

MİGROS



MİGROS TİCARET A.Ş.

01.01.2016 – 30.09.2016 INTERIM ANNUAL REPORT
PREPARED PURSUANT TO THE CMB SERIES:II NO:14.1

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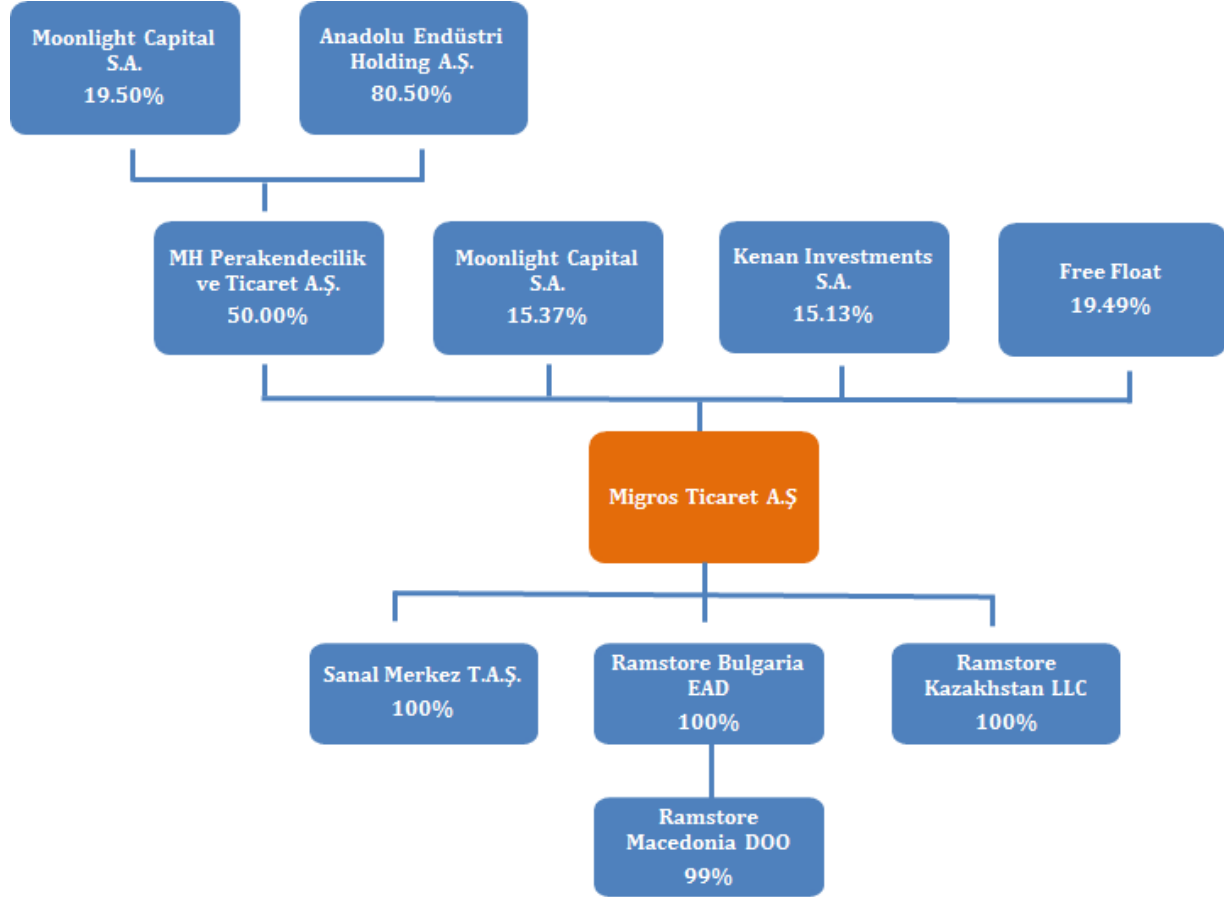
CORPORATE PROFILE

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



On July 15, 2015, Anadolu Endüstri Holding A.Ş. acquired 80.5% shares of MH Perakendecilik ve Ticaret A.Ş. that holds 50% of Migros Ticaret A.Ş. shares.

With this transaction, the total shares directly and indirectly held by Moonlight Capital S.A. ("Moonlight") in the capital of our Company decreased to 40.25% and the shares indirectly held by Anadolu Endüstri Holding A.Ş. in our Company has been 40.25%.

On January 27, 2016, Moonlight transferred the shares, with all rights, obligations and encumbrances it holds in our Company with a total nominal value of TL 26,937,336 to Kenan Investments S.A., which is the sole owner of Moonlight, for a price of TL 26.00 per share within the scope of intragroup share transfer.

With this transaction, the shares held by Moonlight in the capital of our Company represent 15.37%, and the shares held by Kenan Investments S.A. in the capital of our Company reached to 15.13%.

Kenan Investments S.A. is a company located in Luxembourg and is the sole owner of Moonlight Capital S.A.

INTRODUCTION: AN ECONOMIC REVIEW AND RETAIL MARKET

Gross Domestic Product (GDP) grew by 3.9% in the first half of 2016 in real terms. During the same period, on constant prices, food, beverage and tobacco spend grew by 2.2%. The consumption expenditure of households increased by 4.7% which corresponds to 10.0% increase in nominal terms.

The CPI, which was 8.81% in 2015, grew by 7.28% in September 2016 versus the same month of the previous year. The prices of food and non-alcoholic beverages rose by 4.16% in comparison to last year. According to the latest Inflation Report of the Central Bank of Turkey (CBT), the annual CPI is expected to be between 7% and 8% (mid-point of 7.5%) by the end of 2016.

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
Mehmet Hurşit Zorlu	Board Member
Salih Metin Ecevit	Board Member
Can Çaka	Board Member
Stefano Ferraresi	Board Member
Salim Abdullah Khalfan Al Ma'mari	Board Member
Ömer Özgür Tort	Board Member and General Manager
Jacob Cornelio Adriano de Jonge	Independent Board Member
Tayfun Bayazıt	Independent Board Member
Hakkı Hasan Yılmaz	Independent Board Member
İzzet Karaca	Independent Board Member

As announced in our public disclosure on 28 July 2016, the Board member Khalid Hilal Hamood Al Yahmadi had resigned from his duties and Salim Abdullah Khalfan Al Ma'mari was appointed as a new Board member until the first general assembly meeting at which his membership is to be approved pursuant to the article 363 of the Turkish Commercial Code.

Information on external positions held by Board members and Independent Board Members' Affidavit is provided at the Company corporate website at www.migroskurumsal.com. 18 Board resolutions were taken in the first nine months of 2016.

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 2015 Ordinary General Assembly Meeting dated March 23, 2016 until the General Assembly Meeting in which the Company's 2016 accounts are to be discussed .

The Board membership of Salim Abdullah Khalfan Al Ma'mari, as per the Board resolution dated 28 July 2016, is to be approved in the first general assembly meeting pursuant to the article 363 of the Turkish Commercial Code.

Committees of Board of Directors

In accordance with the Board of Directors resolution dated April 28, 2016, 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 as of the date of April 28, 2016.

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
Can Çaka	Member	Non-executive
Affan Nomak	Member	Head of Investor Relations

Early Recognition of Risk Committee		
Tayfun Bayazıt	President	Non-executive
Jacob Cornelio Adriano de Jonge	Member	Non-executive
Hakkı Hasan Yılmaz	Member	Non-executive
İzzet Karaca	Member	Non-executive
Mehmet Hurşit Zorlu	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 30 September 2016 and 30 September 2015 has been provided at Note 21 of Condensed Consolidated Financial Statements for the Interim Period 1 January - 30 September 2016 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 30 September 2016, the Company employs an average of 21,403 employees including its foreign subsidiaries. (31 December 2015: 20,707)

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:

Subsidiaries	Country of incorporation	Geographical segment	Nature of business	Sept. 2016 (%)	Dec. 2015 (%)
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

(*) 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.

As announced in our public disclosure on January 27, 2016, Moonlight Capital S.A. ("Moonlight"), one of the shareholders of our Company, notified our Company that it has transferred the shares, with all rights, obligations and encumbrances, it holds in our Company with a total nominal value of TL 26,937,336 to Kenan Investments S.A. which owns all of the shares of Moonlight for a price of TL 26.00 per share within the scope of intragroup share transfer. With this transaction, the shares held by Moonlight in the capital of our Company represent 15.37%, the shares held by Kenan Investments S.A. in the capital of our Company have exceeded 15% limit and reached to 15.13%.

The names of shareholders, shareholding amounts and percentages of the shareholders holding more than 10% of the TL 178,030,000 capital, are as follows:

As of September 30, 2016;

Migros Ticaret A.Ş.		
Shareholder	Share (%)	Amount (TL)
MH Perakendecilik ve Ticaret A.Ş.	50.00	89,015,000
Moonlight Capital S.A.	15.37	27,371,000
Kenan Investments S.A.	15.13	26,937,336
Other	19.49	34,706,664
Total	100.00	178,030,000

As of December 31, 2015;

Migros Ticaret A.Ş.		
Shareholder	Share (%)	Amount (TL)
MH Perakendecilik ve Ticaret A.Ş.	50.00	89,015,000
Moonlight Capital S.A.	30.51	54,308,336
Other	19.49	34,706,664
Total	100.00	178,030,000

Information About the Most Recent Capital Increase

No increase was made in the capital during January 01 – September 30, 2016.

Information on General Assembly Meeting

General Assembly Meeting

Meeting Minutes and List of Attendees pertaining to 2015 Ordinary General Assembly Meeting of our Company dated March 23, 2016 were disclosed in our corporate web site (www.migroskurumsal.com). In the Ordinary General Assembly Meeting, the statutory and the consolidated financial statements dated 31.12.2015, which was prepared in accordance with TFRS and the other agenda articles were duly accepted.

During the General Assembly Meeting, as per the Communique of the Board of Capital Markets on Independent Auditing Standards, it was resolved to authorize “Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.’nin (a member of PricewaterhouseCoopers)”, which was recommended by the Audit Committee and selected by the Board of Directors for the year 2016, to act as the independent auditor of the Company.

Amendments in the Articles of Association

No change was made in the Articles of Association during January 01 – September 30, 2016.

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 2015 Ordinary General Assembly Meeting dated March 23, 2016, “Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member of PricewaterhouseCoopers)” was elected as auditor for 2016 fiscal year.

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.

Process of Tesco Kipa share transfer

As announced in our public disclosure on 10 June 2016, in accordance with our Company's long-term growth strategy, an agreement for the purchase of shares held by Tesco Overseas Investments Limited (the "Seller") in Tesco Kipa Kitle Pazarlama Ticaret Lojistik ve Gıda Sanayi A.Ş. ("Kipa") representing approximately 95.50% of the share capital of Kipa was executed among the Seller and our Company on 10 June 2016.

Within this context, our Company submitted an application to the Competition Board on 21 June 2016 in order to obtain legal permissions regarding the share transfer.

Transfer of shares will be realized following the reception of all legal and regulatory approvals and subject to satisfaction and fulfilment of the terms and conditions set forth under the agreement for the purchase and sale of shares.

SECTION 2: FINANCIAL INFORMATION

Sales

(Thousand TL)	Jan. 01 – Sept. 30, 2016	Jan. 01 – Sept. 30, 2015
Domestic sales	8,115,701	6,876,255
Foreign sales	239,621	330,044
	8,355,322	7,206,299
Other sales	9,680	10,206
	8,365,002	7,216,505
Less: Discounts and returns	-206,498	-204,969
Sales revenue – net	8,158,504	7,011,536

Financial Statements

Migros - IFRS Consolidated Income Statement Summary (Thousand TL)	Jan. 01 – Sept. 30, 2016	(%)	Jan. 01 – Sept. 30, 2015	(%)
Net Sales	8,158,504	100.0	7,011,536	100.0
Cost of sales (-)	-5,953,760	-73.0	-5,134,874	-73.2
Gross Profit	2,204,744	27.0	1,876,662	26.8
Operating Expenses	-1,875,056	-23.0	-1,592,618	-22.7
Other Operating Income / (Expense)	-62,296	-0.8	-68,357	-1.0
Operating Profit	267,392	3.3	215,687	3.1
Income / (Expense) from investment activities	-36,611	-0.4	-116,196	-1.7
Operating Income Before Financial Income / (Expense)	230,781	2.8	99,491	1.4
Financial Income / (Expense)	-252,614	-3.1	-525,888	-7.5
Income/Loss Before Tax	-21,833	-0.3	-426,397	-6.1
Tax Income / (Expenses)	-46,484	-0.6	-53,371	-0.8
Deferred Tax Income	11,422	0.1	24,256	0.3
Net Profit / Loss	-56,895	-0.7	-455,512	-6.5
<i>Non-controlling Interest</i>	38	0.0	5	0.0
<i>Equity holders of Parent</i>	-56,933	-0.7	-455,517	-6.5
EBITDA	518,942	6.4	452,799	6.5
EBITDAR	926,582	11.4	807,391	11.5

Migros IFRS Consolidated Balance Sheet Summary (Thousand TL)	September 2016	(%)	December 2015	(%)
Current Assets	2,417,980	39.2	2,035,523	35.3
Non-current Assets	3,746,817	60.8	3,725,194	64.7
Total Assets	6,164,797	100.0	5,760,717	100.0
Current Liabilities	3,069,694	49.8	2,725,671	47.3
Non-current Liabilities	2,630,937	42.7	2,519,060	43.7
Total Liabilities	5,700,631	92.5	5,244,731	91.0
Equity Attributable to Owners of Parent	463,436	7.5	515,342	8.9
Non-controlling Interest	730	0.0	644	0.0
Total Equity	464,166	7.5	515,986	9.0
Total Liabilities and Equity	6,164,797	100.0	5,760,717	100.0

Financial Structure and Profitability Ratios

LIQUIDITY RATIOS	September 2016	December 2015
Current Ratio	0.79	0.75

FINANCIAL STRUCTURE RATIOS	September 2016	December 2015
Financial Leverage (Total Liabilities / Total Liabilities & Equity)	0.92	0.91
Total Liabilities / Equity	12.28	10.16
Financial Liabilities / Total Assets	0.44	0.45
Net Cash Position (Thousand TL)	-1,662,128	-1,760,471

PROFITABILITY RATIOS (%)	Jan. 1 – Sept. 30, 2016	Jan. 1 – Sept. 30, 2015
Gross Profit Margin	27.0%	26.8%
Operating Profit Margin	3.3%	3.1%
EBITDA Margin	6.4%	6.5%
EBITDAR Margin	11.4%	11.5%
Net Profit / Loss Margin	-0.7%	-6.5%

SHARE PERFORMANCE RATIOS	September 2016	September 2015
Market Cap (Thousand TL)	3,254,388	3,115,525
Share Price (TL)	18.28	17.5
Earnings Per Share (EPS) (TL)	-0.32	-2.56

Financial Evaluation

In the first 9 months of 2016, Migros' consolidated sales reached TL 8,159 million with a yearly sales growth of 16.4%. The domestic sales growth which was 16.9% in 9M 2015, reached 18.5% in 9M 2016.

In the first 9 months of 2016, consolidated gross profit increased by 17.5% to reach TL 2,205 million. Despite intensified competition in the sector, Migros maintained its gross profitability, generated strong sales growth and strong negative working capital.

EBITDA (Earnings Before Interest, Depreciation, Tax, and Amortization) increased 14.6% to reach TL 519 million in the first 9 months of 2016 with a margin of 6.4% (9M 2015: 6.5%). In the 9 months of 2016, EBITDA before rent expenses increased by 14.8% versus the same period of the previous year, resulting a margin of 11.4% (9M 2015: 11.5%).

Despite its successes on the operational side, the Company recorded a net loss of TL 56.9 million for first 9 months of 2016 due to non-cash foreign exchange losses, and other financial expenses. The Company's shareholders' equity was TL 464 million as of September 30, 2016.

Thanks to its strong operational performance, the Company already reached its full year guidance of new store openings for 2016 and revised its full year guidance upwards, from 150-200 stores to 220+ stores. Consolidated sales growth of Migros in FY 2016 is expected to be parallel to the top-line growth in 9M 2016. Migros aims to maintain the EBITDA margin within the range of 6.0%-6.5% in 2016.

The Dividend Distribution

At the Ordinary General Assembly Meeting dated March 23, 2016, 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 2015 fiscal year as the company recorded net loss at the 2015 consolidated financial statements prepared in accordance with the Turkish Commercial Code and CMB legislation.

The financial resources and the risk management policies

Loans

As of September 30, 2016, the outstanding bank loans of the Company stand at TL 2,696,418 thousand.

Concerning the refinancing the Company's current debt of EUR 830 million;

An agreement has been signed on 30 April 2015 between Migros Ticaret A.Ş. and Türkiye Garanti Bankası A.Ş., Türkiye İş Bankası A.Ş., Akbank T.A.Ş., Türkiye Sınai Kalkınma Bankası A.Ş. and Commercial Bank of Qatar (Q.S.C) for EUR 730 million and EUR 100 million equivalent of TL with a maturity of 8 years and semi-annual interest payment and amortization. Furthermore, an additional EUR 100 million facility is provided to the Company valid for 8 years for any potential working capital requirements in the future. Migros shares owned by MH Perakendecilik ve T.A.Ş., Moonlight Capital S.A. and Kenan Investments S.A. were pledged in favor of the creditor banks.

With respect to current portion of non-current bank loans, the Company made an early payment of EUR 10,307 thousand and TL 4,047 thousand on 26 May 2016 relating to November 2016 instalment.

The redemption schedule of principal amounts of bank borrowings at 30 September 2016:

(Thousand TL)	Euro Loan TL Equivalent	TL Loan	Total TL Equivalent	Percentage (%)
1 October 2016 - 30 September 2017	52,378	6,072	58,450	2.2%
1 October 2017 - 30 September 2018	161,650	18,890	180,540	6.8%
1 October 2018 - 30 September 2019	259,761	30,355	290,116	10.9%
1 October 2019 - 30 September 2020	360,792	42,161	402,953	15.2%
1 October 2020 - 30 September 2021	418,520	48,906	467,426	17.6%
1 October 2021 - 30 September 2022	505,100	59,024	564,124	21.2%
1 October 2022 - 26 May 2023	620,556	72,516	693,072	26.1%
	2,378,757	277,924	2,656,681	100.0%

For the possible future short term capital expenditures and general cash needs such as working capital, a facility agreement which enables the Company to withdraw up to 170 million TL was signed with Rabobank A.Ş on 26 October 2016 and 100 million TL (with 1 year maturity) was used as of 7 November 2016.

Risk Management and Internal Control Mechanism

In 2015, the Company undertook a new project aimed at reassessing its Corporate Risk Management efforts from a holistic point of view and restructuring the corporate risk processes. Within this context, the Company began obtaining consultancy services from Marsh Sigorta ve Reasürans Brokerliği (*Marsh Insurance and Reinsurance Brokerage*) in order to assess the existing situation in terms of risk management and to manage risk more effectively.

The Corporate Risk Management restructuring process includes the main headings of:

- Defining risk criteria,
- Establishing risk assessment scales (effect and probability),
- Preparing a consolidated risk inventory,
- Development of the action plans required to reduce and/or eliminate such risks,
- Defining the risk management framework that is being targeted, and
- Integrating the determination into the Corporate Risk Management system.

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 23, titled Exchange Rate Risk and Foreign Currency Position, of Condensed Consolidated Financial Statements for the Interim Period 1 January - 30 September 2016 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.

The Internal Audit Department conducts its activities in the financial and operational audits it carries out in accordance with the below principles:

- Effective and economical use of the Company's assets,
- Effectiveness of the internal control mechanisms over operations and activities,
- Reliability of the financial statements,
- Verification of the Company's assets
- Productivity and effectiveness of operations,
- Compliance with procedural documents and administrative instructions that have been approved by the Company's management.

Examining/researching to what degree activities and transactions containing a pre-identified and reported element of risk have been eliminated or brought under control within the framework of suggestions deemed appropriate by the management, and follow up audits in circumstances requiring detailed research and examination are among the fundamental activities of the internal audit department.

Irregular activities discovered during various audit efforts are researched in detail in order to ensure that the necessary precautions can be taken and suggestions are made on how to address the Company loss that has been identified. One of the main focuses of these efforts is the changes that must be implemented in the process to ensure that there is no repeat of similar circumstances.

Within this context, in line with the 2015 risk analysis conducted and annual internal audit plan, the Internal Audit Department has conducted financial and operational audits encompassing various departments and processes. The assessments and suggestions generated at the end of the audits were presented to the Company's senior management together with the audit reports that had been prepared and the points of improvement were highlighted under the philosophy of continual development. In addition to the financial and operational audits conducted by the Internal Audit Department, the Internal Audit Department also completed control inspections of issues that had been identified earlier, reported to the senior management and regarding which an agreement had been reached as to the precautions that would be taken. Similar risk analysis and audits were conducted in the first 9 months of 2016.

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 – 30 September 2016.

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 – September 30, 2016, Migros Ticaret A.Ş. opened 194 new stores - 193 supermarkets and 1 Ramstore abroad - and made TL 197,359 thousands 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 1,575 stores in total at the end of September 30, 2016, of these 1,475 Migros, 23 5M and 38 Macrocenter stores in seven geographical regions throughout Turkey, as well as 18 Ramstores and 1 Macrocenter in Kazakhstan and 20 Ramstores in Macedonia operated through its subsidiaries abroad.

Stores opened in Turkey:

191 Migros stores			
<u>M (50 stores)</u>	<u>MM (27 stores)</u>	<u>MMM (4 stores)</u>	<u>Migros Jet (110 stores)</u>
Adana (2) Ankara (2) Antalya (5) Aydın (1) Balıkesir (3) Batman (1) Bursa (2) Denizli(1) Diyarbakır (1) Edirne (1) Erzurum (1) Eskişehir (2) Giresun (1) Hatay (1) İstanbul(6) İzmir(4) Kars (1) Kastamonu (1) Kayseri (1) Kocaeli (4) Malatya (1) Mardin (1) Mersin (1) Muğla (1) Niğde (1) Ordu (1) Sinop (1) Sivas (1) Tekirdağ (1)	Adana (1) Adıyaman (1) Ankara(3) Antalya (1) Aydın (1) Bursa (2) Edirne (1) Erzurum (1) Hatay (1) İstanbul (10) Kayseri (1) Kırklareli (1) Kocaeli (2) Tekirdağ(1)	Antalya (1) İstanbul (1) Kocaeli (1) Sakarya (1)	Adana (1) Afyon (1) Amasya (1) Ankara (4) Antalya (13) Aydın (6) Balıkesir(5) Bolu (1) Bursa (2) Çanakkale (1) Denizli (4) Edirne (1) Erzurum (2) Eskişehir (2) Gaziantep (2) Hatay (3) İstanbul (20) İzmir (15) Kars (2) Kayseri (1) Kırşehir (1) Konya (1) Kütahya (1) Mersin (4) Muğla (5) Nevşehir (1) Niğde (1) Sakarya (2) Samsun (2) Tekirdağ (1) Tokat (1) Yalova (3)

2 Macrocenter stores
İstanbul (1) Muğla (1)

Stores opened abroad:

1 Ramstore
Macedonia (1)

SECTION 4: CORPORATE GOVERNANCE

SAHA Corporate Governance and Credit Rating Services, Inc. ("SAHA"), rated our Company in 2015 in accordance with the Corporate Governance Principles issued by the Capital Markets Board.

The Corporate Governance Rating of our Company was disclosed as 9.46 (94.55%) as of December 30, 2015 by SAHA in their report made public.

In the aforementioned report, it was indicated that "the corporate governance rating of Migros is an outcome of the importance the Company gives to the corporate governance principles, its determination to dynamically and continuously improve such standards and practices".

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%	95.44
Public Disclosure and Transparency	25%	97.39
Stakeholders	15%	99.48
Board of Directors	35%	89.78
Average	100%	94.55

As a result of our Corporate Governance Rating of 9.46 (94.55%), our Company was found eligible to participate in the Corporate Governance Index of Borsa Istanbul as of January 06, 2016.

Statement of Compliance with Corporate Governance Principle

Migros Ticaret A.Ş. is taking necessary steps to adopt the "**Communiqué on Corporate Governance (II-17.1)**", which were announced by the Capital Markets Board of Turkey (CMB). 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 25, 2016 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 documents on sustainability efforts of the Company are 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 11 of the Condensed Consolidated Financial Statements for the Interim Period 1 January - 30 September 2016 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 01.05.2014 - 30.04.2017.

Donations and Assistance

According to the CMB's Communiqué on Dividends (II-19.1), the General Assembly must be notified and informed of all donations made during the year. Our Company has donated a total of TL 355,975.15 to associations and foundations in 2015.

The 2015 General Assembly had resolved that the upper limit to donations and assistance provided in 2016 would be TL 1,000,000.

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 9 months of 2016 is TL 8,274 thousand (9M 2015: TL 7,240 thousand).

Migros Ticaret A.S., 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 2016.

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 25 of the Condensed Consolidated Financial Statements for the Interim Period 1 January - 30 September 2016 of the Company.