

MİGROS TİCARET A.Ş.

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2016**

(ORIGINALLY ISSUED IN TURKISH)



**CONVENIENCE TRANSLATION INTO ENGLISH OF
INDEPENDENT AUDITOR'S REPORT
ORIGINALLY ISSUED IN TURKISH**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Migros Ticaret A.Ş.

Report on the Consolidated Financial Statements

1. We have audited the accompanying consolidated financial statements of Migros Ticaret A.Ş. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheet as at 31 December 2016 and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Independent Auditor's Responsibility

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our audit was conducted in accordance with standards on auditing issued by the Capital Markets Board of Turkey and Independent Auditing Standards that part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority. Those standards require that ethical requirements are complied with and that the audit is planned and performed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An independent audit involves performing procedures to obtain evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on independent auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to error or fraud. In making those risk assessments, the independent auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An independent audit includes also evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



Opinion

4. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Migros Ticaret A.Ş. and its subsidiaries as at 31 December 2016 and their financial performance and cash flows for the period then ended in accordance with Turkish Accounting Standards.

Other Responsibilities Arising From Regulatory Requirements

5. In accordance with subparagraph 4 of Article 398 of the Turkish Commercial Code ("TCC") No: 6102; auditor's report on the early risk identification system and committee has been submitted to the Company's Board of Directors on 9 March 2017.
6. In accordance with subparagraph 4 of Article 402 of the TCC; no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January - 31 December 2016 is not in compliance with the code and provisions of the Company's articles of association in relation to financial reporting.
7. In accordance with subparagraph 4 of Article 402 of the TCC; the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

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

Burak Özpoyraz, SMMM
Partner

Istanbul, 9 March 2017

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH**

MİGROS TİCARET A.Ş.

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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**CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED
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MİGROS TİCARET A.Ş.

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2016 AND 2015

(Amounts expressed in thousands of Turkish Lira (“TRL”) unless otherwise indicated.)

(Currencies other than TRL are expressed in thousands unless otherwise indicated.)

	Notes	2016	2015
ASSETS			
Current Assets:			
Cash and cash equivalents	4	1.155.942	839.424
Financial investments	5	714	4.085
Trade receivables			
Due from related parties	26	600	496
Trade receivables from third parties	7	57.838	49.349
Other receivables from third parties	8	8.258	5.924
Derivative instruments	6	602	-
Inventories	9	1.272.752	1.104.373
Prepaid expenses	10	34.792	31.465
Other current assets		527	407
Total current assets		2.532.025	2.035.523
Non-current assets:			
Financial investments	5	1.165	1.165
Other receivables from third parties	8	2.280	2.035
Derivative instruments	6	18	422
Investment properties	11	144.719	146.405
Property, plant and equipment	12	1.268.333	1.220.623
Intangible assets			
Goodwill	14	2.252.992	2.251.427
Other intangible assets	13	107.038	84.689
Prepaid expenses	10	28.834	18.428
Total non-current assets		3.805.379	3.725.194
Total assets		6.337.404	5.760.717

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

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CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2016 AND 2015

(Amounts expressed in thousands of Turkish Lira ("TRL") unless otherwise indicated.)

(Currencies other than TRL are expressed in thousands unless otherwise indicated.)

	Notes	2016	2015
LIABILITIES			
Current liabilities:			
Short term portion of long term borrowings	15	238.513	212.910
Short term borrowings	15	102.012	-
Trade payables			
Due to related parties	26	175.170	146.099
Trade payables to third parties	7	2.488.489	2.081.705
Employee benefits payables	17	76.261	47.193
Other payables to third parties	8	65.017	41.442
Deferred income	10	32.416	24.397
Taxes on income	24	19.952	9.595
Short term provisions			
Short term provisions for employee benefits	17	93.105	75.970
Other short term provisions	16	27.672	83.283
Other current liabilities		2.153	3.077
Total current liabilities		3.320.760	2.725.671
Non-current liabilities:			
Long term borrowings	15	2.623.011	2.380.236
Other payables to third parties	8	3.629	3.181
Deferred income	10	4.592	850
Long term provisions			
Long term provisions for employee benefits	17	79.057	64.283
Deferred tax liabilities	24	65.200	70.510
Total non-current liabilities		2.775.489	2.519.060
Total liabilities		6.096.249	5.244.731
EQUITY			
Attributable to equity holders of parent	25	240.335	515.342
Share capital		178.030	178.030
Additional contribution to share capital		27.312	27.312
Share premium		678.233	678.233
Other comprehensive income/expense not to be classified to profit or loss			
defined benefit plans			
re-measurement (losses)/gains		(9.180)	(8.350)
Other comprehensive income/expense to be classified to profit or loss			
Currency translation differences		23.512	4.720
Restricted reserves		439.138	504.766
Other capital reserves		(365)	(365)
Accumulated losses		(803.376)	(498.540)
Net loss		(292.969)	(370.464)
Non-controlling interest		820	644
Total equity		241.155	515.986
Total liabilities and equity		6.337.404	5.760.717

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**CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED
FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH**

MİGROS TİCARET A.Ş.

**CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016 AND 2015**

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

	Notes	2016	2015
Revenue	18	11.059.224	9.389.829
Cost of sales (-)	18, 19	(8.097.682)	(6.864.180)
Gross Profit		2.961.542	2.525.649
General administrative expenses (-)	19	(348.982)	(320.631)
Marketing expenses (-)	19	(2.176.045)	(1.833.667)
Other operating income	20	108.694	80.906
Other operating expenses (-)	20	(205.054)	(188.625)
Operating profit		340.155	263.632
Income from investment activities	21	1.154	1.326
Expenses from investment activities (-)	21	(44.210)	(211.462)
Operating income before financial income/(expense)		297.099	53.496
Financial income	22	52.316	46.555
Financial expense (-)	23	(576.526)	(446.035)
Net loss before tax from continuing operations		(227.111)	(345.984)
Tax expense from continuing operations		(65.807)	(24.469)
- Income tax expense (-)	24	(72.355)	(67.339)
- Deferred tax income	24	6.548	42.870
Net loss		(292.918)	(370.453)
Net income loss attributable to:			
- Non-controlling interest		51	11
- Equity holders of parent		(292.969)	(370.464)
Loss per share (TRL)	27	(1,65)	(2,08)

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**CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016 AND 2015**

(Amounts expressed in thousands of Turkish Lira (“TRL”) unless otherwise indicated.)

(Currencies other than TRL are expressed in thousands unless otherwise indicated.)

	Notes	2016	2015
Net loss for the period		(292.918)	(370.453)
Other comprehensive income/(loss):			
Items not to be reclassified to profit or loss			
Defined benefit plan re-measurement (losses)/gains	17	(1.037)	3.746
Tax effect of items not to be reclassified to profit or loss			
Defined benefit plan re-measurement (losses)/gains, tax effect	24	207	(749)
Items to be reclassified to profit or loss			
Exchange differences on translation		18.917	(25.397)
Other comprehensive income/(loss), after tax		18.087	(22.400)
Total comprehensive loss		(274.831)	(392.853)
Total comprehensive loss attributable to:			
Non-controlling interests		176	90
Equity holders of parent		(275.007)	(392.943)

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MİGROS TİCARET A.Ş.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016 AND 2015

(Amounts expressed in thousands of Turkish Lira (“TRL”) unless otherwise indicated.)

(Currencies other than TRL are expressed in thousands unless otherwise indicated.)

	Share capital	Balancing account for merger capital	Share premium	Other comprehensive income/expenses not to be reclassified to profit or loss Defined benefit plans re-measurement (losses)/gains	Other comprehensive income/expenses not to be reclassified to profit or loss Exchange differences on translation	Restricted reserves (*)	Other reserves	Retained earnings Accumulated losses	Net income / (loss) for the period	Attributable to equity holders of the parent	Non - controlling interests	Total equity
Balances at 1 January 2015	178.030	27.312	678.233	(11.347)	30.196	504.766	(365)	(594.738)	96.198	908.285	554	908.839
Transfers	-	-	-	-	-	-	-	96.198	(96.198)	-	-	-
Total comprehensive expense	-	-	-	2.997	(25.476)	-	-	-	(370.464)	(392.943)	90	(392.853)
Net loss for the period	-	-	-	-	-	-	-	-	(370.464)	(370.464)	11	(370.453)
Cumulative translation differences	-	-	-	-	(25.476)	-	-	-	-	(25.476)	79	(25.397)
Defined benefit plans re-measurement gains	-	-	-	2.997	-	-	-	-	-	2.997	-	2.997
Balances at 31 December 2015	178.030	27.312	678.233	(8.350)	4.720	504.766	(365)	(498.540)	(370.464)	515.342	644	515.986
Balances at 1 January 2016	178.030	27.312	678.233	(8.350)	4.720	504.766	(365)	(498.540)	(370.464)	515.342	644	515.986
Transfers	-	-	-	-	-	(65.628)	-	(304.836)	370.464	-	-	-
Total comprehensive loss	-	-	-	(830)	18.792	-	-	-	(292.969)	(275.007)	176	(274.831)
Net loss for the period	-	-	-	-	-	-	-	-	(292.969)	(292.969)	51	(292.918)
Currency translation differences	-	-	-	-	18.792	-	-	-	-	18.792	125	18.917
Defined benefit plan re-measurement losses	-	-	-	(830)	-	-	-	-	-	(830)	-	(830)
Balances at 31 December 2016	178.030	27.312	678.233	(9.180)	23.512	439.138	(365)	(803.376)	(292.969)	240.335	820	241.155

(*) Gain on sale of subsidiary shares amounting to TRL 65.816 presented as restricted reserves in the prior years has been transferred to accumulated losses account as of the date of the consolidated balance sheet upon completion of the legal period in which it had to be kept in restricted reserves in accordance with the tax legislation (Note 25). Besides, incentives related to research and development, has to be kept under this reserve account for 5 years and should not be withdrawn during that period, have been classified as “Restricted reserves”.

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

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CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH**

MİGROS TİCARET A.Ş.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016 AND 2015**

(Amounts expressed in thousands of Turkish Lira ("TRL") unless otherwise indicated.)

(Currencies other than TRL are expressed in thousands unless otherwise indicated.)

	Notes	2016	2015
Cash flows from operating activities:			
Loss for the period		(292.918)	(370.453)
Adjustments related to reconciliation of loss		992.150	992.039
Adjustments for depreciation and amortisation expenses	19	199.516	185.901
Adjustments for impairment on receivables	20	1.709	3.357
Adjustments for impairment on			
other financial assets or investments	21	-	530
Adjustments for inventory provisions	9	636	8.501
Adjustments for impairment on			
property, plant and equipment	12, 21	27.910	6.734
Adjustments for impairment on			
other intangible assets	13, 21	-	202.175
Adjustments for impairment on investment properties	11, 21	8.136	-
Adjustments for provision for			
employee benefits	17	57.933	51.376
Adjustments for provision for litigation	16	5.169	10.057
Adjustments for other provisions	20, 23	(36.737)	8.080
Adjustments for interest income	20, 22	(28.554)	(28.599)
Adjustments for interest expense	23	168.389	135.295
Adjustments for deferred finance expense			
from term purchases	20	178.324	160.520
Adjustments for unearned finance income			
from term sales	20	(40.931)	(39.510)
Adjustments for unrealized foreign			
currency translation difference		377.667	263.388
Adjustments for fair value losses			
arising from derivatives	22, 23	166	(932)
Adjustments for income tax expense	24	65.807	24.469
Loss on sale of property plant and equipment	21	7.010	697
Changes in working capital		310.528	168.244
Adjustments for increase in trade receivables		(9.786)	(5.396)
Adjustments for increase in			
other receivables related with operations		(13.061)	(6.871)
Adjustments for increase in inventories		(169.015)	(162.897)
Adjustments for increase in trade payables		438.902	337.426
Adjustments for increase in			
other payables related with operations		63.488	5.982
Cash flows from operating activities		1.009.760	789.830
Interest received		65.206	66.351
Interest paid		(181.372)	(166.489)
Employee benefits paid	17	(27.061)	(26.209)
Taxes paid		(61.998)	(60.859)
Other provisions paid	16	(24.082)	(6.463)
Net cash provided by operating activities		780.453	596.161

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MİGROS TİCARET A.Ş.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016 AND 2015**

(Amounts expressed in thousands of Turkish Lira ("TRL") unless otherwise indicated.)
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	Notes	2016	2015
Cash outflows from the purchase of tangible and intangible assets	12, 13, 14	(294.037)	(275.786)
Cash outflows from the purchase of investment properties	11	(3.170)	(4.743)
Cash inflows from the sale of tangible and intangible assets		2.145	2.630
Cash flows from investing activities		(295.062)	(277.899)
Proceeds from borrowings		121.974	-
Repayment of borrowings		(132.248)	(30.125)
Cash paid with respect to derivative instruments		(364)	(836)
Interest received		4.245	1.758
Interest paid		(165.392)	(128.201)
Cash flows from financing activities		(171.785)	(157.404)
Increase in cash and cash equivalents before effect of exchange rate changes		313.606	160.858
Effect of exchange rate changes on cash and cash equivalents		2.912	(10.508)
Net increase in cash and cash equivalents		316.518	150.350
Cash and cash equivalents at the beginning of period 4		839.424	689.074
Cash and cash equivalents at the end of period 4		1.155.942	839.424

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MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 AND 2015**

(Amounts expressed in thousands of Turkish Lira (“TRL”) unless otherwise indicated.)

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NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

Migros Ticaret A.Ş., previously named as Moonlight Perakendecilik ve Ticaret Anonim Şirketi (“Moonlight”), (collectively referred to as “Migros Ticaret” or the “Company”), was established on 19 March 2008 and is registered in Istanbul, Turkey under the Turkish Commercial Code.

Moonlight acquired 50,83% of Migros Türk Ticaret A.Ş. (“Migros Türk”) shares on 30 May 2008 from Koç Holding A.Ş. (“Koç Holding”) at a price of TRL 1.922.440 subsequent to the approval of the Competition Board. As of 31 December 2008, Moonlight increased its shares in Migros to 97,92% through purchases made in Istanbul Stock Exchange on various dates.

In accordance with the decision taken during Migros Türk’s general assembly held on 28 April 2009, Migros Türk decided to merge with Moonlight through a takeover of its assets and liabilities as a whole within the framework of Capital Markets Board (“CMB”) regulations, Turkish Commercial Code, Law No. 451, and other related articles and Corporate Tax Law No. 19-20. As a result of the mentioned merger, Moonlight’s capital was decided to be increased from TRL 174.323.340 to TRL 178.030.000 (Amount expresses in Turkish Lira) and in accordance with the merger agreement approved during the General Assembly, merger ratio of 0,97918 and share exchange ratio of 1,00 was determined. As a result of the merger, registered shares amounting to TRL 3.706.660 (Amount expresses in Turkish Lira) issued by Moonlight were distributed to the minority shareholders of Migros Türk in exchange for their Migros Türk shares.

The General Assembly held on 28 April 2009 regarding the merger was registered on 30 April 2009 and the merger had been legally recognised on that date. As a result of the merger, Moonlight’s trade name has been changed to Migros Ticaret A.Ş.

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

MH Perakendecilik ve Ticaret A.Ş. (“MH”) transferred its Migros Ticaret A.Ş shares with the nominal value of TRL 27.371.000 to its parent company, Moonlight Capital S.A., in exchange for TRL 26 per share on 13 November 2014. MH Perakendecilik ve Ticaret A.Ş. (“MH”) transferred its Migros Ticaret A.Ş shares with the nominal value of TRL 26.937.336 to its parent company, Moonlight Capital S.A., in exchange for TRL 26 per share on 31 December 2014 (Amounts expresses in Turkish Lira). As a result of these transactions, as of 31 December 2014, the shareholding of “MH” and Moonlight Capital S.A. are 50,00% and 30,51%, respectively.

On 15 July 2015 Moonlight Capital S.A. sold 80,50% of the shares of MH Perakendecilik ve Ticaret A.Ş. which holds %50 of Migros Ticaret A.Ş. shares to Anadolu Endüstri Holding A.Ş. (“AEH”) With this transaction, the total shares directly and indirectly held by Moonlight Capital S.A. in the capital of the Company has decreased to 40,25% and the shares indirectly held by AEH in the Company have reached 40,25% as of July 15, 2015. As a result of the mentioned share purchase, the Group is jointly controlling by Moonlight Capital S.A. and AEH.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 AND 2015**

(Amounts expressed in thousands of Turkish Lira (“TRL”) unless otherwise indicated.)

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NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

The Company is mainly engaged in the retail sales of food and beverages, consumer and durable goods through its Migros, M-Jet, 5M, M-Jet and Macrocenter banner stores in Turkey, shopping centers, Ramstores banner stores abroad and internet. The Company also rents floor space in the shopping malls to other trading companies. As of 31 December 2016, the Group operates in 1.605 stores in total (31 December 2015: 1.410) which comprise 1.590 retail stores and 15 wholesale stores with a total net space of 1.078.761 m² (2015: 1.016.118 m²) including 1.069.675 m² for retail and 9.086 m² for wholesale. As of 31 December 2016, the average number of employees is 21.438 (2015: 20.707). Retail is the main business segment of the Group and constitutes almost 97% of gross sales (2015: 97%).

The address of the registered office is as follows:

Atatürk Mah., Turgut Özal Blv.,
No: 7 Ataşehir İstanbul

These consolidated financial statements have been approved for issue by the Board of Directors (“BOD”) on 9 March 2017 and signed by Ö. Özgür Tort, General Manager, and Erkin Yılmaz, Assistant General Manager, on behalf of the BOD. General Assembly of the Company and regulatory bodies have the right to amend the consolidated financial statements after the issue in the General Assembly meeting of the Company.

Subsidiaries

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

Subsidiaries	Country of incorporation	Geographical segment	Nature of business	December 2016 (%)	December 2015 (%)
Ramstore Bulgaria E.A.D. (“Ramstore Bulgaria”)	Bulgaria	Bulgaria	Dormant	100,0	100,0
Ramstore Kazakhstan LLC (“Ramstore Kazakhstan”)	Kazakhstan	Kazakhstan	Retailing	100,0	100,0
Ramstore Macedonia DOO (“Ramstore Macedonia”)	Macedonia	Bulgaria	Retailing	99,0	99,0
Sanal Merkez Ticaret A.Ş. (“Sanal Merkez”) (*)	Turkey	Turkey	Dormant	100,0	100,0

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

In line with the Group’s long term growth strategies, the Group signed a share purchase agreement with Tesco Overseas Investments Limited (“Seller”) on 10 June 2016 for the purchase of Seller’s shares representing approximately 95,50% of the total share capital of Tesco Kipa Kitle Pazarlama Ticaret Lojistik ve Gıda Sanayi A.Ş. (“Kipa”). In accordance with the share purchase agreement and the latest annual financial statements of Kipa dated 29 February 2016, the total price of shares was calculated as TRL 302.287 as of the agreement date (10 June 2016). In order to obtain the necessary legal permission, an application was made to the Competition Authority on 21 June 2016 and the related application was approved on 9 February 2017. Following the adjustments based on the estimated annual closing balance sheet of Kipa (28 February 2017) the total purchase price of shares was determined as TRL 199.012 and paid to the Seller on the transfer date (1 March 2017). This amount will be subject to a final price adjustment in accordance with the definitive audited annual closing balance sheet of Kipa. As explained in Note 31, the Group has taken over the management control Kipa as of 1 March 2017 and the financial statements of Kipa will be subject to full consolidation in the consolidated financial statements of Migros as of 31 March 2017. Retail is the main operation of the acquired business.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

2.1.1 Basis of preparation and presentation of financial statements

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

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

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

2.1.2 Changes in the accounting policies, estimates and errors

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

2.1.3 Functional and reporting currency

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

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.1 Basis of Presentation (Continued)

Group companies

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

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

2.2 Summary of significant accounting policies

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

(a) Basis of consolidation

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Subsidiaries are companies over which Migros Ticaret has capability to control the financial and operating policies for the benefit of Migros Ticaret, through the power to exercise more than 50% of the voting rights relating to shares in the companies owned direct and indirect by itself having the power to exercise control over the financial and operating policies.

Intercompany transactions, balances and unrealised gains on transactions between the group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.2 Summary of significant accounting policies (Continued)

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of parent.

When the group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities.

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

<u>Subsidiary</u>	<u>Direct and indirect shareholding by Migros or its subsidiaries (%)</u>	
	<u>2016</u>	<u>2015</u>
Ramstore Bulgaristan (1)	100,00	100,00
Ramstore Kazakistan	100,00	100,00
Ramstore Makedonya	99,00	99,00
Sanal Merkez (2)	100,00	100,00

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

(2) Sanal Merkez are excluded from the scope of consolidation on the grounds of materiality. The subsidiary has been classified and accounted for as financial assets in the consolidated financial statements (Note 5).

(b) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.2 Summary of significant accounting policies (Continued)

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a basis within other operating income or other operating expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

(c) Revenue

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group’s activities as described below. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. The specific accounting policies for the group’s main types of revenue are explained below:

Sales of goods - Retail

The Group operates in the retail sales of food and beverages, consumer and durable goods through its stores, shopping centers, Ramstores Banner abroad and internet sales. Sales of goods are recognised when a group entity sells a product to a customer. Retail sales are usually made against a cash or credit card payment.

Sales of goods - Wholesale

Revenue from the sales of goods is recognised when a group entity has delivered products to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler’s acceptance of the products. Delivery does not occur until the products were shipped to the specified location, the risks of obsolescence and loss were transferred to the wholesaler, the wholesaler accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has an objective evidence that all criteria for acceptance are satisfied. Sales are recorded based on the price specified in the sales contracts, net of the discounts if available and returns at the time of sale.

Rent revenue

The Group recognises rent income on accrual basis based on the agreement.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.2 Summary of significant accounting policies (Continued)

(d) Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost is determined primarily on the basis of the weighted average cost method. For processed inventories, cost includes direct materials, direct labor and the applicable allocation of fixed and variable overhead costs based on a normal operating capacity. Revenues and discounts from suppliers, sales premiums and advertising participation fees are accounted on an accrual basis and booked against cost of inventories.

(e) Property, plant and equipment

Property, plant and equipment obtained are carried at the cost less accumulated depreciation and, if any, impairment. Depreciation is provided over the economic useful lives for property, plant and equipment on a straight-line basis. Since land does not have definite useful lives, land is not depreciated.

The depreciation period for property, plant and equipment which approximate the economic useful lives of such assets, are as follows:

	<u>Useful Lives (Years)</u>
Buildings	25-50
Leasehold improvements	over period of lease (*)
Machinery and equipment	4-10
Furniture and fixtures	5-12
Motor vehicles	4-8

(*) Leasehold improvements include the expenses made for the leased properties and are depreciated over the shorter of the lease term and their useful lives.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The increase in the carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.2 Summary of significant accounting policies (Continued)

Expenses for repair and maintenance of property, plant and equipment are normally charged to the income statement. They are, however, capitalized and depreciated through the estimated useful life of the property, plant and equipment in exceptional cases if they result in an enlargement or substantial improvement of the respective assets.

(f) Intangible assets

Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Brands

Brands that are acquired separately are accounted for at their acquisition cost, and brands that are acquired as a part of business combination are accounted for at their fair value in the consolidated financial statements. The Group assessed the useful life of brand as indefinite since there is no foreseeable limit to the period over which a brand is expected to generate net cash inflows for the Group. A brand is not subject to amortisation as it is considered to have an indefinite useful life. A brand is tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount when the carrying amount of the brand exceeds its recoverable amount.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.2 Summary of significant accounting policies (Continued)

Rent agreements

Rent agreements are designated as intangible assets by the Group and consist of taken over rent agreements of the stores that purchased. Lease contracts are recorded at their fair values at the date of purchase, and amortised during the contract period.

Computer softwares (Rights)

Rights arising on computer software are recognised at its acquisition cost. Computer software is amortised on a straight-line basis over their estimated useful lives and carried at cost less accumulated amortization. The estimated useful life of computer software is 5 years.

Internally-generated intangible assets and development expenditures

Expenditure on research activities is recognized as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.2 Summary of significant accounting policies (Continued)

(g) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(h) Financial assets

Classification

The group classifies its financial assets in the following categories:

- Financial assets at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

Reclassification

The group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.2 Summary of significant accounting policies (Continued)

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- For financial assets at fair value through profit or loss’ - in profit or loss within other income or other expenses
- For available-for-sale financial assets that are monetary securities denominated in a foreign currency - translation differences related to changes in the amortised cost of the security are recognised in profit or loss and other changes in the carrying amount are recognised in other comprehensive income
- For other monetary and non-monetary securities classified as available-for-sale - in other comprehensive income

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.2 Summary of significant accounting policies (Continued)

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognised in profit or loss as part of revenue from continuing operations when the group’s right to receive payments is established.

Interest income from financial assets at fair value through profit or loss is included in the net gains/(losses). Interest on available-for-sale securities, held-to-maturity investments and loans and receivables calculated using the effective interest method is recognised in the statement of profit or loss as part of revenue from continuing operations.

Details on how the fair value of financial instruments is determined are disclosed in Note 30.

Impairment

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument’s fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.2 Summary of significant accounting policies (Continued)

Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Income recognition

Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Dividends

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits.

(i) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See Note 2.2 (h) for further information about the group’s accounting for trade receivables and impairment policies.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.2 Summary of significant accounting policies (Continued)

(j) Trade payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 90 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(k) Borrowings and borrowing costs

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(l) Earnings per share

Earnings per share presented in the consolidated statement of income are determined by dividing consolidated net income attributable to that class of shares by the weighted average number of such shares outstanding during the year concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (“bonus shares”) to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issued without a corresponding change in resources by giving them retroactive effect for the year in which they were issued and for each earlier period.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.2 Summary of significant accounting policies (Continued)

(m) Subsequent events

Subsequent events are composed of any event between the balance sheet date and the publication date of the balance sheet, even if they arise after any announcements of profits or other financial data.

The Group restates its consolidated financial statements if such subsequent events arise.

(n) Provisions, contingent liabilities and contingent assets

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Contingent liabilities are assessed continuously to determine whether the possibility of an outflow of resources embodying economic benefits is probable. When the possibility of an outflow of resources embodying economic benefits is probable for the accounts classified as contingent liabilities, provision is provided in the financial statements for related contingent liabilities except for the situations there is not a reliable estimation.

The Group discloses the contingent liabilities that are probable but there is not a reliable estimation for the amount of resources embodying economic benefits.

Assets that result from previous events that cannot be controlled fully by the Group and depend on the realization of one or more uncertain events, is considered as a contingent asset. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(o) Leases

The Group as lessee

Operational lease

Leases where the lesser retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. These include rent agreements of premises, which are cancellable subject to a period of notice. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.2 Summary of significant accounting policies (Continued)

The Group as lessor

Operational leases

The Group presents assets subject to operating leases in the balance sheets according to their nature. Lease income from operating leases is recognized in income on a straight-line basis over the lease term. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Operating leases are amortized based on their cost after deducting their residual values.

(p) Related parties

Parties are considered related to the Group if;

- (a) directly, or indirectly through one or more intermediaries, the party;
- (i) controls, is controlled by, or is under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries);
- (ii) has an interest in the Company that gives it significant influence over the Company; or
- (iii) has joint control over the Company;
- (b) the party is an associate of the Company;
- (c) the party is a joint venture in which the Company is a venture;
- (d) the party is member of the key management personnel of the Company or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e);
- (g) the party has a defined benefit plan for the employees of the Company or a related party of the Company.

Related party transactions are transfer of resources or obligations between related parties, regardless of whether a price is charged.

(r) Segment reporting

The operating segments are evaluated in parallel to the internal reporting and strategic sections presented to the organs or persons authorised to make decisions regarding the activities of the Group. The organs and persons authorised to make strategic decisions regarding the Group’s activities with respect to the resources to be allocated to these sections and their evaluation are defined as the Group’s senior managers of the Group. The Group’s senior managers follow up the Group’s activities on a geographical basis (Note 3).

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.2 Summary of significant accounting policies (Continued)

(s) Government incentives and grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

(t) Investment properties

Buildings held for rental yields or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business are classified as “investment property”. Investment properties are carried at cost less accumulated depreciation and any accumulated impairment losses. Investment properties are depreciated with the straight-line depreciation method over their useful lives that until 50 years (Note 11).

Investment properties are reviewed for impairment losses. Where the carrying amount of the investment property is greater than the estimated recoverable amount, it is written down to its recoverable amount. The recoverable amount of the investment property is the higher of future net cash flows from the recognised of this investment property or fair value less cost to sell.

(u) Income taxes

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes have been calculated on a separate-entity basis.

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The current income tax payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.2 Summary of significant accounting policies (Continued)

Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(v) Employee termination benefits

Defined Benefit Plan

In accordance with existing social legislation in Turkey, the Group companies operating in Turkey are required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

In the consolidated financial statements, the Group has reflected a liability using the Projected Unit Credit Method and based upon estimated inflation rates and factors derived using the Group's experience of personnel terminating their services and being eligible to receive such benefits and discounted by using the current market yield at the balance sheet date on government bonds.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.2 Summary of significant accounting policies (Continued)

Defined Contribution Plan

The Group pays contributions to the Social Security Institution of Turkey on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are accrued.

(y) Cash flow statement

Cash flows during the period are classified and reported by operating, investing and financing activities in the cash flow statements.

Cash flows from operating activities represent the cash flows of the Group generated from retailing activities.

Cash flows related to investing activities represent the cash flows that are used in or provided from the investing activities of the Group (fixed investments and financial investments).

Cash flows arising from financing activities represent the cash proceeds from the financing activities of the Group and the repayments of these funds.

Cash and cash equivalents comprise cash on hand and bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash with maturities equal or less than three months and which are subject to an insignificant risk of changes in value (Note 4).

(z) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(aa) Derivatives and hedging activities

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in profit or loss within finance costs, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in profit or loss within other operating income or other operating expenses.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.2 Summary of significant accounting policies (Continued)

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 6. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

(ab) Dividend

Dividend income from investments is recognised when the shareholder’s right to receive payment has been established. As a part of distribution of dividends, dividend liabilities are reflected to consolidated financial statements as liabilities, on the period of declaration.

(ac) Paid in capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(ad) Share premium

Share premium represents differences resulting from the sale of the Company’s Subsidiaries’ and Associates’ shares at a price exceeding the face value of those shares or differences between the face value and the fair value of shares issued for acquired companies (Note 25).

(ae) Deferred finance income/charges

Deferred finance income/charges represent imputed finance income/charges on credit sales and purchases. Such income/charges calculated by using the effective interest method are recognised as financial income or expenses over the period of credit sale and purchases, and included under financial income and expenses.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.3 Critical accounting estimates and assumptions

The preparation of financial statements necessitates the use of estimates and assumptions that affect asset and liability amounts reported as of the balance sheet date, explanations of contingent liabilities and assets; and income and expense amounts reported for the accounting period. Although these estimates and assumptions are based on all management information related to the events and transactions, actual results may differ from them. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities for the next reporting period are outlined below.

(a) Godwill impairment test

As explained in related accounting policy, the Group performs impairment tests on goodwill annually at 31 December. The recoverable amount of the cash generating unit has been determined based on the fair value less costs to sell calculations. Those calculations are based on discounted net cash flow after tax projections which are based on the Group’s eight-year business plans. Those projections are calculated in terms of TRL and the growth rate expected to be realized after eight years is assumed to be nil. Discount rate used to calculate the present value of net cash flows is 9,09% (2015: 9,40%) annually, after tax, and includes the Group’s specific risk factors as well (Note 14).

(b) Impairment on leasehold improvements

As explained in related accounting policy, property, plant and equipment are carried at the cost less accumulated depreciation and, if any, impairment. The Group evaluates its operational performance on a store-by-store basis and each store’s continuity depends on the discounted net cash flow projections. Those cash flow projections are calculated, on a consistent basis to the Group’s five year business plans and on a store-by-store basis by taking into consideration the remaining useful life of each store. In this context, the Group executed an impairment estimate on the leasehold improvements on stores by considering the continuity of each store.

(c) Impairment on intangible assets

As explained in related accounting policy, intangible assets such as trademarks and other intangible assets with indefinite useful lives are not amortised. Instead, those assets are tested whether there is impairment on the carrying amount of them. The Group performs this test for intangible assets by comparing the brand’s carrying amount to the discounted cash flow projections of the assets which are calculated on the basis of the Group’s five year business plans. The Group has performed an impairment test on intangible assets at 31 December 2016 and has identified impairment on brand as a result of this test (Note 13).

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.3 Critical accounting estimates and assumptions (Continued)

(d) Provisions

As explained in related accounting policy, provisions are recognized when the Group has a present legal or enforced obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when reliable estimate can be made of the amount of the obligation. In this context, the Group has evaluated the legal proceedings and damage claims raised against in courts as at 31 December 2016 and for the ones where the Group estimates more than 50% probability of losing the cases in courts, necessary provisions are accounted for in the consolidated financial statements (Note 16).

2.4 Comparative information and restatement of prior period financial statements

The Group’s consolidated financial statements have been prepared in comparison with the previous period in order to give accurate trend analysis regarding the financial position and performance. In compliance with the presentation of financial statements comparative informations are reclassified and significant changes are explained when necessary.

The Group has reassessed the square meters of stores which are used for the purpose of retail operations and earning rent revenue and accordingly following reclassifications have been made by the Group management in the 31 December 2015 consolidated balance sheet with the purpose of comparable presentation with the consolidated balance sheets as of 31 December 2016:

Land and buildings amounting to TRL 87.723 which were accounted for under “Property, plant and equipment” in the consolidated balance sheet as of 31 December 2015 have been classified into “Investment properties”.

2.5 New and Revised Turkish Accounting Standards

a) The new standards, amendments to published standards and interpretations effective applicable as of 31 December 2016:

- TFRS 14 “Regulatory deferral accounts”, effective from annual periods beginning on or after
- 1 January 2016. TFRS 14, “Regulatory deferral accounts” permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt TFRS. However, to enhance comparability with entities that already apply TFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.5 New and Revised Turkish Accounting Standards (Continued)

a) The new standards, amendments to published standards and interpretations effective applicable as of 31 December 2016 (Continued):

- Annual improvements 2014, effective from annual periods beginning on or after 1 January 2016. These set of amendments impacts 4 standards:
 - TFRS 5, “Non-current assets held for sale and discontinued operations” regarding methods of disposal.
 - TFRS 7, “Financial instruments: Disclosures”, (with consequential amendments to TFRS 1) regarding servicing contracts.
 - TAS 19, “Employee benefits” regarding discount rates.
 - TAS 34, “Interim financial reporting” regarding disclosure of information.
- Amendment to TFRS 11, “Joint arrangements” on acquisition of an interest in a joint operation, effective from annual periods beginning on or after 1 January 2016. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.
- Amendments to TAS 16, “Property, plant and equipment”, and TAS 41, “Agriculture”, regarding bearer plants, effective from annual periods beginning on or after 1 January 2016. These amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. It has been decided that bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of TAS 16, instead of TAS 41. The produce growing on bearer plants will remain within the scope of TAS 41.
- Amendment to TAS 16, “Property, plant and equipment” and IAS 38, “Intangible assets”, on depreciation and amortisation, effective from annual periods beginning on or after 1 January 2016. In this amendment the it has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. It is also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.
- Amendments to TAS 27, “Separate financial statements” on the equity method, effective from annual periods beginning on or after 1 January 2016. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.5 New and Revised Turkish Accounting Standards (Continued)

a) The new standards, amendments to published standards and interpretations effective applicable as of 31 December 2016 (Continued):

- Amendment to TFRS 10, “Consolidated financial statements” and TAS 28, “Investments in associates and joint ventures”, effective from annual periods beginning on or after 1 January 2016. These amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.
- Amendment to TAS 1, “Presentation of financial statements” on the disclosure initiative, effective from annual periods beginning on or after 1 January 2016, these amendments are as part of the TASB initiative to improve presentation and disclosure in financial reports

b) Standards and amendments issued but not yet effective as of 31 December 2016:

- Amendments to TAS 7, “Statement of cash flows” on disclosure initiative, effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the TASB’s Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.
- Amendments TAS 12, “Income Taxes”, effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset’s tax base. It also clarifies certain other aspects of accounting for deferred tax assets.
- Amendments to TFRS 2, “Share based payments” on clarifying how to account for certain types of share-based payment transactions, effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in TFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee’s tax obligation associated with a share-based payment and pay that amount to the tax authority.
- TFRS 9, “Financial instruments”, effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in TAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.5 New and Revised Turkish Accounting Standards (Continued)

**b) Standards and amendments issued but not yet effective as of 31 December 2016
(Continued):**

- TFRS 15, “Revenue from contracts with customers”, effective from annual periods beginning on or after 1 January 2018. TFRS 15, “Revenue from contracts with customers” is a converged standard from the TASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.
- Amendment to TFRS 15, “Revenue from contracts with customers”, effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The TASB has also included additional practical expedients related to transition to the new revenue standard.
- TFRS 16, “Leases”, effective from annual periods beginning on or after 1 January 2019, This standard replaces the current guidance in TAS 17 and is a farreaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). TFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a “right-of-use asset” for virtually all lease contracts. The TASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the TASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under TFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As the date of financial statements approval, following standards, interpretations and changes has been published as draft by the POAASA.

- TFRS 9 “Financial instruments”

The Group will evaluate the effects of new and revised standards and interpretations on its operations and will be implemented after its effective date.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
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2.6 Going concern

The consolidated financial statements of the Group have been prepared assuming that the Company and subsidiaries will continue as a going concern on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.

2/3 of the Group’s share capital and legal reserves are not covered due to accumulated losses. The Board of Directors is responsible for summoning the General Assembly as per Article 376 “Capital Loss, Liabilities in Excess of Assets” of Turkish Commercial Code (“TCC”) No. 6102. The Group management has evaluated the measures to be presented in the Ordinary General Assembly of 2016.

Acquisition of Kipa

As explained in Note 1, in line with the Group’s long term growth strategies, the Group signed a share purchase agreement with Tesco Overseas Investments Limited (“Seller”) on 10 June 2016 for the purchase of Seller’s shares representing approximately 95,50% of the total share capital of Tesco Kipa Kitle Pazarlama Ticaret Lojistik ve Gıda Sanayi A.Ş. (“Kipa”). In accordance with the share purchase agreement and the latest annual financial statements of Kipa dated 29 February 2016, the total price of shares was calculated as TRL 302.287 as of the agreement date (10 June 2016). In order to obtain the necessary legal permission, an application was made to the Competition Authority on 21 June 2016 and the related application was approved on 9 February 2017. Following the adjustments based on the estimated annual closing balance sheet of Kipa (28 February 2017) the total purchase price of shares was determined as TRL 199.012 and paid to the Seller on the transfer date (01 March 2017). This amount will be subject to a final price adjustment in accordance with the definitive audited annual closing balance sheet of Kipa.

As a result of the preliminary work performed by the Group management, it is expected that the fair value of the assets to be acquired will be significantly higher than the purchase price and a negative goodwill (acquisition profit) will be recognised. Therefore, the mentioned transaction will significantly bolster to the equity of the Group.

Offsetting accumulated losses with legal reserves and share premiums

The Group has share premium of TRL 678.233 and legal reserves amounting to TRL 439.138 in consolidated financial statements as at 31 December 2016. The Group management plans to offset the accumulated losses amounting to TRL 803.376 with the share premiums and legal reserves subsequent to the Ordinary General Assembly of 2016.

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NOTE 3 - SEGMENT REPORTING

Management determines the operating segments based on the reports analyzed and found effective in strategic decision making by the Board of Directors.

Management assesses the Group's performance on a geographic level as Turkey and other countries since the gross sales of these subsidiaries are below 10% of the Group sales. Reportable operating segment revenue comprises primarily retail sales, rent income and wholesales. Rent income and wholesale revenues are not recognized as reportable segments as they are not stated in detail in the reports provided to the board of directors. The board of directors assesses the performance of the operating segments based on a measure of Earning Before Interest, Tax, Depreciation and Amortisation, "EBITDA" and Earning Before Interest, Tax, Depreciation, Amortisation and Rent, "EBITDAR". The Group calculates the EBITDA by deducting general administrative expenses and selling, marketing and distribution expenses and adding depreciation expenses, unused vacation liability paid in current period, employee termination benefit provision expense, unused vacation liability expense on gross profit amount in consolidated statements of income.

The segment information provided to the board of directors as of 31 December 2016 and 2015 is as follows:

a) Segment analysis as of 31 December 2016:

	Turkey	Other countries	Combined total	Intersegment eliminations	Total
External revenues	10.723.229	335.995	11.059.224	-	11.059.224
Inter segment revenues	5.448	-	5.448	(5.448)	-
Sales revenue	10.728.677	335.995	11.064.672	(5.448)	11.059.224
Cost of sales	(7.850.928)	(252.202)	(8.103.130)	5.448	(8.097.682)
Gross profit	2.877.749	83.793	2.961.542	-	2.961.542
Marketing expenses	(2.120.690)	(55.355)	(2.176.045)	-	(2.176.045)
General administrative expenses	(314.346)	(34.636)	(348.982)	-	(348.982)
Addition: Depreciation and amortisation expenses	181.874	17.642	199.516	-	199.516
Addition: Provision for employment termination benefits	13.737	-	13.737	-	13.737
Addition: Employment termination benefits paid	19.474	-	19.474	-	19.474
Addition: Unused vacation pay liability	17.135	-	17.135	-	17.135
EBITDA	674.933	11.444	686.377	-	686.377
Addition: Rent expenses	535.187	18.204	553.391	-	553.391
EBITDAR	1.210.120	29.648	1.239.768	-	1.239.768

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NOTE 3 - SEGMENT REPORTING (Continued)

b) Segment analysis as of 31 December 2015:

	Turkey	Other countries	Combined total	Intersegment eliminations	Total
External revenues	8.961.762	428.067	9.389.829	-	9.389.829
Inter segment revenues	4.717	-	4.717	(4.717)	-
Sales revenue	8.966.479	428.067	9.394.546	(4.717)	9.389.829
Cost of sales	(6.541.695)	(327.202)	(6.868.897)	4.717	(6.864.180)
Gross profit	2.424.784	100.865	2.525.649	-	2.525.649
Marketing, selling and distribution expenses	(1.761.570)	(72.097)	(1.833.667)	-	(1.833.667)
General administrative expenses	(275.204)	(45.427)	(320.631)	-	(320.631)
Addition: Depreciation and amortisation expenses	159.749	26.152	185.901	-	185.901
Addition: Provision for employment termination benefits	12.181	-	12.181	-	12.181
Addition: Employment termination benefits paid	19.717	-	19.717	-	19.717
Addition: Unused vacation pay liability	12.986	-	12.986	-	12.986
EBITDA	592.643	9.493	602.136	-	602.136
Addition: Rent expenses	457.196	23.082	480.278	-	480.278
EBITDAR	1.049.839	32.575	1.082.414	-	1.082.414

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NOTE 3 - SEGMENT REPORTING (Continued)

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

	2016	2015
EBITDAR reported segments	1.239.768	1.082.414
Rent expenses	(553.391)	(480.278)
EBITDA reported segments	686.377	602.136
Depreciation and amortisation	(199.516)	(185.901)
Provision for employee termination benefits	(13.737)	(12.181)
Termination benefits paid	(19.474)	(19.717)
Unused vacation provision	(17.135)	(12.986)
Other operating income	108.694	80.906
Other operating expense (-)	(205.054)	(188.625)
Operating profit	340.155	263.632
Income from investing activities	1.154	1.326
Expense from investing activities (-)	(44.210)	(211.462)
Operating profit before finance income/(expense)	297.099	53.496
Financial income	52.316	46.555
Financial expense (-)	(576.526)	(446.035)
Loss before tax	(227.111)	(345.984)

Segment assets and liabilities

The figures provided to the board of directors with respect to total assets and liabilities are measured in a manner consistent with the consolidated financial statements. These assets and liabilities are allocated based on the operations of the segment and the physical location of the asset.

	2016	2015
Turkey	6.107.267	5.518.843
Other countries	312.671	322.164
Segment assets	6.419.938	5.841.007
Less: Inter-segment eliminations	(82.534)	(80.290)
Total assets per consolidated financial statements	6.337.404	5.760.717

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NOTE 3 - SEGMENT REPORTING (Continued)

	2016	2015
Turkey	5.992.561	5.153.497
Other Countries	122.595	107.897
Segment liabilities	6.115.156	5.261.394
Less: Inter-segment eliminations	(18.907)	(16.663)
Total liabilities per consolidated financial statements	6.096.249	5.244.731

Segment information of capital expenditures as of 31 December 2016 and 2015:

	2016	2015
Turkey	280.981	264.657
Other countries	16.226	15.872
	297.207	280.529

NOT 4 - CASH AND CASH EQUIVALENTS

	2016	2015
Cash	63.438	46.233
Banks		
- demand deposit (*)	110.003	61.152
- time deposit	434.666	292.375
Cheques in collection	137	70
Other cash and cash equivalents	547.698	439.594
	1.155.942	839.424

(*) The Group transfers the cash in its stores registers to the bank on a daily basis. In accordance with the bank agreements, transferred cash amounts have temporary blockages for a certain period of time. As of 31 December 2016, a cash amount of TRL 84.719 in bank accounts is temporarily blocked due to the mentioned cash transfer. (2015: TRL 52.318)

Weighted average effective interest rates on TRL and EURO denominated time deposits as of 31 December 2016 are 11,1% and 2,0% respectively (2015: 12,8% and 1,5%)

Other cash and cash equivalents consist of credit card receivables. Credit card receivables with a maturity of less than one month are discounted at 31 December 2016 with annual rate of 8,4% (2015: 11,5%)

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NOT 4 - CASH AND CASH EQUIVALENTS (Continued)

The maturity analysis of time deposits at 31 December 2016 and 2015 is as follows:

	2016	2015
1 - 30 days	359.617	290.573
31 - 90 days	75.049	1.802
91 - 180 days (*)	714	4.085
	435.380	296.460

(*) Related amount indicating the bank deposits with 90-180 days maturity recognised as cash fund by the Group (Note 5).

NOT 5 - FINANCIAL INVESTMENTS

Short term financial investments

	2016	2015
Time deposit (*)	714	4.085
	714	4.085

(*) Related amount indicating the bank deposits with 90-180 days maturity recognised as cash fund by the Group.

Long term financial investments

	2016	2015
Long term available for sale investments		
Financial assets - (Unlisted financial assets)	1.165	1.165
	1.165	1.165

Unlisted financial assets

	2016		2015	
	TRL	Share (%)	TRL	Share (%)
Sanal Merkez Ticaret A.Ş.	1.165	100,00	1.165	100,00

As explained in Note 1, the subsidiary that is not included in the scope of consolidation on the grounds of materiality has been accounted at cost less impairment as of 31 December 2016.

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NOTE 6 - DERIVATIVE INSTRUMENTS

Short term derivative instruments

	2016	2015
Foreign currency options	602	-
	602	-

Long term derivative instruments

	2016	2015
Cap option	18	422
	18	422

The Group entered into a number of foreign currency options with banks in order to hedge its exchange rate risk. As at the settlement date, the Group sells TRL and purchases Euro at agreed strike prices.

The fair values of the foreign exchange contracts as of 31 December 2016 are as follows:

	Euro amount to be purchased	TRL amount to be sold	Fair value (TRL)
Foreign currency options	6.000	25.500	602

The Group entered into several interest cap contracts with banks in order to hedge its interest rate risk. The details and fair values of contracts as of 31 December 2016 and 2015 are as follows:

2016:

	Agreement type	Transaction date	Effective date	Expiration date	Derivative instrument amount (EUR)	Fair value (TRL)
Current						
assets	Foreign currency option	22 June 2016	24 June 2016	31 May 2017	2,5 million	118
	Foreign currency option	22 June 2016	24 June 2016	31 May 2017	2,5 million	441
	Foreign currency option	22 June 2016	24 June 2016	31 May 2017	1 million	43
Non-current						
assets	Interest cap	23 July 2015	26 Nov 2015	28 May 2018	35,2 million	3
	Interest cap	23 July 2015	24 Nov 2015	29 May 2018	281,3 million	14
	Interest cap	27 July 2015	24 Nov 2015	29 May 2018	35,2 million	1

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NOTE 6 - DERIVATIVE INSTRUMENTS (Continued)

2015:

	Agreement type	Transaction date	Effective date	Expiration date	Derivative instrument amount (EUR)	Fair value (TRL)
Current assets	Cap	21 Nov 2014	28 Nov 2014	30 Nov 2016	360 million	-
Non-current assets	Cap	23 July 2015	24 Nov 2015	29 May 2018	281,3 million	358
	Cap	23 July 2015	26 Nov 2015	28 May 2018	35,2 million	32
	Cap	27 July 2015	24 Nov 2015	29 May 2018	35,2 million	32

NOTE 7 - TRADE RECEIVABLES AND PAYABLES

Trade receivables:

	2016	2015
Receivables from tenants and wholesale activities	55.511	45.639
Doubtful receivables	36.966	32.748
Notes receivables	585	2.256
Due from related parties (Note 26)	600	496
Less: Provision for doubtful receivables	(34.998)	(31.057)
Less: Unearned finance income on term sales	(226)	(237)
	58.438	49.845

The maturity of trade receivables are generally less than one month as of 31 December 2016 and they were discounted with the annual rate of 8,4% (2015: 11,0%).

Movement of provision for doubtful receivables is as follows:

1 January 2015	25.410
Current year charge	3.611
Collections and reversals	(254)
Currency translation differences	2.290
31 December 2015	31.057
1 January 2016	31.057
Current year charge	1.709
Collections and reversals	(252)
Currency translation differences	2.484
31 December 2016	34.998

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NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)

Trade payables:

	2016	2015
Supplier current accounts	2.492.767	2.094.948
Due to related parties (Note 26)	175.170	146.099
Expense accruals	23.137	11.102
Unincurred finance cost on term purchases	(27.415)	(24.345)
	2.663.659	2.227.804

The maturity of trade payables is generally less than three months and they are discounted with annual rate of 9,2 % as of 31 December 2016 (2015: 9,9 %)

NOTE 8 - OTHER RECEIVABLES AND PAYABLES

Short term other receivables

	2016	2015
Receivables from personnel	7.106	4.639
Receivables from insurance companies	863	1.285
Other	289	-
	8.258	5.924

Long term other receivables

	2016	2015
Deposits and guarantees given	2.280	2.035
	2.280	2.035

Other short term payables

	2016	2015
Other taxes and funds payable	25.586	21.345
Value added tax payables ("VAT")	24.067	9.263
Credit card bills collection account (*)	15.364	10.834
	65.017	41.442

(*) Majority of the payables above consist of related banks' credit card bill collections made in the stores. The collections have the maturity of less than one month.

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NOTE 8 - OTHER RECEIVABLES AND PAYABLES (Continued)

Long term other payables

	2016	2015
Deposits and guarantees received	3.629	3.181
	3.629	3.181

NOTE 9 - INVENTORIES

	2016	2015
Raw materials	7.276	7.191
Work in progress	8.762	5.244
Trade goods	1.271.713	1.106.184
Other	1.208	1.325
Less: Provision for impairment	(16.207)	(15.571)
	1.272.752	1.104.373

NOTE 10 - PREPAID EXPENSES AND DEFERRED REVENUES

Short term prepaid expenses

	2016	2015
Prepaid rent expenses	17.690	14.468
Prepaid insurance expenses	10.160	7.939
Advances given	3.197	2.744
Prepaid other expenses	3.745	6.314
	34.792	31.465

Long term prepaid expenses

	2016	2015
Advances given for property, plant and equipment	20.241	3.379
Prepaid rent expenses	8.593	15.049
	28.834	18.428

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NOTE 10 - PREPAID EXPENSES AND DEFERRED REVENUES (Continued)

Short term deferred revenues

	2016	2015
Customer cheques	27.805	20.711
Deferred revenues	4.611	3.686
	32.416	24.397

Long term deferred revenues

	2016	2015
Deferred revenues	4.592	850
	4.592	850

NOTE 11 - INVESTMENT PROPERTY

	1 January 2016	Additions	Disposal	Impairment (*)	Transfers (**)	Currency translation difference	31 December 2016
Cost							
Land and buildings	193.943	3.170	(4.600)	-	11.361	4.246	208.120
Accumulated depreciation							
Buildings	(47.538)	(4.572)	1.558	(8.136)	(5.171)	458	(63.401)
Net book value	146.405						144.719

	1 January 2015	Additions	Transfers (***)	Currency translation difference	31 December 2015
Cost					
Land and buildings	170.396	4.743	17.463	1.341	193.943
Accumulated depreciation					
Buildings	(34.791)	(4.073)	(6.189)	(2.485)	(47.538)
Net book value	135.605				146.405

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NOTE 11 - INVESTMENT PROPERTY (Continued)

- (*) The Group has performed impairment analysis for its investment properties and concluded that carrying amount of investment properties exceed its net recoverable amount by TRL 8.136. As a result, provision for impairment has been accounted for under expenses from investment activities (Note 21).
- (**) The Group has reassessed the square meters of stores which are used for the purpose of retail operations and earning rent revenue in Samal Shopping and property, plant and equipment which has net book value of TRL 6.190 transferred to investment properties.
- (***) Ankara Ankamall Shopping Mall Center was transferred from property, plant and equipment to investment property. As of 31 December 2016 the total rentable area is 6.741 m² (2015: 6.741 m²) and its fair value is TRL 61.850 (2015: TRL 61.850). The mentioned fair value is determined according to the real estate valuation report dated March 2015 of Ekol Gayrimenkul Değerleme ve Danışmanlık A.Ş. The mentioned fair value is determined as an appropriate reconciliation of the “Direct capitalization” and “Market value” methods.

Depreciation expenses of investment property the period have been accounted for under general administrative expenses.

Investment properties of the Group consist of rented area to other retailers in Samal shopping mall, Tastak store in Kazakhstan and Skopje shopping mall in Macedonia. At 31 December 2016, total investment property of Kazakhstan and Macedonia are 2.857 and 9.364 m² respectively (2015: Kazakhstan 6.150 m², Macedonia 8.043 m²). In the last quarter of 2016, the average rent area decreased due to the refurbishment at Ramstore Samal Shopping Mall Center in Kazakhstan.

Fair value of the investment properties in Kazakhstan and Macedonia are TRL 38.319 and TRL 102.540 (2015: Kazakhstan TRL 38.319, Macedonia TRL 102.540). The mentioned fair values are determined according to real estate valuation report dated December 2016 of TSKB Gayrimenkul Değerleme A.Ş. The mentioned fair values are determined with the “Discounted cash flow” method.

There is no mortgage or pledge on the investment properties of the Group as of 31 December 2016.

The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounted to TRL 21.228 (2015: TRL 22.159). Direct operating expenses arising on the investment property in the period include maintenance and repair costs which amounted to TRL 4.151 (2015: TRL 5.061).

The total fair value of the investment properties is TRL 202.709 and it is TRL 57.990 higher than the carrying net book value in the interim condensed consolidated financial statements as of 31 December 2016.

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NOTE 12 - PROPERTY, PLANT AND EQUIPMENT

Movement of property, plant and equipments period ended at 31 December 2016 is as follows;

	1 January 2016	Additions	Disposals	Impairment (*)	Transfers	Currency translation differences	31 December 2016
Cost							
Land and buildings	382.910	6.396	(336)	-	(7.936)	8.813	389.847
Leasehold improvements	516.389	44.268	-	(12.528)	22.504	2.985	573.618
Machinery and equipments	617.634	78.070	(24.253)	-	38.918	5.353	715.722
Motor vehicles	2.173	818	(920)	-	348	181	2.600
Furniture and fixtures	317.621	29.821	(5.195)	-	13.352	5.046	360.645
Construction in progress	22.579	98.769	-	-	(95.753)	1.823	27.418
	1.859.306	258.142	(30.704)	(12.528)	(28.567)	24.201	2.069.850
Accumulated depreciation							
Buildings	(68.658)	(5.447)	15	(24.608)	5.044	(4.317)	(97.971)
Leasehold improvements	(207.794)	(54.819)	-	9.226	-	(1.597)	(254.984)
Machinery and equipments	(234.987)	(73.394)	19.677	-	127	(4.190)	(292.767)
Motor vehicles	(1.158)	(417)	677	-	-	(56)	(954)
Furniture and fixture	(126.086)	(30.232)	4.222	-	-	(2.745)	(154.841)
	(638.683)	(164.309)	24.591	(15.382)	5.171	(12.905)	(801.517)
Net book value	1.220.623						1.268.333

(*) The Group has performed impairment analysis for its property, plant and equipment and concluded that carrying amount of investment properties exceed its net recoverable amount by TRL 24.608. As a result, provision for impairment has been accounted for under expenses from investment activities. Furthermore impairment loss amounting to TRL 3.302 consists of leasehold improvements of the stores closed in 2016 (Note 21).

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NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (Continued)

Movement of property, plant and equipments for the period ended ar of 31 December 2015 is as follows;

	Currency					translation	31 December
	1 January	Additions	Disposals	Impairment (*)	Transfers	differences	2015
	2015						
Cost							
Land and buildings	391.944	15.082	-	-	(17.337)	(6.779)	382.910
Leasehold improvements	539.917	57.686	-	(31.252)	(42.013)	(7.949)	516.389
Machinery and equipments	544.833	63.104	(22.770)	-	42.849	(10.382)	617.634
Motor vehicles	2.489	379	(630)	-	-	(65)	2.173
Furniture and fixtures	278.484	32.370	(4.503)	-	12.136	(866)	317.621
Construction in progress	25.388	79.395	-	-	(83.211)	1.007	22.579
	1.783.055	248.016	(27.903)	(31.252)	(87.576)	(25.034)	1.859.306
Accumulated depreciation							
Buildings	(57.164)	(19.348)	-	-	6.189	1.665	(68.658)
Leasehold improvements	(226.365)	(49.379)	-	24.518	39.470	3.962	(207.794)
Machinery and equipments	(196.705)	(65.190)	20.553	-	-	6.355	(234.987)
Motor vehicles	(1.253)	(388)	485	-	-	(2)	(1.158)
Furniture and fixture	(102.379)	(27.243)	3.538	-	-	(2)	(126.086)
	(583.866)	(161.548)	24.576	24.518	45.659	11.978	(638.683)
Net book value	1.199.189						1.220.623

(*) Impairment loss amounting to TRL 6.734 consists of leasehold improvements of the stores closed in 2015 (Note 21).

There is no pledges on property, plant and equipments as of 31 December 2016 and 2015. Depreciation expenses related to property, plant and equipment have been accounted under general administrative expenses. The total fair value of land and buildings owned by the Group in Turkey, Kazakhstan and Macedonia is TRL 670.972 as of 31 December 2016. The mentioned fair values are determined according to real estate valuation reports of Denge Gayrimenkul ve Danışmanlık A.Ş., Ekol Gayrimenkul Değerleme ve Danışmanlık A.Ş., Nova Taşınmaz Değerleme ve Danışmanlık A.Ş. and TSKB Gayrimenkul Değerleme A.Ş. which were conducted during year 2015. The mentioned fair falues are mainly determined according to "Comparison with peers" method.Total fair value of land and buildings are TRL 379.096 higher than the carrying net book value in the consolidated financial statements as of 31 December 2016.

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NOTE 13 - INTANGIBLE ASSETS

Movement of intangible assets period ended at 31 December 2016 is as follows;

	1 January 2016	Additions	Business combination (4)	Transfers	Currency translation differences	31 December 2016
Cost						
Trademark	-	-	2.787	-	-	2.787
Rent agreements (2)	32.982	-	-	-	-	32.982
Rights	109.205	25.200	3.082	17.206	1.197	155.890
Other intangible assets (3)	87.214	4.435	-	-	-	91.649
	229.401	29.635	5.869	17.206	1.197	283.308
Accumulated amortisation						
Rent agreements (2)	(30.147)	(959)	-	-	-	(31.106)
Rights	(54.471)	(27.613)	-	-	(923)	(83.007)
Other intangible assets (3)	(60.094)	(2.063)	-	-	-	(62.157)
	(144.712)	(30.635)	-	-	(923)	(176.270)
Net book value	84.689					107.038

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NOTE 13 - INTANGIBLE ASSETS (Continued)

Movement of intangible assets period ended at 31 December 2015 is as follows;

	1 January 2015	Additions	Disposals	Impairment loss (1)	Transfers	Currency translation differences	31 December 2015
Cost							
Trademark (1)	202.175	-	-	(202.175)	-	-	-
Rent agreements (2)	32.982	-	-	-	-	-	32.982
Rights	71.071	27.220	(375)	-	12.232	(943)	109.205
Other intangible assets (3)	28.783	550	-	-	57.881	-	87.214
	335.011	27.770	(375)	(202.175)	70.113	(943)	229.401
Accumulated amortisation							
Rent agreements (2)	(28.401)	(1.746)	-	-	-	-	(30.147)
Rights	(38.562)	(16.541)	375	-	-	257	(54.471)
Other intangible assets (3)	(18.631)	(1.993)	-	-	(39.470)	-	(60.094)
	(85.594)	(20.280)	375	-	(39.470)	257	(144.712)
Net book value	249.417						84.689

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NOTE 13 - INTANGIBLE ASSETS (Continued)

- (1) TFRS 3, “Business Combinations”, requires the acquirer at the acquisition date to allocate the cost of a business combination by recognising the acquiree’s identifiable assets, liabilities and contingent liabilities at their fair values as at that date.

The fair value of Tansaş trademark which was considered as an identifiable intangible asset by the Group was determined by the relief from royalties method and estimated the fair value of the trademarks in the amount of TRL 202.175 at the acquisition date 30 May 2008. This amount has been accounted for as an intangible asset in the consolidated financial statements. Since the trademark does not have a definite useful life and it is foreseen that certain expenses will be incurred each year in order to maintain its value, it is considered as an intangible asset with an indefinite useful life and therefore has not been amortised. Additionally, the Group assesses the intangible assets with indefinite useful lives annually for any indication of impairment.

In order to provide operational benefits, mainly starting from the second quarter of the year 2015, the Group has started to operate its 204 Tansaş stores under Migros-MigrosJet banner. In this context, according to the impairment test made as of 31 December 2015, no fair value of Tansaş trademark is determined by using the “Relief from Royalties” method. The impairment value in Tansaş trademark is calculated in the amount of TRL 202.175 and recognized under “expenses from investment activities” in profit and loss table for the year ended 31 December 2015.

- (2) The Group determined the value of the benefit derived from the lease contracts of MMM and Maxi stores, which were designated as intangible assets, at an amount of TRL 32.982 and was accounted for under the intangible assets in the consolidated financial statements. Lease contracts are recorded at their fair values at the date of purchase, and amortised during the contract period.
- (3) On 24 July 2008 the Group purchased all of the furniture and fixtures of local retail chain Maxi Market’s Silivri, Tekirdag and Çengelköy stores, with a total sales area of 13.000 m², from Hamoglu Yönetim Organizasyonu Personel Taşımacılık ve Yemek Üretim Hizmetleri İşletmecilik A.Ş. and also took over the rent agreements of the mentioned stores. The purchase cost in the amount of TRL 10.297 which exceeds the fair value of the purchased furniture and fixtures has been accounted for as an intangible asset and has been amortised over the rent agreement period.

On 10 March 2009, the Group purchased all of the furniture and fixtures of 7 stores belonging to Mak Gıda Pazarlama San. ve Tic. A.Ş., (“Mak Gıda”) a local retail chain operating in Gaziantep region, with a total sales area of 9.592 m² and on 12 February 2009 the Group purchased all of the furniture and fixtures of 21 stores belonging to Yonca Marketçilik ve İnş. Hiz. San. ve Tic. A.Ş. (“Yonca”), a local retail chain mainly operating in Adana region, with a total sales area of 17.480 square meters and also took over the rent agreements of the mentioned stores. The excess amount of the consideration given over the fair value of acquired assets in the total amount of TRL 18.486, TRL 601 for the Mak Gıda and TRL 17.885 for Yonca, respectively- was accounted for under other intangible assets and has been amortised over the rent agreement period.

- (4) In order to increase Macrocenter’s structure and operational experience, on 22 November 2016, the Group has acquired the intangible assets’ of Tazedirekt A.Ş. (“Tazedirekt”), an online food retailer firm. As of the transaction date, the fair value of the acquired trademark based on cost model amounting to TRL 2.787, has been accounted for under intangible assets in the consolidated financial statements. Since the trademark does not have a definite useful life and it is foreseen that certain expenses will be incurred each year in order to maintain its value, it is considered as an intangible asset with an indefinite useful life and therefore has not been amortised. Besides, as of the transaction date, the fair value of acquired software based on cost model amounting to TRL 3.082 has been accounted for under intangible assets in the consolidated financial statements.

Amortisation expenses related to intangible assets have been accounted under general administrative expenses.

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NOTE 14 - GOODWILL

	2016	2015
Opening balance	2.251.427	2.251.427
Additions	1.565	-
Closing balance	2.252.992	2.251.427

The details of the calculation of goodwill are as follows:

- a) On 30 May 2008, Moonlight acquired 50,83259% of the shares of Migros, which operates in the retail sector, from Koç Holding. Moonlight Capital SA signed a share transfer agreement regarding this acquisition in February 2008 on behalf of Moonlight. Dividends paid to Koç Holding by Migros amounting to TRL 53.626 were deducted from the sales price determined on the share transfer agreement and the consideration determined as TRL 1.923.740 was paid in cash on the closing date. The transfer of the shares of Migros to Moonlight succeeding Moonlight Capital SA has been completed on 30 May 2008 for TRL 1.923.740. As a result of the price adjustment defined in share transfer agreement, price difference amounting to TRL 1.300 has been realised on behalf of Moonlight and this amount has been paid in August.

Pursuant to Communiqué Serial IV No. 8 on Principles Regarding Proxy Voting at Shareholders' Meetings of Publicly Held Joint Stock Corporations Exercising Proxy Solicitation and Tender Offers, the Company purchased 30,76% of the shares of Migros in consideration of the sum of TRL 1.148.553 from other shareholders of Migros in August 2008, prior to the call for tender realised between 6 October and 20 October 2008; and between those dates, in compliance with the call liability, purchased 16,31% of shares in Migros in consideration of the sum of TRL 637.212.

Acquisitions mentioned above have been collectively considered in goodwill calculation. The fair values of plant property and equipment acquired as a result of the acquisition of Migros Türk shares, have been determined through the best estimate of the management and included in the consolidated financial statements.

Net assets acquired by Migros and the details of the calculation of goodwill are as follows:

Total acquisition cost	3.708.205
Net asset acquired	(1.468.995)
Goodwill	2.239.210

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NOTE 14 - GOODWILL (Continued)

- b) The Group, acquired Ades Gıda San. ve Tic A.Ş., Amaç Gıda Tic ve San A.Ş. and Egeden Gıda Tüketim ve Tic. A.Ş. at 31 July 2010.

Net assets acquired by Migros and the details of the calculation of goodwill are as follows:

Total acquisition cost	14.886
Net asset acquired	(2.669)

Goodwill	12.217
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- c) The Group, acquired intangible assets of Tazedirekt A.Ş. with the total acquisition cost of TRL 6.260. Net assets acquired and the details of the calculation of goodwill are as follows:

Total acquisition cost	6.260
Net asset acquired	(4.695)

Goodwill	1.565
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Total acquisition cost does not include any other costs except explained above. Fair value of acquired assets as of the acquisition date is as follows:

Intangible assets	5.869
Deferred tax liability	(1.174)

Total acquisition cost, net	4.695
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Impairment tests for goodwill

The whole amount of goodwill is related to the acquisition of Migros Türk, the Group management considers the synergy to be created by the important domestic market position as the main reason for the goodwill. Accordingly, the Group management allocated the above mentioned goodwill amount to Turkish domestic operations which is the main cash generating unit, considering its market share and importance of the total turnover of the domestic operations in the Group consolidation.

The recoverable amount of cash-generating unit was determined based on value-in-use calculations. These value-in-use calculations include the discounted after tax cash flow projections, which are based on TRL budgets approved by management covering an eight year period. The growth rate expected to be realized after eight years is assumed to be nil and in the preparation of these analysis it has been assumed by the management that existing profitability of the Company will be maintained.

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NOTE 14 - GOODWILL (Continued)

The Group management determined the budgeted gross profit margin by taking into consideration the previous performance of the company and the market growth expectations. The discount rate 9,09% used is the after tax discount rate and includes the company-specific risks. The fact that the after-tax discount rate used in the calculation of discounted cash flows is higher/lower by 100 basis points (such as 8,09% or 10,09% instead of 9,09%) causes a decrease/increase of TRL 648.516 (2015: TRL 838.667) in the fair value calculations for which sales costs are deducted, as of 31 December 2015. Within the context of analysis performed by the Management, above mentioned changes in the key assumptions on which recoverable amount is based would not cause carrying amount to exceed its recoverable amount.

NOTE 15 - FINANCIAL LIABILITIES

	31 December 2016		
	Effective interest rate	In original currency	Total TRL equivalent
Short term borrowings			
With fixed interest rate - TRL	14,34%	102.012	102.012
Total short term borrowings			102.012
Current portion of long term borrowings			
With floating interest rate - EUR	5,25%	53.336	197.873
With fixed interest rate - TRL	13,93%	40.312	40.312
With fixed interest rate - EUR	15,00%	31.086	328
Total current portion of long term bank borrowings			238.513
Total short term bank borrowings			340.525
Non-current bank borrowings			
With floating interest rate - EUR	5,25%	638.317	2.368.091
With fixed interest rate - TRL	13,93%	233.274	233.274
With fixed interest rate – Tenge	15,00%	2.050.000	21.646
Total non-current bank borrowings			2.623.011
Total financial liabilities			2.963.536

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NOTE 15 - FINANCIAL LIABILITIES (Continued)

The redemption schedule of bank borrowings with effective interest rate at 31 December 2016 is as follows:

	Tenge loan TRL equivalent	Euro loan TRL equivalent	TRL Loan	Total (TRL equivalent)
1 January 2017- 31 December 2017	328	197.873	142.324	340.525
1 January 2018- 31 December 2018	1.031	323.296	47.173	371.500
1 January 2019- 31 December 2019	4.123	401.754	47.966	453.843
1 January 2020- 31 December 2020	4.123	432.475	44.135	480.733
1 January 2021- 31 December 2021	4.123	455.609	39.843	499.575
1 January 2022- 31 December 2022	4.123	484.381	36.231	524.735
1 January 2023 - 24 October 2023	4.123	270.576	17.926	292.625
	21.974	2.565.964	375.598	2.963.536

The fair value of bank borrowings at 31 December 2016 is TRL 2.987.487.

The redemption schedule of principal amounts of bank borrowings at 31 December 2016 is as follows:

	Tenge loan TRL equivalent	Euro loan TRL equivalent	TRL Loan	Total (TRL equivalent)
1 January 2017- 31 December 2017	-	76.479	108.096	184.575
1 January 2018- 31 December 2018	1.031	229.411	24.285	254.727
1 January 2019- 31 December 2019	4.123	350.468	37.100	391.691
1 January 2020- 31 December 2020	4.123	430.117	45.532	479.772
1 January 2021- 31 December 2021	4.123	509.793	53.967	567.883
1 January 2022- 31 December 2022	4.123	605.367	64.084	673.574
1 January 2023 - 24 October 2023	4.123	366.394	38.786	409.303
	21.646	2.568.029	371.850	2.961.525

As per the resolution of the Board of Directors for the refinancing the Company’s current debt of Euro 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 TRL 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.

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NOTE 15 - FINANCIAL LIABILITIES (Continued)

With respect to long term bank loans, all Migros Ticaret A.Ş. shares owned by MH Perakendecilik ve Ticaret A.Ş., Moonlight Capital S.A. and Kenan Investments S.A. were provided as collateral to the financial institutions as from the grant date of the loan. As of 31 December 2016, shares of Migros Ticaret A.Ş. which represents 80,51% of shares and amounting to TRL 143.323.336 (Express in Turkish Lira) nominal value (14.332.333.600 shares) owned by MH Perakendecilik ve Ticaret A.Ş., Moonlight Capital S.A. and Kenan Investments S.A. were pledged (31 December 2015: 14.332.333.600 shares representing 80,51%).

The Group has an obligation to meet various covenants according to bank borrowings. The Group meets the covenant requirements which calculated on consolidated financial statement as of 31 December 2016.

With respect to current portion of non-current bank loans, the Group has made an early payment of EUR 10.307 and TRL 4.047 on 26 May 2016 relating to November 2016 instalment.

	31 December 2015		
	Effective interest rate	In original currency	Total TRL equivalent
Current portion of long term borrowings			
With floating interest rate - EUR	5,25%	53.746	170.783
With fixed interest rate - TRL	13,93%	41.733	41.733
With fixed interest rate - EUR	2,00%	124	394
Total current bank borrowings			212.910
Non-current bank borrowings			
With floating interest rate - EUR	5,25%	671.824	2.134.789
With fixed interest rate - TRL	13,93%	245.447	245.447
Total non-current bank borrowings			2.380.236
Total financial liabilities			2.593.146

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NOTE 15 - FINANCIAL LIABILITIES (Continued)

The redemption schedule of TRL equivalents of bank borrowings with effective interest rate at 31 December 2015 is as follows:

	Euro Loan TRL equivalent	TRL Loan	Total TRL equivalent
1 January 2016 - 31 December 2016	171.177	41.733	212.910
1 January 2017- 31 December 2017	207.864	40.766	248.630
1 January 2018- 31 December 2018	263.064	41.391	304.455
1 January 2019- 31 December 2019	326.907	42.086	368.993
1 January 2020- 31 December 2020	351.906	38.725	390.631
1 January 2021- 31 December 2021	370.732	34.960	405.692
1 January 2022- 31 December 2022	394.145	31.791	425.936
1 January 2023 - 26 May 2023	220.171	15.728	235.899
	2.305.966	287.180	2.593.146

The fair value of bank borrowings at 31 December 2015 is TRL 2.611.799.

NOTE 16 - PROVISIONS, COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions	2016	2015
Provision for litigation	27.105	30.172
Customer loyalty programs	567	528
Provision for tax penalty (*)	-	52.583
	27.672	83.283

There are various lawsuits filed against or in favour of the Group. Receivables, rent or labour disputes constitute the majority of these lawsuits. The Group management estimates the outcomes of these lawsuits and estimates their financial impact according to which the necessary provisions are accounted.

- (*) A limited tax review has been conducted on the Group’s Value Added Tax (“VAT”) accounting treatment of wastages relating to goods purchased in 2008, 2009, 2010, 2011 and 2012. The tax review was finalized on November 2014 and a principal tax fine of TRL 27.484 (TRL 45.602 including the interest) was calculated following the objection raised in the Tax Review Report which argues that the amounts exceeding the shrinkage limits can not be treated as deductions in the tax accounts, therefore VAT relating to these purchased goods can not be subject to deduction. Therefore, a provision amounting to TRL 52.583 (TRL 27.484 for the principal part and TRL 25.099 for the interest charges has been accounted for in the consolidated financial statements as of 31 December 2015. An application in accordance with the Law numbered 6736 on Restructuring of Public Receivables has been made on 6 October 2016. After restructuring, the Group has paid TRL 15.846 in total (TRL 13.742 principal and TRL 2.104 interest charges) on 24 November 2016. Therefore release of provision amounting to TRL 36.968 has been recognised as other operating income and interest charges of current period amounting to TRL 231 has been recognised as financial expenses in the consolidated financial statements as of 31 December 2016.

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**NOTE 16 - PROVISIONS, COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES
(Continued)**

Movement of provision for lawsuits is as follows:

1 January 2015	26.578
Increase during period	10.057
Payments during period	(6.463)
31 December 2015	30.172
1 January 2016	30.172
Increase during period	5.169
Payments during period	(8.236)
31 December 2016	27.105

Collaterals, Pledges, Mortgages

2016:

	Total TRL amount	TRL	USD	Euro
A. CPM given on behalf of the Company’s legal personality	86.092	84.378	487	-
B. CPM given on behalf of fully consolidated subsidiaries	-	-	-	-
C. CPM given for continuation of its economic activities on behalf of third parties	-	-	-	-
D. Total amount of other CPM	-	-	-	-
i. Total amount of CPM given behalf of the majority shareholder	-	-	-	-
ii. Total amount of CPM given behalf of other group companies which are not in scope of B and C	-	-	-	-
iii. Total amount of CPM given behalf of third parties which are not in scope of C	-	-	-	-
Total collaterals, pledges and mortgages	86.092	84.378	487	-
Proportion of the other CPM’s to equity (%)	0,0	-	-	-

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**NOTE 16 - PROVISIONS, COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES
(Continued)**

2015:

	Total TRL amount	TRL	USD	Euro
A. CPM given on behalf of the Company’s legal personality	82.958	81.585	472	-
B. CPM given on behalf of fully consolidated subsidiaries	-	-	-	-
C.CPM given for continuation of its economic activities on behalf of third parties	-	-	-	-
D.Total amount of other CPM	-	-	-	-
i. Total amount of CPM given behalf of the majority shareholder	-	-	-	-
ii. Total amount of CPM given behalf of other group companies which are not in scope of B and C	-	-	-	-
iii. Total amount of CPM given behalf of third parties which are not in scope of C	-	-	-	-
Total collaterals, pledges and mortgages	82.958	81.585	472	-
Proportion of the other CPM’s to equity (%)	0,0	-	-	-

Contingent assets and liabilities

Guarantees given at 31 December 2016 and 2015 are as follows:

	2016	2015
Letter of guarantees given	86.092	82.958
	86.092	82.958

Guarantees received at 31 December 2016 and 2015 are as follows:

	2016	2015
Guarantees obtained from customers	88.356	91.215
Mortgages obtained from customers	26.825	23.342
	115.181	114.557

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**NOTE 16 - PROVISIONS, COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES
(Continued)**

The future aggregate minimum lease payments under non-cancellable operating leases of land and stores are as follows. Amounts are expressed in the total amount to be paid by the end of the lease term although the time periods specified in the contracts in line with the vast majority of our stores early release have a right to give notice of the condition.

	2016	2015
Payable within 1 year	40.843	29.133
Payable in 1 to 5 years	10.017	6.128
5 years and more	-	366
	50.860	35.627

With respect to long term bank loans, all Migros Ticaret A.Ş. shares owned by MH Perakendecilik ve Ticaret A.Ş., Moonlight Capital S.A. and Kenan Investments S.A. were provided as collateral to the financial institutions as from the grant date of the loan. As of 31 December 2016, shares of Migros Ticaret A.Ş. which represents 80,51% of shares and amounting to TRL 143.323.336 (Express in Turkish Lira) nominal value (14.332.333.600 shares) owned by MH Perakendecilik ve Ticaret A.Ş., Moonlight Capital S.A. and Kenan Investments S.A. were pledged (31 December 2015: 14.332.333.600 shares representing 80,51%).

NOTE 17 - EMPLOYEE BENEFITS

	2016	2015
Due to personnel	41.644	31.813
Social security deductions	34.617	15.380
	76.261	47.193

	2016	2015
Provision for unused vacation	93.105	75.970
Provision for employment termination benefits	79.057	64.283
	172.162	140.253

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NOTE 17 - EMPLOYEE BENEFITS (Continued)

Movement of provision for unused vacation is as follows:

1 January 2015	62.984
Increase during period	19.478
Payments during period	(6.492)
31 December 2015	75.970
1 January 2016	75.970
Increase during year	24.722
Payments during period	(7.587)
31 December 2016	93.105

Provision for employment termination benefits

Under the Turkish Labour Law, the Company is required to pay termination benefits to each employee who has completed one year of service and who reaches the retirement age, whose employment is terminated without due cause, is enlisted for military service or passed away. The termination benefit to be paid is one month wage per a service year up to the maximum employment termination benefit limit.

In the consolidated financial statements as of 31 December 2016 and 2015, the Group reflected a liability calculated using the projected unit credit method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds.

The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of employees.

The following actuarial assumptions were used in the calculation of the total liability:

	2016	2015
Discount rate (%)	3,77	3,77
Turnover rate to estimate the probability of retirement (%)	82,88 - 100,00	79,77 - 100,00

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NOTE 17 - EMPLOYEE BENEFITS (Continued)

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. As the maximum liability is revised once every six months, the maximum amount of TRL 4.426,16 effective from 1 January 2017 (1 January 2016: TRL 4.092,53) has been taken into consideration in calculating the reserve for employment termination benefit of the Group.

In the calculation, the employees were separated into two groups based on the working years in the Group: 0-14 years and 15 years and above. The probability of retirement is used as 82,88% and 100% for the employees working 0-14 years and 15 years and above, respectively.

Movements in the provision for employment termination benefits are as follows:

1 January 2015	55.848
Increase during period	31.898
Payments during period	(19.717)
Actuarial gain	(3.746)
31 December 2015	64.283
1 January 2016	64.283
Increase during period	33.211
Payments during period	(19.474)
Actuarial gain	1.037
31 December 2016	79.057

The Company has signed a collective labour agreement with Tez-Koop İş Sendikası (labour union) for the period of 1 May 2014 and 30 April 2017.

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NOTE 18 - REVENUE

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

	2016	2015
Domestic sales	10.979.857	9.210.030
Foreign sales	335.065	425.650
Other sales	14.492	15.648
Gross sales	11.329.414	9.651.328
Discounts and returns (-)	(270.190)	(261.499)
Sales revenue, net	11.059.224	9.389.829
Cost of sales	(8.097.682)	(6.864.180)
Gross profit	2.961.542	2.525.649

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

	2016	2015
Retail sales revenue	10.931.238	9.316.993
Rent income	297.591	242.074
Wholesale revenue	86.093	76.613
	11.314.922	9.635.680

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NOTE 19 - EXPENSE BY NATURE

Total	2016	2015
Staff costs	1.078.928	893.441
Rent	553.391	480.278
Depreciation and amortisation	199.516	185.901
Energy	137.402	126.566
Transportation	99.625	82.861
Porterage and cleaning	77.094	61.198
Advertising	71.139	65.626
Warehouse	69.352	55.804
Repair and maintenance	43.299	37.848
Mechanisation	28.879	25.733
Security	26.678	22.996
Taxes and other fees	14.727	14.455
Communication	10.408	9.631
Other	114.589	91.960
	2.525.027	2.154.298
Marketing, selling and distribution expenses	2016	2015
Staff costs	959.255	787.968
Rent	552.760	479.692
Energy	136.118	125.324
Transportation	99.625	82.861
Porterage and cleaning	74.749	59.306
Advertising	71.139	65.591
Warehouse	69.352	55.804
Repair and maintenance	42.700	37.235
Mechanisation	26.033	22.083
Security	25.640	22.135
Taxes and other fees	13.453	13.275
Communication	8.932	7.931
Other	96.289	74.462
	2.176.045	1.833.667
General administrative expenses	2016	2015
Depreciation and amortisation	199.516	185.901
Staff costs	119.673	105.473
Other	29.793	29.257
	348.982	320.631

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NOTE 19 - EXPENSE BY NATURE (Continued)

Expenses by nature in cost of sales for the year ended at 31 December 2016 and 2015 are as follows:

	2016	2015
Cost of goods sold	8.066.073	6.833.376
Cost of service rendered	31.609	30.804
	8.097.682	6.864.180

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

NOTE 20 - OTHER OPERATING INCOME AND EXPENSES

Other operating income	2016	2015
Interest income on term sales	40.931	39.510
Cancelled tax penalty provision (Note 16)	36.968	-
Interest income from operating activities	24.309	26.841
Other	6.486	14.555
	108.694	80.906

Other operating expenses	2016	2015
Interest expense on term purchases	178.324	160.520
Litigation provision	5.169	10.057
Bad debt provision expense	1.709	3.357
Other	19.852	14.691
	205.054	188.625

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NOTE 21 - INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES

Income from investing activities	2016	2015
Gain on sale of property, plant and equipment	1.154	1.326
	1.154	1.326
Expense from investing activities	2016	2015
Losses from impairment provision investment properties and property, plant and equipment	32.744	-
Loss on sale of property, plant and equipment (Note 11, 12)	8.164	2.023
Losses from leasehold improvements of closed stores (Note 12)	3.302	6.734
Impairment on intangible assets (Note 13)	-	202.175
Impairment on financial assets	-	530
	44.210	211.462

NOTE 22 - FINANCIAL INCOME

	2016	2015
Foreign exchange gains	47.469	39.077
Interest income on bank deposits	4.245	1.758
Financial income on derivatives	602	5.720
	52.316	46.555

NOTE 23 - FINANCIAL EXPENSES

	2016	2015
Foreign exchange losses	391.350	278.887
Interest expense on bank borrowings	168.389	135.295
Financial expense on derivatives	768	4.788
Interest expense on tax penalty (Note 16)	231	8.080
Refinancing expense	-	8.969
Other	15.788	10.016
	576.526	446.035

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NOTE 24 - TAX ASSETS AND LIABILITIES

	2016	2015
Income tax payable	72.355	67.339
Less: Prepaid current income taxes	(52.403)	(57.744)
Taxes on income	19.952	9.595

	2016	2015
Deferred tax assets	51.188	43.954
Deferred tax liabilities	(116.388)	(114.464)
Deferred tax liabilities, net	(65.200)	(70.510)

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated change based on the Group results for the period. Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, tax liabilities, as reflected in these consolidated financial statements, have been calculated on a separate-entity basis.

Turkey

In Turkey, corporation tax rate for the year 2016 is 20% (2015: 20%). Corporation tax is applied to the total income of the companies after adjusting for certain disallowable expenses, exempt income (participation exemption, investment exemption, etc.), investment and other allowances (R&D activities allowances etc.). No further tax is payable unless the profit is distributed (except withholding tax at the rate of 19,8% on the investment incentive allowance utilised within the scope of the Income Tax Law transitional article 61).

Except for the dividends paid to non-resident corporations, which have a representative office in Turkey, or resident corporations, dividends are not subject to withholding tax. Dividends paid to other organizations or individuals are subject to withholding tax at the rate of 15% .Transfer of profit to capital is not accepted as a dividend distribution.

Corporations are required to pay advance corporation tax quarterly at the rate of 20% on their corporate income (2015: 20%). Advance tax is declared by the 14th and paid by the 17th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. Despite the credit from annual corporation tax liability, if the company still has excess advance corporate tax, it can receive this balance in cash from the Government or as a credit for another financial debt to the Government.

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods.

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NOTE 24 - TAX ASSETS AND LIABILITIES (Continued)

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within the 25th of the fourth month following the close of the related financial year. Tax returns are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

There are numerous exemptions in the Corporation Tax Law concerning the corporations. Those related to the Company are as follows:

Domestic participation exemption:

Dividend income earned from investments in another company’s shares is excluded in the calculation of the corporate tax (dividend income gained related to the participation in investment funds and investment trust shares is excluded).

Preferential right certificate sales and issued premiums exemption:

New share issue premiums, which represent the difference between the nominal and sale values of shares issued by joint-stock companies, are exempt from corporation tax.

Foreign company participation exemption:

The participation income of corporations participating for at least one continuous year of 10% that does not have their legal or business centre in Turkey (except for corporations whose principal activity is financial leasing or investment of marketable securities) up until the date the income is generated and transferred to Turkey and until the date of the filing of the corporate income tax return of the fiscal year in which the income is generated is exempt from corporation tax subject to those subsidiaries being subject to corporate income tax, or alike in their country of legal or business centre at the rate of at least 15% (the corporate income tax rate applicable in Turkey for those companies whose principal activity is financial assurance or insurance).

Real estate, investment equity, preferential rights, usufruct shares, founding shares, sales exemption:

A 75% portion of corporations’ profits from the sale of participation shares, founding shares, pre-emptive rights and property, which have been in their assets for at least for two years, is exempt from corporate tax provided that these profits are added to share capital and are not withdrawn within five years. Income from the sale is generated until the end of the second calendar year following the year in which sale was realized.

Tax exemption from software and R&D activities:

According to tax law, 100% of the expenses due to R&D activities incurred by corporate firms are exempt from tax basis.

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NOTE 24 - TAX ASSETS AND LIABILITIES (Continued)

Other geographical segments

Effective tax rate of Kazakhstan, Bulgaria and Macedonia is %20, %10, %10 respectively (2015: %20, %10, %10)

The details of taxation on income for the periods ended 31 December 2016 and 2015 are as follows:

	2016	2015
Current period income tax expense	(72.355)	(67.339)
Deferred tax income	6.548	42.870
Current period tax expense	(65.807)	(24.469)

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is applied as 10% from 24 April 2003 until 22 July 2006. This rate was changed to 15% commencing from 22 July 2006. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

Withholding tax at the rate of 19,8% is still applied to investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Subsequent to this date, investments without investment incentive certificates do not qualify for tax allowance.

	2016	2015
Loss before tax	(227.111)	(345.984)
Calculated tax income according to parent company tax rate (%20)	45.422	69.196
Differences in tax rate of subsidiaries	87	(5)
Expected tax expense of the Group	45.509	69.191
Effect of non-deductible expenses	(111.381)	(100.785)
Effect of exemptions for R&D	1.875	1.492
Effect of non-taxable incomes	444	346
Temporary differences which deferred tax not calculated	-	5.734
Other	(2.254)	(447)
Tax expense of Group	(65.807)	(24.469)

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NOTE 24 - TAX ASSETS AND LIABILITIES (Continued)

Deferred income tax

The Group recognises deferred tax assets and liabilities based upon temporary differences arising between their financial statements prepared in accordance with TFRS and its statutory tax financial statements. Temporary differences generally arise due to the recording of incomes and expenses in different reporting periods according to Tax Laws and TAS. As of 31 December 2016 deferred income taxes will be calculated on temporary differences that are expected to be realized or settled based on the taxable income in the coming years under the liability method using a principal tax rate of 20%, 20%, 10% and 10% for Turkey, Kazakhstan, Bulgaria and Macedonia, respectively (31 December 2015: 20%, 20%, 10% and 10% respectively).

The composition of cumulative temporary differences and the related deferred income tax assets and liabilities in respect of items for which deferred income tax has been provided as of 31 December 2016 and 2015 using the currently enacted tax rates, is as follows:

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	2016	2015	2016	2015
Deferred tax assets:				
Short term provisions	131.094	106.142	26.219	21.228
Inventories	42.368	43.226	8.474	8.645
Provision for employee termination benefits	79.057	64.283	15.811	12.857
Unearned interest income	226	237	45	47
Other	3.194	5.886	639	1.177
			51.188	43.954
Deferred tax liabilities:				
Fair value changes of derivatives	620	422	(124)	(84)
Property, plant and equipment and intangible assets	580.921	578.929	(108.959)	(108.762)
Deferred finance expense	27.415	24.345	(5.483)	(4.869)
Other	9.108	3.745	(1.822)	(749)
			(116.388)	(114.464)
Deferred tax liability, net			(65.200)	(70.510)

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NOTE 24 - TAX ASSETS AND LIABILITIES (Continued)

	2016	2015
Deferred tax assets will be utilised in more than 1 year	15.918	12.962
Deferred tax assets will be utilised in less than 1 year	35.270	30.992
	51.188	43.954
Deferred tax liabilities will be incurred in more than 1 year	(110.781)	(109.595)
Deferred tax liabilities will be incurred in less than 1 year	(5.607)	(4.869)
	(116.388)	(114.464)
Deferred tax liability, net	(65.200)	(70.510)
1 January 2015		(112.630)
Deferred tax expense from continuing operations		42.870
Accounted for under equity		(749)
Currency translation difference		(1)
31 December 2015		(70.510)
1 January 2016		(70.510)
Deferred tax income from continuing operations		6.548
Additions from business combinations		(1.174)
Accounted for under equity		207
Currency translation difference		(271)
31 December 2016		(65.200)

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NOTE 25 - CAPITAL, RESERVES AND OTHER EQUITY ITEMS

The Company’s authorised and issued capital consists of 17.803.000.000 shares at 1 shares of Kr1 nominal value as of 31 December 2016 (31 December 2015: 17.803.000.000 shares). All shares are paid-in and no privileges are given to different share groups and shareholders. MH Perakendecilik ve Ticaret A.Ş. (“MH”) transferred its Migros Ticaret A.Ş. shares with the nominal value of TRL 27.371.000 to its parent company, Moonlight Capital S.A., in exchange for TRL 26 per share on 13 November 2014 (Amounts express in Turkish Lira). MH Perakendecilik ve Ticaret A.Ş. (“MH”) transferred its Migros Ticaret A.Ş. shares with the nominal value of TRL 26.937.336 to its parent company, Moonlight Capital S.A., in exchange for TRL 26 per share on 31 December 2014. On 27 January 2016, Moonlight Capital S.A. conducted a sale transaction of shares, with all rights, obligations and encumbrances, held by Moonlight Capital S.A. in Migros Ticaret A.Ş. with a total nominal value of TRL 26.937.336 pursuant to the Accession Agreement dated 27 January 2016 for a price of TRL 26 per share to Kenan Investments S.A. which owns all of the shares of Moonlight Capital S.A (Amounts express in Turkish Lira). within the scope of intragroup share transfer. As a result of these transactions, the shareholding of MH, Moonlight Capital S.A. and Kenan Investments S.A. are 50,00%, 15,37% and 15,13%, respectively.

The shareholders of the Company and their shareholdings stated at historical amounts at 31 December 2016 and 2015 are stated below:

	2016		2015	
	TRL	Share (%)	TRL	Share (%)
MH Perakendecilik ve Ticaret A.Ş.	89.015	50,00	89.015	50,00
Moonlight Capital S.A.	27.371	15,37	54.308	30,51
Kenan Investments S.A.	26.937	15,13	-	-
Other	34.707	19,49	34.707	19,49
Total	178.030	100,00	178.030	100,00

Restricted Reserves

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code (“TCC”), The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the Company’s paid-in capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in capital. On the other hand, in the event that it is decided to distribute the entire profit for the period as dividends, exclusively for this situation a second legal reserve is set aside at 9% for the portion exceeding 5% of the capital issue/paid from the net distributable profit for the period. Under the TCC, the legal reserves can be used only to offset losses and are not available for any other usage unless they exceed 50% of paid-in capital. In accordance with CMB Financial Reporting Standards, the Company classified the above mentioned amounts under “Restricted reserves”, the amount of restricted reserves is TRL 438.950 as of 31 December 2016 (2015: TRL 438.950).

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NOTE 25 - CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

In accordance with CMB accounting and financial reporting standards; TRL 65.816 is followed under a separate fund account in the Company’s legal books in order to benefit from the investment sales income exemption. To benefit from the exemption, the related profit has to be kept under this fund account for 5 years and should not be withdrawn during that period. The mentioned amount has been accounted for under “restricted reserves” account in accordance with the CMB accounting and transferred to “accumulated losses” account as of 31 December 2016.

In accordance with the Communiqué Serial: II No:14.1 according to the CMB's announcements clarifying the said Communiqué, “Share Capital”, “Restricted Reserves Allocated from Profit” and “Share Premiums” need to be recognized over the amounts contained in the legal records. The valuation differences (such as inflation adjustment differences) shall be disclosed as follows:

- if the difference is arising from the valuation of “Paid-in Capital” and not yet been transferred to capital should be classified under the “Inflation Adjustment To Share Capital”;
- if the difference is arising from valuation of “Restricted Reserves” and “Share Premium” and the amount has not been subject to dividend distribution or capital increase, it shall be classified under “Retained Earnings”. Other equity items shall be carried at the amounts calculated based on CMB Financial Reporting Standards.

It was determined that there is no need to set aside first order legal reserves as the first order legal reserves reached 20% of capital in accordance with Turkish Commercial Code. Additionally, it was decided that there is no need to set aside second order legal reserves since no dividend was distributed in the current period.

Capital adjustment differences have no other use other than being transferred to share capital.

Dividend requirements applicable to listed companies regulated by CMB are as follows:

In accordance with the CMB Decision No. 02/51 and dated 27 January 2010, concerning allocation basis of profit from operations of 2009, minimum profit distribution will not be applied for the year 2013. According to the Board’s decision and Communiqué No. IV-27 issued by the CMB regarding the allocation basis of profit of publicly owned companies, the distribution of the relevant amount may be realised as cash or as bonus shares (by adding the cash dividend to capital) or partly as cash and bonus shares; and in the event that the first dividend amount to be specified is less than 5% of the paid-up capital, the relevant amount can be retained within the Company.

In addition, according to the aforementioned Board decision, the entities which are required to prepare consolidated financial statements can provide the necessary amount from their statutory reserves; the distributable profit can be calculated based on the net income declared at the publicly announced consolidated financial statements in the accordance with Communiqué: II No:14.1.

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NOTE 25 - CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

Accordingly, if the amount of dividend distributions calculated in accordance with the net distributable profit requirements of the CMB does not exceed the statutory net distributable profit, the total amount of distributable profit shall be distributed. If it exceeds the statutory net distributable profit, the total amount of the statutory net distributable profit shall be distributed. It is stated that dividend distributions should not be made if there is a loss in either the consolidated financial statements prepared in accordance with CMB regulations or in the statutory financial statements.

Dividend paid

The Group did not distribute any dividend in 2016 from 2015 profits (2015: The Group did not distribute any dividend in 2015 from 2014 profits).

Resources Subject to Dividend Distributions

In accordance with the Board Decision dated 9 January 2009, the total amount of net income after the deduction of accumulated losses at statutory records and reserves that can be subject to dividend distribution shall be disclosed in the notes to the financial statements which will be prepared and publicly announced in accordance with Communiqué II No:14.1. The concerning amount for Migros Ticaret A.Ş. is TRL 755.052. TRL 144.657 portion out of total amount will comprise the inflation effects of statutory equity items that are subject to taxation. The Company has no reserve that can be subject to dividend distribution in accordance with financial statements prepared in accordance with the accounting principles of TFRS. Decision of the dividend payment is determined by shareholders in General Assembly Meeting.

	2016	2015
Share capital	178.030	178.030
Balancing account for merger capital	27.312	27.312
Share premium	678.233	678.233
Actuarial gain loss	(9.180)	(8.350)
Cumulative translation differences	23.512	4.720
Restricted reserves	439.138	504.766
Other capital reserves	(365)	(365)
Retained earnings	(803.376)	(498.540)
Net loss	(292.969)	(370.464)
Attributable to equity holders of Group	240.335	515.342

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NOTE 25 - CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

Merger of enterprises subject to common control

In accordance with the decision adopted during Migros Türk’s general assembly held on 28 April 2009, Migros Türk has decided to merge with Moonlight through a takeover of its assets and liabilities as a whole within the framework of Capital Markets Board (“CMB”) requirements, Turkish Commercial Code, Law No. 451, and other related articles and Corporate Tax Law No. 19-20. As a result of the mentioned merger, it has been decided to increase Moonlight’s capital from TRL 174.323.340 to TRL178.030.000 (Amounts expressed in Turkish Lira) and also in accordance with the merger agreement approved during the General Assembly, merger ratio of 0,97918 and share exchange ratio of 1,00 has been identified. As a result of the merger, registered shares amounting to TRL 3.706.660 (Amounts expressed in Turkish Lira) issued by Moonlight have been distributed to the shareholders of Migros Türk other than Moonlight in exchange for their Migros Türk shares.

On 30 April 2009 Istanbul Trade Registry Office has announced the registry of Migros Türk’s general assembly held on 28 April 2009 and merger agreement on 06 May 2009 dated and 7305 numbered Trade Registry Gazette. As a result of the merger, Moonlight’s trade name has been changed as Migros Ticaret A.Ş.

NOTE 26 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a) Balances with related parties

Due from related parties	2016	2015
Anadolu Isuzu Otomotiv Sanayi ve Tic. A.Ş.	301	399
Çelik Motor Ticaret A.Ş.	153	-
Anadolu Motor Üretim ve Pazarlama A.Ş.	89	75
Other	57	22
	600	496
Due to related parties	2016	2015
Anadolu Efes Pazarlama ve Dağıtım Ticaret A.Ş.	86.990	65.908
Coca Cola Satış ve Dağıtım A.Ş.	43.799	37.889
Ana Gıda İhtiyaç Maddeleri San. ve Tic. A.Ş.	30.337	31.504
AEH Sigorta Acenteliği A.Ş.	5.458	4.465
Adel Kalemcilik Ticaret ve San. A.Ş.	5.303	4.376
AEH Anadolu Etap Penkon Gıda ve Tarım Ürünleri San. ve Tic. A.Ş.	3.279	1.756
Other	4	201
	175.170	146.099

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NOTE 26 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Bank borrowings from related parties	2016	2015
Alternatifbank A.Ş. (*)	-	31.722
	-	31.722
Cash and due from related parties	2016	2015
Alternatifbank A.Ş. (*)	-	9.563
	-	9.563

(*) Since Anadolu Endüstri Holding A.Ş. (“AEH”) has transferred all of its shares to third party as of 19 December 2016, therefore Alternatifbank has not qualified as related party after transaction date.

b) Transactions with related parties

On 15 July 2015 Moonlight Capital S.A. sold 80,50% of the shares of MH Perakendecilik ve Ticaret A.Ş. which holds %50 of Migros Ticaret A.Ş. shares to Anadolu Endüstri Holding A.Ş. (“AEH”). After the transaction, AEH companies are defined as related party and transactions has been disclosed since 1 July 2015.

Inventory purchases	2016	2015
Anadolu Efes Paz. ve Dağıtım Ticaret A.Ş.	251.157	112.331
Coca Cola Satış ve Dağıtım A.Ş.	151.049	72.802
Ana Gıda İhtiyaç Maddeleri San. ve Tic. A.Ş.	98.737	38.060
AEH Anadolu Etap Penkon Gıda ve Tarım Ürünleri San. ve Tic. A.Ş.	17.972	3.735
Adel Kalemcilik Ticaret ve San. A.Ş.	3.938	3.679
Natura Gıda San. ve Tic. A.Ş.	-	823
	522.853	231.430
Other transactions	2016	2015
Rent revenue	624	1.337
Rent expenses	(2.975)	(1.167)
Other income	361	345
Other expenses	(80)	(16)
Other transactions, net	(2.070)	499

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NOTE 26 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Interest income from related parties	2016	2015
Alternatifbank A.Ş. (*)	10.005	3.107
Other	-	1
	10.005	3.108
Interest paid to related parties	2016	2015
Alternatifbank A.Ş. (*)	1.748	750
	1.748	750

(*) Since Anadolu Endüstri Holding A.Ş. (“AEH”) has transferred all of its shares to third party as of 19 December 2016, therefore Alternatifbank has not qualified as related party after transaction date.

c) Key management compensation

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

Total compensation provided to key management personnel by Group for the period ended 31 December 2016 and 2015 is as follows:

	2016	2015
Short term benefits	16.168	14.284
	16.168	14.284

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

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NOTE 27 - EARNINGS/(LOSSES) PER SHARE

	2016	2015
Net loss attributable to shareholders	(291.091)	(370.464)
Weighted average number of shares with Krl face value each('000)	17.803.000	17.803.000
Loss per share	(1,65)	(2,08)

There is no difference between basic and diluted earnings per share for any of the periods.

NOTE 28 - FINANCIAL RISK MANAGEMENT

Financial risk management

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize their potential adverse effects on the financial performance of the Group.

Individual subsidiaries manage their risk under policies approved by their Boards of Directors.

Interest rate risk

The Group management invests its interest bearing assets on short term investments with the principle of balancing the maturity of the assets and liabilities that are sensitive to the interest rate changes.

The weighted average effective interest rate of the Group's financial liabilities that are sensitive to interest is 5,25%. (2015: 5,25%. As of 31 December 2016, if interest rates on TRL, USD and Euro denominated borrowings had been 100 base point higher/lower with all other variables held constant, pre-tax profit for the year would have been TRL 2.464 (2015: TRL 2.350) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Interest rate positions of the Group at 31 December 2016 and 2015 are as follows:

	2016	2015
Financial instruments with fixed interest rate		
Time deposits	435.380	296.460
Financial liabilities	397.572	287.574
Financial instruments with floating interest rate		
Financial liabilities	2.565.964	2.305.572

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NOTE 28 - FINANCIAL RISK MANAGEMENT (Continued)

Liquidity and funding risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

The funding risk of the current and future debt requirements is managed through the continuous availability of qualified lenders. As of 31 December 2016, the Group’s financial debt with a maturity longer than 1 year is TRL 2.623.011 (2015: TRL 2.380.236) (Note 15).

The maturity analysis of the Group’s financial liabilities as of 31 December 2016 is as follows:

Financial liabilities (non-derivative):

	Carrying value	Contractual cash outflows	Up to 3 months	3 months - 12 months	1 years - 5 years	Over 5 years
Financial payables	2.963.536	3.689.059	4.101	354.475	2.183.930	1.146.553
Trade payables	2.663.659	2.691.051	2.194.567	496.484	-	-
Other payables	141.278	141.278	141.278	-	-	-
	5.768.473	6.521.388	2.339.946	850.959	2.183.930	1.146.553

Derivative instruments:

	Carrying value	Contractual cash outflows	Up to 3 months	3 months - 12 months	1 years - 5 years	Over 5 years
Derivative cash inflows	620	-	-	-	-	-
Derivative cash outflows	-	-	-	-	-	-
	620	-	-	-	-	-

The maturity analysis of the Group’s financial liabilities as of 31 December 2015 is as follows:

Financial liabilities (non-derivative):

	Carrying value	Contractual cash outflows	Up to 3 months	3 months - 12 months	1 years - 5 years	Over 5 years
Financial payables	2.593.146	3.364.874	-	215.525	1.332.488	1.816.861
Trade payables	2.227.804	2.252.149	1.813.321	438.828	-	-
Other payables	88.091	88.091	88.091	-	-	-
	4.909.041	5.705.114	1.901.412	654.353	1.332.488	1.816.861

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NOTE 28 - FINANCIAL RISK MANAGEMENT (Continued)

Derivative instruments:

	Carrying value	Contractual cash outflows	Up to 3 months	3 months - 12 months	1 years - 5 years
Derivative cash inflows	422	-	-	-	-
Derivative cash outflows	-	-	-	-	-
	422	-	-	-	-

Credit risk

The Group is exposed to credit risk due to its sales other than retail sales. Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. These risks are monitored by credit ratings and by limiting the aggregate risk from any individual counterparty. The credit risk is generally highly diversified due to the large number of entities comprising the customer base.

The risk details of credits and receivables as of 31 December 2016 and 2015 are as follows. Amounts showing the maximum credit risk exposed as of the balance sheet date are disclosed by disregarding guarantees on hand and other factors that increase the credit quality.

	31 December 2016			
	Trade receivables Related party	Other receivables Other	Deposits in bank	
Maximum risk exposed credit risk as of reporting date (A+B+C)	600	57.838	10.538	545.383
Secured portion of maximum credit risk by guarantees	28	9.261	-	-
A. Net book value of financial assets either are not due or not impaired	600	54.785	10.538	545.383
secured portion by guarantees	28	7.113	-	-
B. Financial assets with renegotiated conditions	-	-	-	-
secured portion by guarantees	-	-	-	-
C. Net book value of the expired or not impaired financial assets	-	1.085	-	-
secured portion with guarantees	-	180	-	-
D. Impaired assets				
net book value	-	1.968	-	-
over due (gross book value)	-	36.966	-	-
impairment (-)	-	(34.998)	-	-
secured portion of the net value by guarantees etc.	-	1.968	-	-

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NOTE 28 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2015			Deposits in bank
	Trade receivables Related party	Other receivables Other	Other	
Maximum risk exposed credit risk as of reporting date (A+B+C)	496	49.349	7.959	357.612
Secured portion of maximum credit risk by guarantees	36	8.670	-	-
A. Net book value of financial assets either are not due or not impaired	496	46.955	7.959	357.612
secured portion by guarantees	36	6.822	-	-
B. Financial assets with renegotiated conditions	-	-	-	-
secured portion by guarantees	-	-	-	-
C. Net book value of the expired or not impaired financial assets	-	703	-	-
secured portion with guarantees	-	157	-	-
D. Impaired assets				
net book value	-	1.691	-	-
over due (gross book value)	-	32.748	-	-
impairment (-)	-	(31.057)	-	-
secured portion of the net value by guarantees etc.	-	1.691	-	-

As of today there are no uncollected, overdue, and renegotiated bank deposits nor credit card receivables present at the Group portfolio, thus the Group is in the opinion that there are no credit risks regarding these assets. The Group's past experience in collecting their receivables was taken into account while determining the provisions. Thus, the group does not consider of any further trade receivables risk other than the provision for possible collection losses.

a) Credit quality of financial assets

	2016	2015
Group 1	961	466
Group 2	64.467	54.824
Group 3	495	120
	65.923	55.410

Group 1 - New customers (Less than 3 months)

Group 2 - Existing customers with no defaults in the past (more than 3 months)

Group 3 - Existing customers with some defaults in the past of which were fully recovered

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NOTE 28 - FINANCIAL RISK MANAGEMENT (Continued)

b) Aging of the receivables which are overdue but not impaired

	2016	2015
0-1 months	581	504
1-3 months	462	107
3-12 months	41	31
1-5 year	1	61
	1.085	703

c) Geographical concentration of the trade and other receivables

	2016	2015
Turkey	64.992	47.562
Other	3.984	10.242
	68.976	57.804

Net debt ratio as of 31 December 2016 and 2015 is as follows;

	2016	2015
Total liabilities	6.096.249	5.244.731
Less: Cash and cash equivalents	(1.155.942)	(839.424)
Deferred tax liabilities	(65.200)	(70.510)
Net debt	4.875.107	4.334.797
Equity attributable to holders of parent	240.335	515.342
Equity + net debt	5.125.778	4.850.139
	%95,30	89,37%

NOTE 29 - EXCHANGE RATE RISK AND FOREIGN CURRENCY POSITION

Foreign currency risk

The Group is exposed to foreign exchange risk primarily arising from the borrowings denominated in foreign currencies. Aforementioned foreign exchange risk is monitored and limited with derivative instruments. At 31 December 2016, if Euro had appreciated against TRL by 10% and all other variables had remained constant, the loss for the period before tax as a result of foreign exchange rate difference arising out of assets and liabilities denominated in Euro would have been higher in the amount of TRL 238.137 (31 December 2015: 214.206 higher).

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NOTE 29 - EXCHANGE RATE RISK AND FOREIGN CURRENCY POSITION (Continued)

	FOREIGN CURRENCY POSITION							
	31 December 2016				31 December 2015			
	Total TRL equivalent	USD	Euro	Other TRL equivalent	Total TRL equivalent	USD	Euro	Other TRL equivalent
Trade receivables	765	217	-	-	622	214	-	-
Monetary financial assets	200.705	3.669	50.520	369	183.363	5.433	52.636	308
Other	2.246	638	-	-	2.339	804	-	3
Current assets	203.716	4.524	50.520	369	186.324	6.451	52.636	311
Total assets	203.716	4.524	50.520	369	186.324	6.451	52.636	311
Trade payables	6.394	1.817	-	-	5.390	1.427	278	359
Financial liabilities	197.873	-	53.336	-	171.177	-	53.870	-
Non-monetary other liabilities	-	-	-	-	6.332	2.178	-	-
Current liabilities	204.267	1.817	53.336	-	182.899	3.605	54.148	359
Financial liabilities	2.368.091	-	638.317	-	2.134.789	-	671.824	-
Non-monetary other liabilities	2.828	-	762	-	2.463	-	775	-
Non-current liabilities	2.370.919	-	639.079	-	2.137.252	-	672.599	-
Total liabilities	2.575.186	1.817	692.415	-	2.320.151	3.605	726.747	359

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NOTE 29 - EXCHANGE RATE RISK AND FOREIGN CURRENCY POSITION (Continued)

	FOREIGN CURRENCY POSITION							
	31 December 2016				31 December 2015			
	Total TRL equivalent	USD	Euro	Other TRL equivalent	Total TRL equivalent	USD	Euro	Other TRL equivalent
Net asset/(liability) position of off-balance sheet derivatives (A-B)	-	-	-	-	-	-	-	-
A. Total amount of off-balance sheet derivative financial assets	-	-	-	-	-	-	-	-
B. Total amount of off-balance sheet derivative financial liabilities	-	-	-	-	-	-	-	-
Net foreign currency asset/(liability) position	(2.371.470)	2.707	(641.895)	369	(2.133.827)	2.846	(674.111)	(47)
Net foreign currency asset/(liability) position of monetary items	(2.370.888)	2.070	(641.133)	369	(2.127.371)	4.221	(673.336)	(50)
Fair value hedge funds of foreign currency	602	-	-	-	-	-	-	-
Hedge amount of foreign currency assets	-	-	-	-	-	-	-	-
Hedge amount of foreign currency liabilities	22.259	-	6.000	-	-	-	-	-
Export	-	-	-	-	-	-	-	-
Import	70.988	24.054	-	-	81.886	30.118	-	-

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NOTE 29 - EXCHANGE RATE RISK AND FOREIGN CURRENCY POSITION (Continued)

Foreign currency sensitivity analysis as of 31 December 2016 and 2015 is as follows:

2016

	Gain/Loss	
	Foreign exchange appreciation	Foreign exchange depreciation
%10 change in Euro exchange rate		
Euro net asset/liability	(238.137)	238.137
Portion secured from Euro risk	-	-
Euro net effect	(238.137)	238.137

2015

	Gain/Loss	
	Foreign exchange appreciation	Foreign exchange depreciation
%10 change in Euro exchange rate		
Euro net asset/liability	(214.206)	214.206
Portion secured from Euro risk	-	-
Euro net effect	(214.206)	214.206

NOTE 31 - FINANCIAL INSTRUMENTS

Fair value estimation

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

Effective 1 January 2009, the Group adopted the amendment to TFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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NOTE 30 - FINANCIAL INSTRUMENTS (Continued)

In the balance sheet, derivative instrument is the only item that is recognized at fair value. The fair value of derivative instrument is determined by using valuation technique, which can be regarded as Level 2. Apart from that, for disclosure purposes, the borrowings carried at the amortized cost at the balance sheet are presented with their values in Note 15. The fair value of borrowings for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate (Euribor) that is available to the Group for similar financial instruments that can be classified as level 2. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to the short-term nature of trade receivables and payables.

NOTE 31 - SUBSEQUENT EVENTS

As explained in Note 1, the application made to the Competition Authority in order to receive necessary legal permission of Kipa share transaction in accordance with the share purchase agreement dated 10 June 2016 was approved on 9 February 2017. Subsequently, the Group has taken over the control of Kipa’s management on 1 March 2017 and the financial statements of Kipa will be subject to full consolidation in the consolidated financial statements of Migros as of 31 March 2017. Following the adjustments based on the estimated annual closing balance sheet of Kipa (28 February 2017) the total purchase price of shares was determined as TRL 199.012 and paid to the Seller on the transfer date (1 March 2017). This amount will be subject to a final price adjustment in accordance with the definitive audited annual closing balance sheet of Kipa as of 28 February 2017.

The Group obtained short term loan amounting to TRL 140.000 with 14,8% interest rate from Türkiye Garanti Bankası A.Ş., Türkiye İş Bankası A.Ş ve Akbank T.A.Ş on 22 February 2017 by drwaing down on the existing lines in the facility agreement dated 30 April 2015.

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