

MİGROS TİCARET A.Ş.

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018**

(ORIGINALLY ISSUED IN TURKISH)

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

MİGROS TİCARET A.Ş.

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

CONSOLIDATED BALANCE SHEETS	1-2
CONSOLIDATED STATEMENTS OF INCOME.....	3
CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME.....	4
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY	5
CONSOLIDATED STATEMENTS OF CASH FLOWS	6-7
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.....	8-71
NOTE 1 ORGANISATION AND NATURE OF OPERATIONS.....	8
NOTE 2 BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS.....	9-30
NOTE 3 SEGMENT REPORTING.....	30-34
NOTE 4 CASH AND CASH EQUIVALENTS.....	34-35
NOTE 5 FINANCIAL INVESTMENTS.....	35
NOTE 6 TRADE RECEIVABLES AND PAYABLES	36
NOTE 7 OTHER RECEIVABLES AND PAYABLES	37
NOTE 8 INVENTORIES	38
NOTE 9 PREPAID EXPENSES AND DEFERRED REVENUES	38
NOTE 10 INVESTMENT PROPERTIES	39
NOTE 11 PROPERTY PLANT AND EQUIPMENT	40-41
NOTE 12 INTANGIBLE ASSETS	42-43
NOTE 13 GOODWILL	44
NOTE 14 ASSETS HELD FOR SALE	44
NOTE 15 FINANCIAL LIABILITIES.....	45-48
NOTE 16 PROVISIONS, COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES	48-50
NOTE 17 EMPLOYEE BENEFITS	51-52
NOTE 18 REVENUE.....	53
NOTE 19 EXPENSE BY NATURE.....	54-55
NOTE 20 OTHER OPERATING INCOME AND EXPENSES	55
NOTE 21 REVENUES AND EXPENSES FROM INVESTMENT ACTIVITIES	56
NOTE 22 FINANCIAL INCOME	56
NOTE 23 FINANCIAL EXPENSES.....	56
NOTE 24 TAX ASSETS AND LIABILITIES	57-60
NOTE 25 CAPITAL, RESERVES AND OTHER EQUITY ITEMS	60-61
NOTE 26 TRANSACTIONS AND BALANCES WITH RELATED PARTIES	61-62
NOTE 27 EARNINGS PER SHARE	63
NOTE 28 FINANCIAL RISK MANAGEMENT	63-67
NOTE 29 EXCHANGE RATE RISK AND FOREIGN CURRENCY POSITION	68-70
NOTE 30 FINANCIAL INSTRUMENTS.....	71
NOTE 31 SUBSEQUENT EVENTS.....	71

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

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2018 AND 2017

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

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

	Notes	31 December 2018	31 December 2017
ASSETS			
Current Assets:			
Cash and cash equivalents	4	1.750.516	1.617.380
Financial investments	5	18.450	10.596
Trade receivables			
Trade receivables from related parties	26	746	713
Trade receivables from third parties	6	120.368	96.197
Other receivables from third parties	7	27.584	42.512
Inventories	8	2.249.052	1.908.246
Prepaid expenses	9	71.897	50.673
Current income tax assets	24	49.477	-
Other current assets		10.382	5.890
Subtotal		4.298.472	3.732.207
Assets classified as held for sale	14	175.789	44.068
Total current assets		4.474.261	3.776.275
Non-current assets:			
Financial investments	5	1.165	1.165
Other receivables from third parties	7	5.480	3.596
Derivative instruments		-	10
Investment properties	10	32.325	342.731
Property, plant and equipment	11	3.863.042	3.740.288
Intangible assets			
Goodwill	13	2.252.992	2.252.992
Other intangible assets	12	226.250	160.687
Deferred tax assets	24	1.765	-
Prepaid expenses	9	27.581	24.931
Total non-current assets		6.410.600	6.526.400
Total assets		10.884.861	10.302.675

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

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

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	Notes	31 December 2018	31 December 2017
LIABILITIES			
Current liabilities:			
Short term borrowings	15	522.435	569.319
Short term portion of long term borrowings	15	706.655	468.718
Trade payables			
Trade payables to related parties	26	213.810	182.490
Trade payables to third parties	6	4.652.940	3.771.651
Employee benefits payables	17	131.949	136.212
Other payables to third parties	7	126.474	135.349
Deferred income	9	107.468	47.670
Taxes on income	24	-	25.850
Short term provisions			
Short term provisions for employee benefits	17	122.848	110.855
Other short term provisions	16	84.616	63.144
Other current liabilities		5.724	4.838
Total current liabilities		6.674.919	5.516.096
Non-current liabilities:			
Long term borrowings	15	3.341.007	2.874.437
Other payables to third parties	7	11.903	8.778
Deferred income	9	4.570	2.500
Derivatives		71.895	-
Long term provisions			
Long term provisions for employee benefits	17	145.477	117.753
Deferred tax liabilities	24	-	255.963
Total non-current liabilities		3.574.852	3.259.431
Total liabilities		10.249.771	8.775.527
EQUITY			
Attributable to equity holders of parent	25	632.904	1.470.494
Share capital		181.054	178.030
Other capital reserves		(365)	(365)
Treasury shares (-)	25	(125.435)	-
Additional contribution to share capital		22.074	27.312
Other comprehensive income/(expense)			
not to be classified to profit or loss			
-Defined benefit plans			
re-measurement (losses)		(9.265)	(8.684)
-Revaluation fund of property, plant and equipment		687.277	743.700
Other comprehensive income/expense			
to be classified to profit or loss			
-Currency translation differences		132.671	45.311
Restricted reserves		9.391	-
Accumulated losses		571.060	(27.516)
Net income/(loss)		(835.558)	512.706
Non-controlling interest		2.186	56.654
Total equity		635.090	1.527.148
Total liabilities and equity		10.884.861	10.302.675

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MİGROS TİCARET A.Ş.

**CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018 AND 2017**

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

	Notes	2018	2017
Revenue	18	18.717.358	15.344.047
Cost of sales (-)	18, 19	(13.468.821)	(11.262.081)
Gross Profit		5.248.537	4.081.966
General administrative expenses (-)	19	(564.669)	(535.230)
Marketing expenses (-)	19	(3.835.081)	(3.018.786)
Other operating income	20	275.995	157.060
Other operating expenses (-)	20	(683.692)	(382.187)
Operating profit		441.090	302.823
Income from investment activities	21	6.947	1.251.927
Expenses from investment activities (-)	21	(143.779)	(159.169)
Operating income before financial income/(expense)		304.258	1.395.581
Financial income	22	58.018	88.965
Financial expense (-)	23	(1.409.543)	(881.850)
Net profit/ (loss) before tax from continuing operations		(1.047.267)	602.696
Tax expense from continuing operations		211.830	(93.660)
- Income tax expense (-)	24	(32.368)	(83.177)
- Deferred tax income/ (expense)	24	244.198	(10.483)
Net (loss) / profit		(835.437)	509.036
Net income loss attributable to:			
- Non-controlling interest		121	(3.670)
- Equity holders of parent		(835.558)	512.706
Profit / (Loss) per share (TL)	27	(4,61)	2,83

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**CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018 AND 2017**

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

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

	Notes	2018	2017
Net profit/ (loss) for the period		(835.437)	509.036
Other comprehensive income/(loss):			
Items not to be reclassified to profit or loss			
- Defined benefit plan re-measurement (losses)/gains	17	(726)	620
- Revaluation fund of property, plant and equipment	11	(24.481)	873.310
Tax effect of items not to be reclassified to profit or loss			
Defined benefit plan re-measurement (losses)/gains	24	145	(124)
- Revaluation fund of property, plant and equipment	24	5.401	(119.285)
Items to be reclassified to profit or loss			
Exchange differences on translation		88.475	21.985
Other comprehensive income / (loss), after tax		68.814	776.506
Total comprehensive income / (loss)		(766.623)	1.285.542
Total comprehensive loss attributable to:			
Non-controlling interests		1.333	6.841
Equity holders of parent		(767.956)	1.278.701

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017

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

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

	Share capital	Other capital reserves	Treasury shares	Additional contribution to share capital	Share premium	Other comprehensive income / expenses not to be reclassified to profit or loss Defined benefit plans re-measurement (losses)	Other comprehensive income / expenses not to be reclassified to profit or loss Cumulative translation differences	Restricted reserves	Retained earnings		Attributable to equity holders of the parent	Non - controlling interests	Total equity
									Accumulated losses	Net (loss) / income for the period			
Balances at 1 January 2017	178.030	(365)	-	27.312	678.233	(9.180)	23.512	439.139	(844.731)	(300.157)	191.793	820	192.613
Transfers	-	-	-	-	(678.233)	-	-	(439.139)	817.215	300.157	-	-	-
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	-	-	48.993	48.993
Total comprehensive income	-	-	-	-	-	744.196	21.799	-	-	512.706	1.278.701	6.841	1.285.542
Net income for the period	-	-	-	-	-	-	-	-	-	512.706	512.706	(3.670)	509.036
Cumulative translation differences	-	-	-	-	-	-	21.799	-	-	-	21.799	186	21.985
Defined benefit plans re-measurement gains	-	-	-	-	-	496	-	-	-	-	496	-	496
Revaluation fund of property, plant and equipment	-	-	-	-	-	743.700	-	-	-	-	743.700	10.325	754.025
Balances at 31 December 2017	178.030	(365)	-	27.312	-	735.016	45.311	-	(27.516)	512.706	1.470.494	56.654	1.527.148
Balances at 1 January 2018	178.030	(365)	-	27.312	-	735.016	45.311	-	(27.516)	512.706	1.470.494	56.654	1.527.148
Transfers	3.024	-	-	(5.238)	-	(37.246)	-	9.391	598.576	(512.706)	55.801	(55.801)	-
Decrease due to redemption of shares (Note 25)	-	-	(125.435)	-	-	-	-	-	-	-	(125.435)	-	(125.435)
Total comprehensive income	-	-	-	-	-	(19.758)	87.360	-	-	(835.558)	(767.956)	1.333	(766.623)
Net income for the period	-	-	-	-	-	-	-	-	-	(835.558)	(835.558)	121	(835.437)
Cumulative translation differences	-	-	-	-	-	-	87.360	-	-	-	87.360	1.115	88.475
Defined benefit plans re-measurement gains	-	-	-	-	-	(581)	-	-	-	-	(581)	-	(581)
Revaluation fund of property, plant and equipment	-	-	-	-	-	(19.177)	-	-	-	-	(19.177)	97	(19.080)
Balances at 31 December 2018	181.054	(365)	(125.435)	22.074	-	678.012	132.671	9.391	571.060	(835.558)	632.904	2.186	635.090

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**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018 AND 2017**

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

	Notes	2018	2017
Cash flows from operating activities:			
(Loss) / profit for the period		(835.437)	509.036
Adjustments related to reconciliation of net (loss) / profit for the period		2.071.834	393.506
Adjustments for depreciation and amortisation expenses	19	295.083	269.956
Adjustments for impairment on receivables	6	8.262	4.116
Adjustments for impairment on property, plant and equipment	21	130.149	153.114
Adjustments for inventory provisions	8	(13.250)	20.246
Adjustments for impairment on investment properties	10, 21	7.185	(134.967)
Adjustments for provision for employee benefits	17	85.164	81.510
Adjustments for provision for litigation	16	32.135	1.310
Adjustments for other provisions		-	(867)
Adjustments for interest income	20, 22	(75.826)	(52.165)
Adjustments for interest expense	23	340.495	270.253
Adjustments for deferred finance expense from term purchases	20	615.641	303.056
Adjustments for unearned finance income from term sales	20	(151.180)	(62.617)
Adjustments for unrealized foreign currency translation difference		938.121	556.974
Adjustments for fair value losses arising from derivatives		72.187	832
Adjustments for income tax expense	24	(211.830)	93.660
(Income) / loss on sale of property plant and equipment	21	(502)	(60.459)
Adjustment for bargained acquisition profit	21	-	(1.050.446)
Changes in working capital		600.599	502.947
Adjustments for increase in trade receivables		(32.236)	(33.701)
Adjustments for increase in other receivables related with operations		(44.630)	(13.773)
Adjustments for increase in inventories		(327.556)	(508.702)
Adjustments for increase in trade payables		954.058	985.189
Adjustments for increase in other payables related with operations		50.963	73.934
Cash flows from operating activities		1.836.996	1.405.489
Interest received		220.010	109.121
Interest paid		(657.091)	(326.772)
Employee benefits paid	17	(46.173)	(46.129)
Taxes paid		(106.548)	(78.337)
Other provisions paid	16	(11.233)	(12.547)
Net cash provided by operating activities		1.235.961	1.050.825

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**CONSOLIDATED STATEMENTS OF CASH FLOWS
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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)
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	Notes	2018	2017
Cash outflows from the purchase of tangible and intangible assets	10, 11, 12	(487.751)	(399.222)
Cash outflows due to subsidiary acquisition		-	(178.792)
Cash inflows from the sale of tangible and intangible assets		127.366	137.618
Other cash inflows		-	49.167
Cash flows from investing activities		(360.385)	(391.229)
Proceeds from borrowings	15	320.375	210.776
Repayment of borrowings	15	(625.449)	(164.819)
Acquisition of treasury shares	25	(125.435)	-
Cash paid with respect to derivative instruments		(282)	(222)
Interest received	22	6.766	7.465
Interest paid		(316.147)	(253.878)
Cash flows from financing activities		(740.172)	(200.678)
Increase in cash and cash equivalents before effect of exchange rate changes		135.404	458.918
Effect of exchange rate changes on cash and cash equivalents		(2.268)	2.520
Net increase in cash and cash equivalents	4	133.136	461.438
Cash and cash equivalents at the beginning of period	4	1.617.380	1.155.942
Cash and cash equivalents at the end of period	4	1.750.516	1.617.380

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MİGROS TİCARET A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 AND 2017

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

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NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

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

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

As of December 31, 2018, the direct and indirect total of Migros’s capital shares of Moonlight Capital S.A. and Kenan Investments S.A. equal to 23.2% and the indirect share of Anadolu Group is 50%. Group jointly managed by Moonlight Capital S.A., Kenan Investments S.A. and AG Anadolu Grubu Holding A.Ş. (“Anadolu Group”).

Through its Migros, 5M, Migros Jet and Macrocenter banner stores in Turkey, shopping centers, Ramstores banner stores abroad and internet, the Company is mainly engaged in the retail sales of food and beverages, consumer and durable goods. The Company also rents floor space in the shopping malls to other trading companies. As of 31 December 2018, the Group operates in 2.103 stores in total (31 December 2017: 1.897) which comprise 1.486.668 m2 from 2.084 retail stores and comprise 10.677 m2 from 19 wholesale stores with a total net space of 1.497.345 m2 (31 December 2017: 1.416.355 m2). As of 31 December 2018, the Group employed 28.990 people (31 December 2017: 26.779) on average. Retail is the main business segment of the Group and constitutes almost 96% of gross sales (31 December 2017: 97%).

The address of the registered office is as follows:

Migros Ticaret A.Ş.
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 5 March 2019 and signed by Ö. Özgür Tort, General Manager, and Ferit Cem Doğan, Assistant General Manager, on behalf of the BOD. General Assembly of the Company and regulatories have the right to amend the consolidated financial statements after the issue in the General Assembly meeting of the Company.

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 2018 (%)	December 2017 (%)
Ramstore Bulgaria E.A.D. (“Ramstore Bulgaria”)	Bulgaria	Bulgaria	Dormant	100,0	100,0
Ramstore Kazakhstan LLC (“Ramstore Kazakhstan”)	Kazakhstan	Kazakhstan	Retailing	100,0	100,0
Ramstore Macedonia DOO (“Ramstore Macedonia”)	Macedonia	Bulgaria	Retailing	99,0	99,0
Sanal Merkez Ticaret A.Ş. (“Sanal Merkez”) (*)	Turkey	Turkey	Dormant	100,0	100,0
Kipa Ticaret A.Ş. (“Kipa”) (**)	Turkey	Turkey	Retailing	-	96,25

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

(**) As per the decision of Board of Directors dated 27 August 2018, Migros decided to carry out a facilitated merger with Kipa, one of its subsidiaries, and this decision was registered on 31 August 2018.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 AND 2017

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

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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 Financial Reporting Standards (TFRS) issued by Public Oversight Accounting and Auditing Standards Authority (POAASA). TFRS contains 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 TFRS.

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 TL, which is the functional currency of Migros Ticaret A.Ş. and the reporting currency of the Group.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 AND 2017

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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 preperation 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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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

2.2 Summary of significant accounting policies (Continued)

(b) Foreign currency translation

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

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

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

(c) Revenue

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

Sales of goods - Retail

The Group operates in the retail sales of food and beverages, consumer and durable goods through its stores, shopping centers, Ramstores Banner abroad and internet sales. Sales of goods are recognised when the control of the product transferred 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. Control transfer 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.

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

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

2.2 Summary of significant accounting policies (Continued)

Rent revenue

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

Transition to TFRS 15 “Revenue from contracts with customers”

The Group recognizes revenue from the principal activities of retail and wholesale sale with rental income. Since the determination of performance obligation and control transfer of the goods is clear and easy to understand in retail and wholesale sale, the accounting policies applied are consistent with TFRS 15 “Revenue from contracts with customers” and the transition of the standard does not have a significant effect on the Group financials.

The Group recognizes rent income over time by a linear method. Rental income accounting policy also complies with TFRS 15 “Revenue from contracts with customers” and the transition of the standard does not have a significant impact on Group financials.

(d) Inventories

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

(e) Property, plant and equipment

Property, plant and equipment except lands and buildings are carried at cost less accumulated depreciation and impairment if exists. With respect to TAS 16 “Property, plant and equipment”, the Group has decided to choose revaluation model for lands and buildings by using 4 January 2019 and 25 January 2019 dated valuation reports of CMB accredited real estate company, Nova Taşınmaz Değerleme ve Danışmanlık A.Ş. (“Nova Taşınmaz Değerleme”) and 24 December 2018 dated valuation reports of CMB accredited real estate company, TSKB Gayrimenkul Değerleme A.Ş. (“TSKB Gayrimenkul Değerleme”) as of 31 December 2017.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. The land is not subject to depreciation.

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

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

2.2 Summary of significant accounting policies (Continued)

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	5-8

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

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

In property, plant and equipment, the increase in the revaluation reserve is credited after the deferred tax effect has been recognized in the revaluation fund account in the equity.

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

Derecognition of tangible assets

A tangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of a tangible 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.

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

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

2.2 Summary of significant accounting policies (Continued)

(f) Intangible assets

Goodwill

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

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

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

Brands

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

Rent agreements

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

The evacuation cost paid by the Group to the real estate owners or previous renters relating to rented stores are presented under “other intangible assets”. Related amortization expenses are recognised under the “general administrative expenses” in the statements of income.

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

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

2.2 Summary of significant accounting policies (Continued)

Computer softwares (Rights)

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

Internally-generated intangible assets and development expenditures

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

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

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

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

Computer software development costs are capitalized and depreciated over their estimated useful lives.

Derecognition of intangible assets

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

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

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

2.2 Summary of significant accounting policies (Continued)

(g) Assets held for sale

Non-current assets or asset groups that meet the criteria of asset held for sale are measured at the lower of its carrying amount and fair value less cost to sell. When the fair value is less than the carrying cost, an impairment loss is recognized as an expense in the consolidated income statement for the period.

(h) 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.

(i) Financial assets

Classification and measurement

Group classified its financial assets in three categories; financial assets carried at amortized cost, financial assets carried at fair value through profit or loss, financial assets carried at fair value through other comprehensive income. Classification is performed in accordance with the business model determined based on the purpose of benefits from financial assets and expected cash flows. Management performs the classification of financial assets at the acquisition date.

Financial assets carried at amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, whose payments are fixed or predetermined, which are not actively traded and which are not derivative instruments are measured at amortized cost. They are included in current assets, except for maturities more than 12 months after the balance sheet date. Those with maturities more than 12 months are classified as non-current assets. The Group's financial assets carried at amortized cost comprise "trade receivables" and "cash and cash equivalents" in the statement of financial position.

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

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

2.2 Summary of significant accounting policies (Continued)

Impairment

Group has applied simplified approach and used impairment matrix for the calculation of impairment on its receivables carried at amortized cost, since they do not comprise of any significant finance component. In accordance with this method, if any provision provided to the trade receivables as a result of a specific events, Group measures expected credit loss from these receivables by the life-time expected credit loss. The calculation of expected credit loss is performed based on the past experience of the Group and its expectations for the future indications.

Financial assets carried at fair value

Assets that are held by the management for collection of contractual cash flows and for selling the financial assets are measured at their fair value. If the management do not plan to dispose these assets in 12 months after the balance sheet date, they are classified as non-current assets. Group make a choice for the equity instruments during the initial recognition and elect profit or loss or other comprehensive income for the presentation of fair value gain and loss:

i) Financial assets carried at fair value through profit or loss

Financial assets carried at fair value through profit or loss comprise of “derivative instruments” in the statement of financial position. Derivative instruments are recognized as asset when the fair value of the instrument is positive, as liability when the fair value of the instrument is negative. Group’s financial instruments at fair value through profit or loss consist of forward contracts and interest rate swaps.

ii) Financial assets carried at fair value through other comprehensive income

Financial assets carried at fair value through other comprehensive income comprise of “financial assets” in the statement of financial position. The Group measures such assets at their fair values. Gains or losses arising from the related financial assets are recognized in other comprehensive income except foreign exchange gain / loss and impairment loss. When the financial assets carried at fair value through other comprehensive income are sold, fair value gain or loss classified in other comprehensive income is classified to retained earnings.

(j) 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.

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

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

2.2 Summary of significant accounting policies (Continued)

(k) 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.

(l) 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.

(m) Borrowings and borrowing costs

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

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

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

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

(n) 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. As disclosed in Note 27 earnings per share are calculated in accordance with IAS 33 “Earning Per Share”.

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

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

2.2 Summary of significant accounting policies (Continued)

Income as per share stated in the income statement is calculated by dividing the net profit by the weighted average of the share certification available in the market during the whole year.

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.

(o) 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.

(p) 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.

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

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

2.2 Summary of significant accounting policies (Continued)

(q) Leases

The Group as lessee

Operational lease

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

The Group as lessor

Operational leases

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

(r) Related parties

Parties are considered related to the Group if;

- (a) directly, or indirectly through one or more intermediaries, the party:
 - controls, is controlled by, or is under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries);
 - has an interest in the Company that gives it significant influence over the Company; or
 - 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.

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

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

2.2 Summary of significant accounting policies (Continued)

(s) 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).

(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 fair value with revaluation report of Nova Taşınmaz Değerleme as of 31 December 2018. Fair value change of investment properties are accounted under profit and loss statements in consolidated financial statements.

(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.

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.

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

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

2.2 Summary of significant accounting policies (Continued)

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

Employment termination benefits, as required by the Turkish Labour Law and the laws applicable in the countries where the subsidiaries operate, represent the estimated present value of the total reserve of the future probable obligation of the Company arising in case of the retirement of the employees, termination of employment without due cause, call for military service, be retired or death upon the completion of a minimum one year service. Provision which is allocated by using defined benefit pension’s current value is calculated by using prescribed liability method. Actuarial gains and losses are recognized as other comprehensive income or loss in shareholders’ equity in the period in which they arise

(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).

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

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

2.2 Summary of significant accounting policies (Continued)

(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) 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.

(ab) 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.

(ac) 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).

(ad) Deferred finance income/charges

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

2.3 Comparative information and restatement of prior period financial statements

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

Transition to TFRS 9 “Financial instruments”

Group has applied TFRS 9 “Financial instruments”, which has replaced TMS 39 on the transition date, 1 January 2018. The amendments include the classification and measurement of financial assets and liabilities and the expected credit risk model which will replace incurred credit risk model. Since the transition effect of the standard is insignificant, Group did not record the cumulative effect related to the transition of TFRS 9 in retained earnings on the first application date. Therefore, prior year financial statements are not restated.

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

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

**2.3 Comparative information and restatement of prior period financial statements
(Continued)**

Changes related to the classification of financial assets and liabilities are as follows and these changes in the classification do not result in changes in measurement of assets except for financial assets:

Financial assets	Original classification under TMS 39	New classification under TFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost
Trade receivables	Loans and receivables	Amortized cost
Derivative instruments	Fair value through statement of profit or loss	Fair value through statement of profit or loss
Financial assets	Available for sale financial assets	Fair value through other comprehensive income

Financial liabilities	Original classification under TMS 39	New classification under TFRS 9
Derivative instruments	Fair value through statement of profit or loss	Fair value through statement of profit or loss
Borrowings	Amortized cost	Amortized cost
Trade payables	Amortized cost	Amortized cost

2.4 Critical accounting estimates and assumptions

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

(a) 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 TL and the growth rate expected to be realized after ten years is assumed to be nil. The discount rate in the value-in-use calculations is used as 7,7% per annum for a fixed-price plan study (2017: 9,3%). The discount rate in the value-in-use calculations is after tax discount rate, and includes the Group's specific risk factors as well (Note 13).

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

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

2.4 Critical accounting estimates and assumptions (Continued)

(b) Impairment on leasehold improvements

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

(c) Fair Value Measurement

The Group has chosen revaluation method as of 31 December 2018 by discarding cost method mentioned in TAS 16 for lands and building and TAS 40 for investment properties. Revaluation studies of lands, building and investment properties have been performed by Nova Taşınmaz Değerleme and TSKB Gayrimenkul Değerleme, which are CMB accredited professional valuation Companies.

Lands and building and investment properties in assets of the Group which are located in Turkey have been revaluated in 4 January 2019 and 25 January 2019 valuation reports of CMB accredited real estate companies, Nova Taşınmaz Değerleme and TSKB Gayrimenkul as of 31 December 2018 by using "Sample comparison approach analysis", and "Income approach analysis".

Lands and building and investment properties in assets of the Group which are located in Kazakhstan and Macedonia have been revaluated in 24 December 2018 dated valuation report of CMB accredited real estate company, TSKB Gayrimenkul by using "Income approach analysis".

As a result of revaluation study made by the experts, positive difference for lands and building amounting to TL 24.481 is accounted as TL 19.080 after net-off tax and minority effect "Revaluation Funds" under equity.

As a result of the fair value studies made by independent experts, negative difference amounting to TL 7.185 regarding from investment property is accounted under "Income from investing activities" and negative difference amounting to TL 112.422 regarding from property, plant and equipment accounted under "Expense from investing activities" in the income statement.

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

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

2.5 New and Revised Turkish Accounting Standards

a) Standards, amendments and interpretations applicable as at 31 December 2018:

- IFRS 9, ‘Financial instruments’; effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.
- IFRS 15, ‘Revenue from contracts with customers’; effective from annual periods beginning on or after 1 January 2018. IFRS 15, ‘Revenue from contracts with customers’ is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.
- Amendment to IFRS 15, ‘Revenue from contracts with customers’, effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.
- Amendments to IFRS 4, ‘Insurance contracts’ regarding the implementation of IFRS 9, ‘Financial Instruments’; effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:
 - give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
 - give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard IAS 39.
- Amendment to IAS 40, ‘Investment property’ relating to transfers of investment property; effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

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

2.5 New and Revised Turkish Accounting Standards (Continued)

- Amendments to IFRS 2, ‘Share based payments’ on clarifying how to account for certain types of share-based payment transactions; effective from annual periods beginning on or after 1 January 2018. 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 IFRS 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.
 - Annual improvements 2014-2016; effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:
 - IFRS 1, ‘First time adoption of IFRS’, regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19 and IFRS 10,
 - IAS 28, ‘Investments in associates and joint venture’ regarding measuring an associate or joint venture at fair value.
 - IFRIC 22, ‘Foreign currency transactions and advance consideration’; effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.
- b) Standards, amendments and interpretations that are issued but not effective as at 31 December 2018:**
- Amendment to IFRS 9, ‘Financial instruments’; effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.
 - Amendment to IAS 28, ‘Investments in associates and joint venture’; effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using IFRS 9. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

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

2.5 New and Revised Turkish Accounting Standards (Continued)

- IFRS 16, ‘Leases’; effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15 ‘Revenue from Contracts with Customers’ is also applied. This standard replaces the current guidance in IAS 17 and is a farreaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a ‘right of use asset’ for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The group has set up a project team which has reviewed all of the group’s leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the group’s operating leases. In addition, interest and depreciation expenses will be calculated and accounted.

Effect

The group expects to recognise right-of-use assets and lease liabilities of approximately between TL 3.500.000 and TL 3.900.000 on 1 January 2019 (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018). The annual EBITDA increase effect is expected to be between 600.000 TL and 700.000 TL for the year 2018.

Mandatory application date of Group

The group will apply the standard from its mandatory adoption date of 1 January 2019. The group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

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

2.5 New and Revised Turkish Accounting Standards (Continued)

- IFRIC 23, ‘Uncertainty over income tax treatments’; effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 ‘Income taxes’, are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 ‘Provisions, contingent liabilities and contingent assets’, applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.
- IFRS 17, ‘Insurance contracts’; effective from annual periods beginning on or after 1 January 2021. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.
- Annual improvements 2015-2017; effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:
 - IFRS 3, ‘Business combinations’, – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
 - IFRS 11, ‘Joint arrangements’, – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
 - IAS 12, ‘Income taxes’ – a company accounts for all income tax consequences of dividend payments in the same way.
 - IAS 23, ‘Borrowing costs’ – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.
- Amendments to IAS 19, ‘Employee benefits’ on plan amendment, curtailment or settlement’; effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:
 - use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and
 - recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

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

2.5 New and Revised Turkish Accounting Standards (Continued)

- Amendments to IAS 1 and IAS 8 on the definition of material; effective from Annual periods beginning on or after 1 January 2020. These amendments to IAS 1, “Presentation of financial statements”, and IAS 8, “Accounting policies, changes in accounting estimates and errors”, and consequential amendments to other IFRSs:
 - i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
 - ii) clarify the explanation of the definition of material; and
 - iii) incorporate some of the guidance in IAS 1 about immaterial information.
- Amendments to IFRS 3 - definition of a business; effective from Annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

2.6 Going concern

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

NOTE 3 - SEGMENT REPORTING

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

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

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 3 - SEGMENT REPORTING (Continued)

The segment information provided to the board of directors as of 31 December 2018 and 2017 is as follows:

a) Segment analysis as of 31 December 2018:

	Turkey	Other countries	Combined total	Eliminations	Total
External revenues	18.183.512	533.846	18.717.358	-	18.717.358
Inter segment revenues	4.572	-	4.572	(4.572)	-
Sales revenue	18.188.084	533.846	18.721.930	(4.572)	18.717.358
Cost of sales	(13.076.103)	(397.290)	(13.473.393)	4.572	(13.468.821)
Gross profit	5.111.981	136.556	5.248.537	-	5.248.537
Marketing expenses	(3.747.832)	(87.249)	(3.835.081)	-	(3.835.081)
General administrative expenses	(526.316)	(38.353)	(564.669)	-	(564.669)
Addition: Depreciation and amortisation expenses	280.254	14.829	295.083	-	295.083
Addition: Provision for employment termination benefits	26.884	114	26.998	-	26.998
Addition: Employmet termination benefits paid	34.538	-	34.538	-	34.538
Addition: Unused vacation pay liability	11.993	-	11.993	-	11.993
EBITDA	1.191.502	25.897	1.217.399	-	1.217.399
Addition: Rent expenses	937.555	31.288	968.843	-	968.843
EBITDAR	2.129.057	57.185	2.186.242	-	2.186.242

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 3 - SEGMENT REPORTING (Continued)

b) Segment analysis as of 31 December 2017:

	Turkey	Other countries	Combined total	Eliminations	Total
External revenues	14.945.612	398.435	15.344.047	-	15.344.047
Inter segment revenues	5.960	-	5.960	(5.960)	-
Sales revenue	14.951.572	398.435	15.350.007	(5.960)	15.344.047
Cost of sales	(11.133.319)	(303.099)	(11.436.418)	5.960	(11.262.081)
Gross profit	3.986.630	95.336	4.081.966	-	4.081.966
Marketing expenses	(2.951.774)	(67.012)	(3.018.786)	-	(3.018.786)
General administrative expenses	(496.141)	(39.089)	(535.230)	-	(535.230)
Addition: Depreciation and amortisation expenses	250.962	18.994	269.956	-	269.956
Addition: Provision for employment termination benefits	20.143	344	20.487	-	20.487
Addition: Employmet termination benefits paid	38.615	-	38.615	-	38.615
Addition: Unused vacation pay liability	14.894	-	14.894	-	14.894
EBITDA	863.329	8.573	871.902	-	871.902
Addition: Rent expenses	737.883	24.491	762.374	-	762.374
EBITDAR	1.601.212	33.064	1.634.276	-	1.634.276

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 3 - SEGMENT REPORTING (Continued)

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

	2018	2017
EBITDAR reported segments	2.186.242	1.634.276
Rent expenses	(968.843)	(762.374)
EBITDA reported segments	1.217.399	871.902
Depreciation and amortisation	(295.083)	(269.956)
Provision for employee termination benefits	(26.998)	(20.487)
Termination benefits paid	(34.538)	(38.615)
Unused vacation provision	(11.993)	(14.894)
Other operating income	275.995	157.060
Other operating expense (-)	(683.692)	(382.187)
Operating profit	441.090	302.823
Income from investing activities	6.947	1.251.927
Expense from investing activities (-)	(143.779)	(159.169)
Operating profit before finance income/(expense)	304.258	1.395.581
Financial income	58.018	88.965
Financial expense (-)	(1.409.543)	(881.850)
Income / (loss) before tax	(1.047.267)	602.696

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.

	2018	2017
Turkey	10.431.340	10.191.829
Other countries	577.356	466.120
Segment assets	11.008.696	10.657.949
Less: Eliminations	(123.835)	(355.274)
Total assets per consolidated financial statements	10.884.861	10.302.675

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 3 - SEGMENT REPORTING (Continued)

	2018	2017
Turkey	10.064.724	8.675.732
Other Countries	243.070	194.702
Segment liabilities	10.307.794	8.870.434
Less: Eleminations	(58.023)	(94.907)
Total liabilities per consolidated financial statements	10.249.771	8.775.527

Segment information of capital expenditures as of 31 December 2018 and 2017:

	2018	2017
Turkey	461.251	350.768
Other countries	26.500	48.454
	487.751	399.222

NOT 4 - CASH AND CASH EQUIVALENTS

	2018	2017
Cash	81.462	100.531
Banks		
- demand deposit (*)	109.943	156.087
- time deposit	635.894	686.734
Cheques in collection	582	207
Credit card receivables	922.635	673.821
	1.750.516	1.617.380

(*) The Group transfers the cash in its stores registers to the bank on a daily basis. In accordance with the bank agreements, transfered cash amounts have temporary blockages for a certain period of time. As of 31 December 2018, a cash amount of TL 97.722 in bank accounts is temporarily blocked due to the mentioned cash transfer. (2017: TL 91.051)

Weighted average effective interest rates on TL and EURO denominated time deposits as of 31 December 2018 are 23% and 1,9% respectively (2017: 14,5% and 1,2%)

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 2018 with annual rate of 24,3% (2017: 13,4%)

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOT 4 - CASH AND CASH EQUIVALENTS (Continued)

The maturity analysis of time deposits at 31 December 2018 and 2017 is as follows:

	2018	2017
1 - 30 days	631.257	635.032
31 - 90 days	4.637	51.702
91 - 180 days (*)	1.708	1.104
Over 180 days (*)	16.742	9.492
	654.344	697.330

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

NOT 5 - FINANCIAL INVESTMENTS

Financial assets

	2018	2017
Time deposit (*)	18.450	10.596
	18.450	10.596

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

Financial assets carried at fair value through other comprehensive income

	2018	2017
Long term financial assets carried at fair value through other comprehensive income	1.165	1.165
	1.165	1.165

	2018		2017	
	TL	Share (%)	TL	Share (%)
Sanal Merkez Ticaret A.Ş. (*)	1.165	100,00	1.165	100,00

(*) Sanal Merkez Ticaret A.Ş.’s cost reflects its fair value.

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 6 - TRADE RECEIVABLES AND PAYABLES

Trade receivables:

	2018	2017
Receivables from tenants and wholesale activities	109.474	90.716
Doubtful receivables	66.868	54.825
Notes receivables	6.139	1.300
Due from related parties (Note 26)	746	713
Less: Provision for doubtful receivables	(60.313)	(48.614)
Less: Unearned finance income on term sales	(1.800)	(2.030)
	121.114	96.910

The maturity of trade receivables are generally less than one month as of 31 December 2018 and they were discounted with the annual rate of 24,3% (2017: 13,4%).

Movement of provision for doubtful receivables is as follows:

	2018	2017
1 January	48.614	34.998
Current year charge	8.262	4.116
Collections and reversals	(1.829)	(1.115)
Currency translation effect	5.266	1.073
Additions from acquisition of subsidiaries	-	9.542
31 December	60.313	48.614

Trade payables:

	2018	2017
Supplier current accounts	4.666.648	3.789.526
Due to related parties (Note 26)	213.810	182.490
Expense accruals	78.850	33.234
Unincurred finance cost on term purchases	(92.558)	(51.109)
	4.866.750	3.954.141

The maturity of trade payables is generally less than three months and they are discounted with annual rate of 19.3% as of 31 December 2018 (2017: 11.9%)

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 7 - OTHER RECEIVABLES AND PAYABLES

Short term other receivables

	2018	2017
Receivables from personnel	15.218	8.957
Receivables from sales of fixed assets	9.596	29.596
Receivables from insurance companies	1.243	1.307
Other	1.527	2.652
	27.584	42.512

Long term other receivables

	2018	2017
Deposits and guarantees given	5.480	3.596
	5.480	3.596

Other short term payables

	2018	2017
Other taxes and funds payable	54.200	39.127
Value added tax payables (“VAT”)	39.278	46.218
Credit card bills collection account (*)	17.700	17.747
Other	15.296	32.257
	126.474	135.349

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

Long term other payables

	2018	2017
Deposits and guarantees received	11.903	8.778
	11.903	8.778

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 8 - INVENTORIES

	31 December 2018	31 December 2017
Raw materials	13.640	12.517
Work in progress	47.466	10.314
Merchandise stocks	2.207.748	1.918.916
Other	3.401	2.952
Less: Provision for net realizable value	(23.203)	(36.453)
	2.249.052	1.908.246

NOTE 9 - PREPAID EXPENSES AND DEFERRED REVENUES

Short term prepaid expenses

	2018	2017
Prepaid rent expenses	36.446	31.917
Prepaid insurance expenses	24.537	17.271
Advances given	10.914	1.405
Prepaid other expenses	-	80
	71.897	50.673

Long term prepaid expenses

	2018	2017
Prepaid rent expenses	26.038	20.771
Advances given for property, plant and equipment	1.543	4.160
	27.581	24.931

Short term deferred revenues

	2018	2017
Deferred revenues	54.282	4.923
Customer cheques	53.186	42.747
	107.468	47.670

Long term deferred revenues

	2018	2017
Deferred revenues	4.570	2.500
	4.570	2.500

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 10 - INVESTMENT PROPERTY

	1 January 2018	Additions	Disposal	Impairment	Revaluation	Transfers (*)	Currency translation difference	31 December 2018
Cost								
Land and buildings	342.731	-	-	(7.185)	-	(303.221)	-	32.325
Net book value	342.731							32.325

	1 January 2017	Additions	Disposal	Impairment	Revaluation	Transfers	Currency translation difference	31 December 2017
Cost								
Land and buildings	208.120	35.894	-	-	134.967	(47.339)	11.089	342.731
Accumulated depreciation								
Buildings	(63.401)	(4.294)	-	-	-	69.975	(2.280)	-
Net book value	144.719							342.731

(*) The classifications of investment properties have been re-evaluated by taking into account the operational squares and the revenue generated from the market management of Group's rentable shopping malls. As of December 31, 2018, the Group has reclassified these properties for usage purposes since square meters used in market operations and the revenue generated from this operation is higher than rental income.

Investment properties of the Group consist of leased space to other retailers in Kipa Muğla Marmaris Shopping Mall in Turkey.

There is no mortgage or pledge on the investment properties of the Group as of 31 December 2018 and 2017.

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

MİGROS TİCARET A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 AND 2017

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

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

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT

Movement of property, plant and equipments period ended at 31 December 2018 is as follows;

	1 January 2018	Additions	Disposals	Impairment	Revaluation	Transfers (*)	Currency translaiton differences	31 December 2018
Cost								
Lands	1.454.789	-	-	(47.726)	37.929	(10.421)	23.705	1.458.276
Buildings	1.016.356	23.589	(63.195)	(200.639)	73.533	113.264	54.531	1.017.439
Leasehold improvements	772.842	56.327	(304)	(9.530)	-	20.310	4.894	844.539
Machinery and equipments	1.019.860	85.762	(26.066)	-	-	79.798	9.246	1.168.600
Motor vehicles	9.848	1.959	(6.089)	-	-	-	679	6.397
Furniture and fixtures	710.387	52.270	(17.148)	-	-	27.679	13.574	786.762
Construction in progress	33.511	146.248	-	-	-	(144.176)	1.798	37.381
	5.017.593	366.155	(112.802)	(257.895)	111.462	86.454	108.427	5.319.394
Accumulated depreciation								
Buildings	-	(25.874)	1.285	-	-	24.589	-	-
Leasehold improvements	(341.343)	(67.516)	271	6.245	-	-	(2.390)	(404.733)
Machinery and equipments	(516.094)	(91.943)	22.596	-	-	(205)	(7.060)	(592.706)
Motor vehicles	(6.237)	(829)	5.919	-	-	-	(292)	(1.439)
Furniture and fixture	(413.631)	(49.565)	14.137	-	-	(506)	(7.909)	(457.474)
	(1.277.305)	(235.727)	44.208	6.245	-	23.878	(17.651)	(1.456.352)
Net book value	3.740.288							3.863.042

(*) Land and buildings amounting to TL 175.789 are classified as assets held for sale, amounting to TL 17.100 is transferred to intangible assets which are stated at transfers line.

As of 31 December 2018, the cost of the land and buildings of the Group is TL 1.782.731.

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

MİGROS TİCARET A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 AND 2017

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

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

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (Continued)

Movement of property, plant and equipments period ended at 31 December 2017 is as follows;

	1 January 2017	Additions for Acquisition of Subsidiary	Additions	Disposals	Impairment	Revaluation	Transfers (*)	Currency translaiton differences	31 Decemer 2017
Cost									
Lands	153.996	1.003.040	-	(38.503)	(107.734)	486.740	(42.750)	-	1.454.789
Buildings	235.851	725.760	6.077	(22.571)	(41.081)	386.570	(283.333)	9.083	1.016.356
Leasehold improvements	573.618	164.133	51.654	(4.476)	(38.960)	-	24.844	2.029	772.842
Machinery and equipments	715.722	184.221	85.922	(34.630)	(1.205)	-	66.311	3.519	1.019.860
Motor vehicles	2.600	7.896	1.212	(2.198)	-	-	-	338	9.848
Furniture and fixtures	360.645	301.754	38.616	(19.516)	(518)	-	23.433	5.973	710.387
Construction in progress	27.418	2.101	148.071	(4)	-	-	(144.631)	556	33.511
	2.069.850	2.388.905	331.552	(121.898)	(189.498)	873.310	(356.126)	21.498	5.017.593
Accumulated depreciation									
Buildings	(97.971)	(143.570)	(23.534)	87	2.566	-	265.234	(2.812)	-
Leasehold improvements	(254.984)	(58.042)	(62.417)	2.739	32.166	-	-	(805)	(341.343)
Machinery and equipments	(292.767)	(161.349)	(85.965)	25.715	1.137	-	(112)	(2.753)	(516.094)
Motor vehicles	(954)	(6.053)	(614)	1.508	-	-	-	(124)	(6.237)
Furniture and fixture	(154.841)	(220.410)	(50.137)	15.004	515	-	(93)	(3.669)	(413.631)
	(801.517)	(589.424)	(222.667)	45.053	36.384	-	265.029	(10.163)	(1.277.305)
Net book value	1.268.333								3.740.288

(*) Land and buildings amounting to TL 44.068 are classified as assets held for sale, amounting to TL 24.393 is transferred to intangible assets and amounting to TL 22.636 is transferred to investment properties which are stated at transfers line

As of 31 December 2017, the cost of the land and buildings of the Group is TL 1.849.667.

As at 31 December 2018 and 2017, there are no mortgages on property, plant and equipment. Depreciation charges on property, plant and equipment are included in general administrative expenses.

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

MİGROS TİCARET A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 AND 2017

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

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

NOTE 12 - INTANGIBLE ASSETS

Movement of intangible assets period ended at 31 December 2018 is as follows;

	1 January 2018	Additions	Impairment	Transfers	Currency translation differences	31 December 2018
Cost						
Trademark	17.229	-	(14.442)	-	-	2.787
Rent agreements	39.131	-	-	-	-	39.131
Rights	303.116	51.208	-	17.104	2.167	373.595
Other intangible assets	93.239	70.388	-	-	-	163.627
	452.715	121.596	(14.442)	17.104	2.167	579.140
Accumulated amortisation						
Rent agreements	(31.743)	(2.612)	-			(34.355)
Rights	(187.242)	(45.421)	-	(4)	(1.502)	(234.169)
Other intangible assets	(73.043)	(11.323)	-			(84.366)
	(292.028)	(59.356)	-	(4)	(1.502)	(352.890)
Net book value	160.687					226.250

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

MİGROS TİCARET A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 AND 2017

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

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

NOTE 12 - INTANGIBLE ASSETS (Continued)

Movement of intangible assets period ended at 31 December 2017 is as follows;

	1 January 2017	Business combinations	Additions	Disposals	Transfers	Currency translation differences	31 December 2017
Cost							
Trademark	2.787	14.442	-	-	-	-	17.229
Rent agreements	32.982	6.149	-	-	-	-	39.131
Rights	155.890	92.698	30.186	(894)	24.481	755	303.116
Other intangible assets	91.649	-	1.590	-	-	-	93.239
	283.308	113.289	31.776	(894)	24.481	755	452.715
Accumulated amortisation							
Rent agreements	(31.106)	-	(637)	-	-	-	(31.743)
Rights	(83.007)	(72.741)	(31.472)	580	(88)	(514)	(187.242)
Other intangible assets	(62.157)	-	(10.886)	-	-	-	(73.043)
	(176.270)	(72.741)	(42.995)	580	(88)	(514)	(292.028)
Net defter değeri	107.038						160.687

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

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 13 - GOODWILL

	2018	2017
Opening balance	2.252.992	2.252.992
Additions	-	-
Closing balance	2.252.992	2.252.992

Impairment tests for goodwill:

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

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

Subsequent projected cash flows over a five year period were calculated without regard to any growth rate, and the analysis predicted that the existing profitability structure would be preserved.

The Group management determined the budgeted gross profit margin by taking into consideration the previous performance of the company and the market growth expectations. The discount rate 7,7% 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 6,7% or 8,7% instead of 7,7%) causes a decrease/increase of TL 689.272 (2017: TL 694.200) in the fair value calculations for which sales costs are deducted, as of 31 December 2018. 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 14 - ASSETS HELD FOR SALE

Bahçeşehir MMM Migros store and Adapazarı Kipa Shopping Center, which is the property of the Group with a value of TL 175.789, have been classified as assets held for sale since they are intended to be sold in the short term

	2018	2017
Assets held for sale	175.789	44.068
	175.789	44.068

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 15 - FINANCIAL LIABILITIES

	31 December 2018		
	Effective interest rate (%)	In original currency	Total TL equivalent
Short term borrowings			
With fixed interest rate - TL	26,88	394.228	394.228
With fixed interest rate - EUR	4,85	21.269	128.207
Total short term borrowings			522.435
Current portion of long term borrowings			
With floating interest rate - EUR	5,26	98.867	595.971
With fixed interest rate - TL	13,97	53.906	53.906
With floating interest rate - TL	34,22	53.577	53.577
With fixed interest rate - Tenge	11,31	233.765	3.201
Total current portion of long term borrowings			706.655
Total short term borrowings			1.229.090
Non-current borrowings			
With floating interest rate - EUR	5,26	490.500	2.956.734
With fixed interest rate - TL	13,97	179.137	179.137
With floating interest rate - TL	34,22	155.804	155.804
With fixed interest rate - Tenge	11,31	3.602.698	49.332
Total non-current borrowings			3.341.007
Total financial liabilities			4.570.097

The redemption schedule of borrowings with effective interest rate at 31 December 2018 is as follows:

	Tenge loan TL equivalent	Euro loan TL equivalent	TL Loan	Total (TL equivalent)
1 January 2019- 31 December 2019	3.201	724.178	501.711	1.229.090
1 January 2020- 31 December 2020	13.631	778.331	169.685	961.647
1 January 2021- 31 December 2021	16.290	819.909	95.050	931.249
1 January 2022- 31 December 2022	15.894	871.626	46.973	934.493
1 January 2023 - 12 September 2023	3.517	486.868	23.233	513.618
	52.533	3.680.912	836.652	4.570.097

The fair value of borrowings at 31 December 2018 is TL 4.442.623.

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 15 - FINANCIAL LIABILITIES (Continued)

The redemption schedule of principal amounts of borrowings at 31 December 2018 is as follows:

	Tenge loan TL equivalent	Euro loan TL equivalent	TL Loan	Total (TL equivalent)
1 January 2019- 31 December 2019	2.776	569.455	412.854	985.085
1 January 2020- 31 December 2020	13.631	698.872	166.532	879.035
1 January 2021- 31 December 2021	16.290	828.333	128.967	973.590
1 January 2022- 31 December 2022	15.894	983.625	64.084	1.063.603
1 January 2023 - 12 September 2023	3.517	595.333	38.786	637.636
	52.108	3.675.618	811.223	4.538.949

The redemption schedule of contractual cash outflows, which consists of principal and interest, of borrowings at 31 December 2018 is as follows:

	Tenge loan TL equivalent	Euro loan TL equivalent	TL Loan	Total (TL equivalent)
1 January 2019- 31 December 2019	8.755	740.127	491.639	1.240.521
1 January 2020- 31 December 2020	18.783	840.749	250.583	1.110.115
1 January 2021- 31 December 2021	19.676	934.841	195.868	1.150.385
1 January 2022- 31 December 2022	17.385	1.048.711	75.243	1.141.339
1 January 2023 - 12 September 2023	3.713	609.393	41.197	654.303
	68.312	4.173.821	1.054.530	5.296.663

The Group has the obligation to comply with the various credit commitments in the loan agreement in the interest of the said bank credits. The financial ratios calculated on the financial statements as of 31 December 2018 are in line with the provisions of the bank loan agreement.

The movement schedule of borrowings as of 31 December 2018 and 2017 is as follows;

	2018	2017
Beginning	3.912.474	2.963.536
Proceeds of borrowings	320.375	210.776
Payments	(625.449)	(164.819)
FX Losses	938.121	556.974
Interest accrual	24.576	16.376
Acquisition of subsidiary	-	329.631
Ending	4.570.097	3.912.474

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 15 - FINANCIAL LIABILITIES (Continued)

	31 December 2017		
	Effective interest rate (%)	In original currency	Total TL equivalent
Short term borrowings			
With fixed interest rate - TL	15,88	569.319	569.319
Total short term borrowings			569.319
Current portion of long term borrowings			
With floating interest rate - EUR	5,25	91.719	414.156
With fixed interest rate - TL	13,93	53.746	53.746
With fixed interest rate - Tenge	11,97	71.861	816
Total current portion of long term borrowings			468.718
Total short term borrowings			1.038.037
Non-current borrowings			
With floating interest rate - EUR	5,25	580.106	2.619.469
With fixed interest rate - TL	13,93	212.028	212.028
With fixed interest rate - Tenge	11,97	3.783.265	42.940
Total non-current borrowings			2.874.437
Total financial liabilities			3.912.474

The redemption schedule of borrowings with effective interest rate at 31 December 2017 is as follows:

	Tenge loan TL equivalent	Euro loan TL equivalent	TL Loan	Total (TL equivalent)
1 January 2018- 31 December 2018	816	414.156	623.065	1.038.037
1 January 2019- 31 December 2019	1.271	514.665	54.649	570.585
1 January 2020- 31 December 2020	12.164	554.019	50.284	616.467
1 January 2021- 31 December 2021	13.719	583.655	45.394	642.768
1 January 2022- 31 December 2022	13.580	620.512	41.279	675.371
1 January 2023 - 24 October 2023	2.206	346.618	20.422	369.246
	43.756	3.033.625	835.093	3.912.474

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 15 - FINANCIAL LIABILITIES (Continued)

The fair value of borrowings at 31 December 2017 is TL 3.994.286.

The redemption schedule of principal amounts of bank borrowings at 31 December 2017 is as follows:

	Tenge loan TL equivalent	Euro loan TL equivalent	TL Loan	Total (TL equivalent)
1 January 2018- 31 December 2018	-	279.227	590.082	869.309
1 January 2019- 31 December 2019	1.271	426.572	37.100	464.943
1 January 2020- 31 December 2020	12.164	523.517	45.532	581.213
1 January 2021- 31 December 2021	13.719	620.494	53.967	688.180
1 January 2022- 31 December 2022	13.580	736.821	64.084	814.485
1 January 2023 - 24 October 2023	2.206	445.956	38.787	486.949
	42.940	3.032.587	829.552	3.905.079

NOTE 16 - PROVISIONS, COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions	2018	2017
Provision for litigation	82.496	61.594
Customer loyalty programs	1.492	538
Other	628	1.012
	84.616	63.144

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

Lawsuit provisions	2018	2017
1 January	61.594	27.105
Increase during period	32.135	1.310
Payments (-)	(11.233)	(12.547)
Bussiness combination effect	-	45.726
31 December	82.496	61.594

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

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

Collaterals, Pledges, Mortgages

2018:

	Total TL amount	TL	USD	Euro
A. CPM given on behalf of the Company’s legal personality	178.347	168.898	1.796	-
B. CPM given on behalf of fully consolidated subsidiaries	49.332	-	9.377	-
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	227.679	168.898	11.173	-
Proportion of the other CPM’s to equity (%)	0,0			

2017:

	Total TL amount	TL	USD	Euro
A. CPM given on behalf of the Company’s legal personality	155.796	146.193	2.546	-
B. CPM given on behalf of fully consolidated subsidiaries	212.939	170.000	11.384	-
C. CPM given for continuation of its economic activities on behalf of third parties	-	-	-	-
D. Total amount of other CPM	-	-	-	-
i. Total amount of CPM given behalf of the majority shareholder	-	-	-	-
ii. Total amount of CPM given behalf of other group companies which are not in scope of B and C	-	-	-	-
iii. Total amount of CPM given behalf of third parties which are not in scope of C	-	-	-	-
Total collaterals, pledges and mortgages	368.735	316.193	13.930	-
Proportion of the other CPM’s to equity (%)	0,0			

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

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

Contingent assets and liabilities

Guarantees given at 31 December 2018 and 2017 are as follows:

	2018	2017
Letter of guarantees given	227.679	368.735
	227.679	368.735

Guarantees received at 31 December 2018 and 2017 are as follows:

	2018	2017
Guarantees obtained from customers	142.094	146.693
Mortgages obtained from customers	11.936	17.866
	154.030	164.559

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.

	2018	2017
Payable within 1 year	101.947	77.746
Payable in 1 to 5 years	61.179	29.337
More than 5 years	18.581	-
	181.707	107.083

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 17 - EMPLOYEE BENEFITS

	2018	2017
Due to personnel	97.841	73.742
Social security deductions	34.108	62.470
	131.949	136.212

	2018	2017
Provision for unused vacation	145.477	117.753
Provision for employment termination benefits	122.848	110.855
	268.325	228.608

Movement of provision for unused vacation is as follows:

	2018	2017
1 January	110.855	93.105
Increase during period	23.628	22.408
Payments during period	(11.635)	(7.514)
Effect of business combinations	-	2.856
31 December	122.848	110.855

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 2018 and 2017, 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.

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 17 - EMPLOYEE BENEFITS (Continued)

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

	2018	2017
Discount rate (%)	4,13	4,21
Turnover rate to estimate the probability of retirement (%)	88,33 - 100,00	87,24 - 100,00

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. As the maximum liability is revised once every six months, the maximum amount of TL 6.017,60 effective from 1 January 2019 (1 January 2018: TL 5.001,76) 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 88,33% 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:

	2018	2017
1 January	117.753	79.057
Increase during period	61.536	59.102
Payment	(34.538)	(38.615)
Business combinations effect		18.829
Actuarial (gain) / loss	726	(620)
31 December	145.477	117.753

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 18 - REVENUE

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

	2018	2017
Domestic sales	18.607.288	15.253.852
Foreign sales	533.441	396.374
Other sales	18.763	18.132
Gross sales	19.159.492	15.668.358
Discounts and returns (-)	(442.134)	(324.311)
Sales revenue, net	18.717.358	15.344.047
Cost of sales	(13.468.821)	(11.262.081)
Gross profit	5.248.537	4.081.966

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

	2018	2017
Retail sales revenue	18.383.186	15.112.677
Wholesale revenue	544.290	379.725
Rent income	213.253	157.824
	19.140.729	15.650.226

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 19 - EXPENSE BY NATURE

Total	2018	2017
Staff costs	1.879.275	1.546.040
Rent	968.843	762.374
Depreciation and amortisation	295.083	269.956
Energy	280.557	191.232
Transportation	174.957	147.065
Porterage and cleaning	127.730	97.884
Warehouse	115.420	84.642
Advertising	110.002	98.425
Repair and maintenance	74.985	61.497
Mechanisation	54.589	52.123
Security	51.991	41.154
Taxes and other fees	28.763	21.452
Communication	16.334	14.827
Other	221.221	165.345
	4.399.750	3.554.016
Marketing expenses	2018	2017
Staff costs	1.671.913	1.345.172
Rent	968.074	761.423
Energy	278.068	189.295
Transportation	174.957	147.065
Porterage and cleaning	124.111	94.876
Warehouse	115.420	84.642
Advertising	109.939	98.241
Repair and maintenance	73.313	59.856
Mechanisation	47.609	34.988
Security	49.913	39.225
Taxes and other fees	26.742	19.706
Communication	14.367	12.549
Other	180.655	131.748
	3.835.081	3.018.786
General administrative expenses	2018	2017
Depreciation and amortisation	295.083	269.956
Staff costs	207.362	200.868
Other	62.224	64.406
	564.669	535.230

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 19 - EXPENSE BY NATURE (Continued)

Expenses by nature in cost of sales for the year ended at 31 December 2018 and 2017 are as follows:

	2018	2017
Cost of goods sold	13.388.763	11.218.785
Cost of service rendered	80.058	43.296
	13.468.821	11.262.081

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	2018	2017
Interest income on term sales	151.180	62.617
Interest income from operating activities	69.060	44.700
Other	55.755	49.743
	275.995	157.060
Other operating expenses	2018	2017
Interest expense on term purchases	615.641	303.056
Litigation provision	32.135	1.310
Bad debt provision expense	8.262	4.116
Other	27.654	73.705
	683.692	382.187

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 21 - REVENUES AND EXPENSES FROM INVESTMENT ACTIVITIES

Income from investing activities	2018	2017
Gain on sale of property, plant and equipment	6.947	66.514
Negative goodwill	-	1.050.446
Investment property valuation	-	134.967
	6.947	1.251.927
Expense from investing activities	2018	2017
Losses from impairment provision		
property, plant and equipment	119.607	145.893
Losses on impairment on brands	14.442	-
Loss on sale of property, plant and equipment	6.445	6.055
Losses from leasehold improvements of closed stores	3.285	7.221
	143.779	159.169

NOTE 22 - FINANCIAL INCOME

	2018	2017
Foreign exchange gains	51.252	81.490
Interest income on bank deposits	6.766	7.465
Financial income on derivatives	-	10
	58.018	88.965

NOTE 23 - FINANCIAL EXPENSES

	2018	2017
Foreign exchange losses	951.543	568.635
Interest expense on bank borrowings	340.495	270.253
Financial expense on derivatives	72.187	842
Other	45.318	42.120
	1.409.543	881.850

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 24 - TAX ASSETS AND LIABILITIES

	2018	2017
Corporate and income taxes payable	97.979	84.235
Less: Prepaid current income taxes	(52.846)	(58.385)
Deducted from carry forward tax losses	(94.610)	-
Taxes on income	(49.477)	25.850
	2018	2017
Deferred tax assets	236.822	73.819
Deferred tax liabilities	(235.057)	(329.782)
Deferred tax liabilities, net	1.765	(255.963)

General Information

The Group is subject to taxation in accordance with the tax regulations and the legislation effective in the countries in which the Group companies operate. In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

In Turkey, corporate tax rate is 22% (December 31, 2017 - 20%). In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017, corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of 31 December 2018 are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

The Group calculates deferred income tax assets and liabilities based on the temporary difference between the financial statements prepared in accordance with TFRS and the financial statements prepared in accordance with TFRS. Future periods to deferred tax assets and liabilities are calculated based on the liability method on temporary differences for the rates used as of December 31, 2018 Turkey, Kazakhstan, Bulgaria and Macedonia respectively 22%, 20%, 10% and 10% (2017: 20% , 20%, 10% and 10%).

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 24 - TAX ASSETS AND LIABILITIES (Continued)

	2018	2017
(Loss) / gain before tax	(1.047.267)	602.696
Calculated tax income according to parent company tax rate (22%)	230.399	(120.539)
Differences in tax rate of subsidiaries	(1.683)	4.243
Expected tax expense of the Group	228.716	(116.296)
Effect of non-deductable expenses	(272.071)	(200.819)
Effect of exemptions for R&D	5.887	5.018
Effect of non-taxable incomes	-	42
Effect of previously unrecognized deferred tax assets of carry forward tax losses	167.973	-
Business combination effect	-	210.089
Tax bases with no carrying amounts in current period	87.313	-
Temporary differences which deferred tax not calculated	-	20.003
Effective tax rate difference	(3.421)	(15.468)
Other	(2.567)	3.771
The Group’s tax income / (expense)	211.830	(93.660)

The details of taxation on income for the periods ended 31 December 2018 and 2017 are as follows:

	2018	2017
Current period income tax expense	(32.368)	(83.177)
Deferred tax income	244.198	(10.483)
Current period tax expense	211.830	(93.660)

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 24 - TAX ASSETS AND LIABILITIES (Continued)

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	2018	2017	2018	2017
Deferred tax assets:				
Short term provisions	205.344	166.847	43.475	29.139
Inventories	148.589	63.125	32.690	13.879
Provision for employee termination benefits	145.477	117.753	29.050	20.731
Unincurred interest income	1.800	2.030	396	444
Tax carry forward loss	174.376	-	38.363	-
Fair value change of derivative financial instruments	71.895	-	15.817	-
Other	15.516	4.267	3.297	928
			163.088	65.121
Deferred tax liabilities:				
Fair value change of derivative financial instruments	-	10	-	(2)
Property, plant and equipment, intangible assets and investment properties	1.269.150	2.246.786	(140.243)	(308.477)
Unincurred interest expense	92.559	43.975	(20.363)	(9.675)
Other	3.581	14.819	(717)	(2.930)
			(161.323)	(321.084)
Total deferred tax liability, net			1.765	(255.963)
	2018	2017		
1 January	(255.963)	(53.064)		
Deferred tax expense / (income) from continuing operations	244.198	(10.483)		
Additions from business combinations	-	(72.859)		
Accounted for under equity	5.546	(119.409)		
Currency translation difference	7.984	(148)		
31 December	1.765	(255.963)		

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)
(Currencies other than TL are expressed in thousands unless otherwise indicated.)

NOTE 24 - TAX ASSETS AND LIABILITIES (Continued)

Carry forward tax losses:

Deferred income tax assets are recognized for tax losses carried forward to extent that the realization of the related tax benefit through the future taxable profits is probable.

As of 30 June 2018, Kipa had carry forward tax loss amounting to TL 803.888. Since the corporate tax base had increased for the years 2016 and 2017, half of the previous year's carry forward tax losses can not be utilized. As a result, total carry forward tax loss, including the financial loss that occurred in the first eight months of 2018, amounting to TL 604.421 has been incurred. This amount will be deducted from the corporate tax base that will be formed in the future by the Company.

After the legal merge with Kipa on 31 August 2018, Migros has utilized to TL 430.045 portion of those carry forward tax losses as of 31 December 2018 tax period, and accounted deferred tax assets amounting to TL 38.363 over remaining amount of TL 174.376 carry forward tax losses.

As of 31 December 2018, the maturity of carry forward tax losses of Kipa, which deferred tax asset is not recognized are as follows;

	2018
Ended at 2022	80.650
Ended at 2023	93.726
	174.376

NOTE 25 - CAPITAL, RESERVES AND OTHER EQUITY ITEMS

The Company's authorised and issued capital consists of 18.105.423.300 shares at 1 shares of Kr1 nominal value as of 31 December 2018. All shares are paid-in and no privileges are given to different share groups and shareholders.

	2018		2017	
	TL	Share (%)	TL	Share (%)
MH Perakendecilik ve Ticaret A.Ş.	89.046	49,18	89.015	50,00
Moonlight Capital S.A.	14.371	7,94	14.371	8,07
Kenan Investments S.A.	26.937	14,88	26.937	15,13
Migros Ticaret A.Ş.	2.962	1,64	-	-
Other	47.738	26,37	47.707	26,80
Total	181.054	100,00	178.030	100,00
Treasury shares (-)	(125.435)		-	

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

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

In the utilisation process of separation funds for Kipa shareholders due to the merger, Migros shares with a total nominal value of TL 2.962, corresponding to Kipa shares with a total nominal value of TL 48.998 which were converted to Migros shares due to the merger were purchased by Migros with a total amount of TL 125.435 within the scope of separation funds.

Reserves

The legal reserves consist of first and second legal reserves in accordance with the TCC. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the Company’s restated share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the Company’s restated share capital.

NOTE 26 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a) Balances with related parties

Due from related parties	2018	2017
Anadolu Isuzu Otomotiv Sanayi ve Tic. A.Ş. ⁽¹⁾	368	332
Çelik Motor Ticaret A.Ş. ⁽¹⁾	153	196
Anadolu Motor Üretim ve Pazarlama A.Ş. ⁽¹⁾	58	82
Other	167	103
	746	713
Due to related parties	2018	2017
Anadolu Efes Pazarlama ve Dağıtım Ticaret A.Ş. ⁽¹⁾	111.676	92.000
Coca Cola Satış ve Dağıtım A.Ş. ⁽¹⁾	65.891	60.497
AEH Sigorta Acenteliği A.Ş. ⁽¹⁾	15.868	10.551
Adel Kalemcilik Ticaret ve San. A.Ş. ⁽¹⁾	14.129	13.216
AEH Anadolu Etap Penkon Gıda ve ⁽¹⁾		
Tarım Ürünleri San. ve Tic. A.Ş. ⁽¹⁾	6.174	6.111
Other	72	115
	213.810	182.490

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

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

b) Transactions with related parties

Inventory purchases	2018	2017
Anadolu Efes Paz. ve Dağıtım Ticaret A.Ş. ⁽¹⁾	363.279	295.738
Coca Cola Satış ve Dağıtım A.Ş. ⁽¹⁾	228.259	200.713
AEH Anadolu Etap Penkon Gıda ve Tarım Ürünleri San. ve Tic. A.Ş. ⁽¹⁾	45.556	42.678
Adel Kalemcilik Ticaret ve San. A.Ş. ⁽¹⁾	12.938	11.412
	650.032	550.541

(1) AG Anadolu Grubu Holding A.Ş. Group companies

Other transactions	2018	2017
Rent revenue	1.566	1.148
Rent expenses	(12.410)	(6.100)
Other income	624	321
Other expenses	(49)	-
Other transactions, net	(10.269)	(4.631)

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 2018 and 2017 is as follows:

	2018	2017
Short term benefits	38.595	31.971
	38.595	31.971

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

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 27 - EARNINGS PER SHARE

Basic earnings / (losses) per share is calculated by dividing net income / (loss) for the period by the weighted average number of ordinary shares outstanding during the related period. The Company has no diluted instruments.

	2018	2017
Net profit/ (loss) attributable to shareholders	(835.558)	512.706
Weighted average number of shares with Kr1 face value each(‘000)	18.105.423	18.105.423
Earnings per share^(*)	(4,61)	2,83
Number of treasury shares	(296.212)	-
Earnings pers hare excluding treasury shares	(4,69)	2,83

(*) As a result of the merger of the Company with Kipa, the Company's capital increased by TL 3.024. According to TAS 33 “Earnings Per Share” standard, earnings / (loss) per shares are adjusted retrospectively.

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 4,75%. (2017: 5,25%). As of 31 December 2018, if interest rates on TL, 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 TL 3.613 (2017: TL 2.998) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 28 - FINANCIAL RISK MANAGEMENT (Continued)

Interest rate positions of the Group at 31 December 2018 and 2017 are as follows:

	2018	2017
Financial instruments with fixed interest rate		
Time deposits	635.894	697.330
Financial liabilities	808.011	878.849
Financial instruments with floating interest rate		
Financial liabilities	3.762.086	3.033.625

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 2018, the Group’s financial debt with a maturity longer than 1 year is TL 3.341.007 (2017: TL 2.874.437).

The maturity analysis of the Group’s financial liabilities as of 31 December 2018 is as follows:

Financial liabilities:

	Carrying value	Contractual cash outflows	Up to 3 months	3 months - 12 months	1 years - 5 years	Over 5 years
Financial payables	4.570.097	5.296.663	302.492	938.029	4.056.142	-
Trade payables	4.866.750	4.959.403	4.085.116	874.287	-	-
Other payables	258.423	258.423	255.929	2.494	-	-
	9.695.270	10.514.489	4.643.537	1.814.810	4.056.142	-
	Carrying value	Contractual cash outflows	Up to 3 months	3 months - 12 months	1 years - 5 years	Over 5 years
Financial payables	3.912.474	4.587.619	84.039	1.049.811	2.956.083	497.686
Trade payables	3.954.141	4.005.250	3.477.944	527.306	-	-
Other payables	271.561	274.352	271.561	310	2.481	-
	8.138.176	8.867.221	3.833.544	1.577.427	2.958.564	497.686

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 28 - FINANCIAL RISK MANAGEMENT (Continued)

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 2018 and 2017 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 2018			
	Trade receivables Related party	Other receivables Other	Other Other	Deposits in bank
Maximum risk exposed credit risk as of reporting date (A+B+C)	746	120.368	23.468	764.287
Secured portion of maximum credit risk by guarantees	262	33.783	-	-
A. Net book value of financial assets either are not due or not impaired	746	107.517	23.468	764.287
secured portion by guarantees	262	26.308	-	-
B. Net book value of the expired or not impaired financial assets	-	6.296	-	-
secured portion with guarantees	-	920	-	-
C. Impaired assets				
net book value	-	6.555	-	-
over due (gross book value)	-	66.868	-	-
impairment (-)	-	(60.313)	-	-
secured portion of the net value by guarantees etc.	-	6.555	-	-
D. Expected credit loss (-)	-	-	-	-

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 28 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2017			Deposits in bank
	Trade receivables Related party	Other receivables Other	Other	
Maximum risk exposed credit risk as of reporting date (A+B+C)	713	96.197	46.108	853.417
Secured portion of maximum credit risk by guarantees	35	8.046	-	-
A. Net book value of financial assets either are not due or not impaired secured portion by guarantees	713 35	87.118 5.860	46.108 -	853.417 -
B. Net book value of the expired or not impaired financial assets secured portion with guarantees	- -	7.131 238	- -	- -
C. Impaired assets net book value over due (gross book value) impairment (-) secured portion of the net value by guarantees etc.	- - - -	1.948 50.562 (48.614) 1.948	- - - -	- - - -

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.

Aging of the receivables which are overdue but not impaired

	2018	2017
0-1 months	2.725	6.475
1-3 months	1.659	345
3-12 months	1.434	279
1-5 year	478	32
	6.296	7.131

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 28 - FINANCIAL RISK MANAGEMENT (Continued)

Risky Position of Capital:

Net debt ratio as of 31 December 2018 and 2017 is as follows;

	2018	2017
Total liabilities	10.249.771	8.775.527
Less: Cash and cash equivalents	(1.750.516)	(1.617.380)
Deferred tax liabilities	1.765	(255.963)
Net debt	8.501.020	6.902.184
Equity attributable to holders of parent	632.904	1.470.494
Equity + net debt	9.133.924	8.372.678
	93,07%	82,44%

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 2018, if Euro had appreciated against TL by 20% and all other variables had remained constant, the income for the period before tax as a result of foreign exchange rate difference arising out of assets and liabilities denominated in Euro would have been lower in the amount of TL 435.922 (31 December 2017: 532.966 higher).

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

MİGROS TİCARET A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018 AND 2017

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

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

NOTE 29 - EXCHANGE RATE RISK AND FOREIGN CURRENCY POSITION

	FOREIGN CURRENCY POSITION							
	31 December 2018				31 December 2017			
	Total TL equivalent	USD	Euro	Other TL equivalent	Total TL equivalent	USD	Euro	Other TL equivalent
Trade receivables	-	-	-	-	273	72	-	-
Monetary financial assets	306.364	752	49.993	1.048	383.343	2.673	82.518	652
Other	1.720	327	-	-	1.813	481	-	-
Current assets	308.084	1.079	49.993	1.048	385.429	3.226	82.518	652
Total assets	308.084	1.079	49.993	1.048	385.429	3.226	82.518	652
Trade payables	-	-	-	-	1.307	100	127	355
Financial liabilities	724.178	-	120.136	-	414.156	-	91.719	-
Current liabilities	724.178	-	120.136	-	415.463	100	91.846	355
Financial liabilities	2.956.734	-	490.500	-	2.619.469	-	580.106	-
Non-monetary other liabilities	6.084	81	938	-	3.536	80	716	-
Non-current liabilities	2.962.818	81	491.438	-	2.623.005	80	580.822	-
Total liabilities	3.686.996	81	611.574	-	3.038.468	180	672.668	355

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

MİGROS TİCARET A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018 AND 2017

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

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

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

	FOREIGN CURRENCY POSITION							
	31 December 2018				31 December 2017			
	Total TL equivalent	USD	Euro	Other TL equivalent	Total TL equivalent	USD	Euro	Other TL 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	(3.378.911)	998	(561.581)	1.048	(2.653.039)	3.046	(590.150)	297
Net foreign currency asset/(liability) position of monetary items	(3.374.548)	752	(560.643)	1.048	(2.651.317)	2.646	(589.435)	297
Fair value hedge funds of foreign currency	(67.505)	-	-	-	-	-	-	-
Hedge amount of foreign currency assets	-	-	-	-	-	-	-	-
Hedge amount of foreign currency liabilities	(241.120)	-	(40.000)	-	-	-	-	-
Export	-	-	-	-	-	-	-	-
Import	168.013	31.936	-	-	65.065	17.250	-	-

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD
ENDED 31 DECEMBER 2018 AND 2017**

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

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

Foreign currency sensitivity analysis as of 31 December 2018 and 2017 is as follows:

2018

	Gain/Loss	
	Foreign exchange appreciation	Foreign exchange depreciation
%20 change in Euro exchange rate		
Euro net asset/liability	(677.042)	677.042
Portion secured from Euro risk	241.120	(241.120)
Euro net effect	(435.922)	435.922

2017

	Gain/Loss	
	Foreign exchange appreciation	Foreign exchange depreciation
%20 change in Euro exchange rate		
Euro net asset/liability	(532.966)	532.966
Portion secured from Euro risk	-	-
Euro net effect	(532.966)	532.966

NOTE 30 - FINANCIAL INSTRUMENTS

Fair value estimation

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

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

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

MİGROS TİCARET A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD
ENDED 31 DECEMBER 2018 AND 2017**

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

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

NOTE 30 - FINANCIAL INSTRUMENTS (Continued)

The fair value hierarchy for the assets and liabilities measured at fair value as of 31 December 2018 and 2017 is as follows:

	Fair Value Level as of reporting period			
	31 December 2018	Level 1 TL	Level 2 TL	Level 3 TL
Lands	1.458.276	-	-	1.458.276
Buildings	1.017.439	-	-	1.017.439
Investment properties	32.525	-	-	32.525
Derivatives	(71.895)	-	(71.895)	-

	Fair Value Level as of reporting period			
	31 December 2017	Level 1 TL	Level 2 TL	Level 3 TL
Lands	1.454.789	-	-	1.454.789
Buildings	1.016.356	-	-	1.016.356
Investment properties	342.731	-	-	342.731

The discount, capitilization and store occupancy rates used in the studies were determined by the valuation companies.

The discount rates are consistent with the inflation expectation survey of the CBRT and used between 13.5% and 19.70% for the properties in Turkey. Discount rates used between 10% to 13,75% for the properties at abroad.

The capitilization rates vary between 4.5% and 11% in terms of the location of the real estate.

NOTE 31 - SUBSEQUENT EVENTS

EBRD (The European Bank for Reconstruction and Development) provides a credit line, an equivalent of 60m EUR in TL for capital expenditure requirements of Migros. The credit facility has 5 years maturity and was used on 18 January 2019.

The sale of the company’s properties, Bahçeşehir MMM Migros store and Adapazarı Kipa shopping mall were completed with a total amount of TL 177.706 as of 29 January 2019.

As indicated in the material event statement dated 26 February 2019; in line with the Capital Market Board’s approval regarding the application of bond issuance with TL 1.000.000 ceiling dated 07 June 2018 and numbered 25/699; the sale of bond with ISIN code TRSMGTI22115 and 2 years maturity (728 days) worth of TL 200.000 nominal value has been completed on 25 February 2019. The sale was only for qualified investors. The starting date of the maturity period is 27 February 2019.