corporate Governance, which are fairness, transparency, responsibility and accountability are continuously reviewed, deficiencies are addressed with the aspiration of becoming an exemplary role model. The Company has adopted the main principles of Corporate Governance which are:

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

Migros Corporate Governance Principles Compliance Report, in addition to the annual report, can be accessed at the corporate website (www.migroskurumsal.com) in the Investor Relations section.

Corporate Governance Committee

The working principles of the Corporate Governance Committee are determined by the Board of Directors in line with the requirements of “**Communiqué on Corporate Governance (II-17.1)**” and the requirements of Turkish commercial law. The committee's duties consist of overseeing the company's compliance with corporate governance principles, with taking such action as may be required by current Capital Markets Law and other applicable laws, regulations, and administrative provisions, and with making such recommendations to the Board of Directors as may be deemed to be necessary to constantly improve the company's performance in the area of corporate governance.

A corporate governance committee was set up in 2007 and charged with monitoring corporate governance activities throughout the company and with overseeing the work of the Investor Relations Department.

Furthermore, within the scope of the “**Communiqué on Corporate Governance (II-17.1)**”, it has been resolved that the Corporate Governance Committee will be responsible for the duties of the Nomination Committee and the Remuneration Committee. The committee, consists of five members, convenes four times in a year.

Investor Relations

Investor Relations Department, founded under the Finance Department in 2003, not only manages the relations with domestic and foreign investors but also the processes related to General Assembly, capital increases and dividend distribution. All enquiries and transactions of the shareholders regarding capital increases and dividend payments are handled here by the Investor Relations Department.

In addition, the Investor Relations communicates directly with various institutions including the Capital Markets Board (CMB), Borsa Istanbul (BIST), Central Registry Agency (CRA) and Takasbank (ISE Settlement and Custody Bank Inc.) and represents the Company. Keeping records of the Board of Directors meetings and material disclosures to the Public Disclosure Platform (KAP) in compliance with the CMB Communiqué on Material Events are among the Department's other activities. Migros' Investor Relations Department keeps up with relevant legislation as well as CMB communiqués and informs the senior management on the matters requiring compliance.

The department also responds to the information requests about the Company. Investor Relations is also responsible for the preparation of the annual reports as well as the coordination of Corporate Governance operations and activities.

All shareholders requesting information about Migros can submit their queries by sending e-mail to investor_relations@migros.com.tr. All other channels of communication are also available for the shareholders.

Other Matters

The stakeholders can reach the Corporate Governance Principles Compliance Report as well as the information on corporate social responsibility activities which has an impact on social and environmental matters, employees' rights and their vocational training at the Company corporate website at www.migroskurumsal.com. The assessment of the Board of Directors on the Committees' work guidelines and their effectiveness is included in the Corporate Governance Principles Compliance Report.

As announced on October 30, 2017 by Borsa Istanbul, Migros which was included in the BIST - Sustainability Index since the beginning of the index in 2014 was found eligible to stay in index, as the only food retailer so far. The Sustainability Report of the Company is posted on the Company corporate website under the Investor Relations page.

Information about various lawsuits filed against or in favour of the Group is provided in the Note 9 of the Condensed Consolidated Financial Statements for the Interim Period 1 January – 31 March 2018 of the Company. There are no administrative or judicial sanctions against the Company or members of the Board of Directors as a result of practices contrary to legislative provisions.

According to the agreement signed last year between our Company and Tez-Koop. Labor Union, the collective labor agreement covers the period of 01.05.2017 - 31.12.2019.

Donations and Assistance

The upper limit to donations and assistance to grant in 2018 will be submitted as TL 2,000,000 to the approval of the General Assembly.

The members of the board of directions have not carried out any transactions with the Company on their own behalf or on behalf of others within the framework of the permission granted by the General Assembly, nor are there any activities falling within the scope of the non-compete prohibition.

There have been no special audits or public audits within the fiscal period.

No event of any special importance has occurred at the Company after the end of the fiscal year that could affect the rights of shareholders, creditors or other concerned persons and institutions.

Research and Development Activities

The Company's total R&D expenditures for first quarter of 2018 is TL 3,615 thousand (1Q 2017: TL 3,649 thousand).

Migros Ticaret A.Ş., which was issued an R&D Center certificate from the Ministry of Science, Industry and Technology, has been continuing with its technical research and development activities in areas of business and software development in 2018.

New practices are being developed at the Migros R&D Center for creating new and/or improving existing processes pertaining to retail activities carried out by the Migros head office in the stores and distribution centres. Applications that mostly contain innovative solutions integrated with technological hardware and smart systems helped to improve our work processes related with customers and suppliers.

Subsequent Events

Information about subsequent events is provided in the Note 23 of the Condensed Consolidated Financial Statements for the Interim Period 1 January – 31 March 2018 of the Company.