

MİGROS



MİGROS TİCARET A.Ş.

01.01.2019 – 30.06.2019 INTERIM ANNUAL REPORT
PREPARED PURSUANT TO THE CMB SERIES:II NO:14.1

TABLE OF CONTENTS

Corporate Profile	3
Economic Review and Retail Market	4
Corporate Information	4
Financial Information	9
Operational Activities	13
Corporate Governance	14

CORPORATE PROFILE

Company	: Migros Ticaret A.Ş.
The Date of Foundation*	: 19.03.2008
Trade Registry Office	: Istanbul Trade Registry Office
Trade Registry Number	: 659896
Tax Administration	: Büyük Mükellefler Vergi Dairesi
Tax ID	: 6220529513
Address	: Atatürk Mahallesi Turgut Özal Bulvarı No: 7 34758 Ataşehir - İstanbul
Phone	: 0216 579 30 00
Fax	: 0216 579 35 00
Corporate Web Site	: www.migroskurumsal.com
E-mail	: malimigros@migros.com.tr
Share Capital	: TL 181,054,233
Capital Ceiling	: TL 500,000,000
Stock Exchange	: Borsa İstanbul
Listing Year at the Stock Exchange**	: 2009
Symbol	: MGROS.IS

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

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

INTRODUCTION: AN ECONOMIC REVIEW AND RETAIL MARKET

Gross Domestic Product (GDP) decreased by 2.6% in the first quarter of 2019 in real terms. The consumption expenditures of households decreased by 4.7% year on year during the same period.

The CPI, which was 20.3% in 2018, grew by 15.72% in June 2019 versus the same month of the previous year. The prices of food and non-alcoholic beverages rose by 19.20% in comparison to last year. According to the latest Inflation Report of the Central Bank of Turkey (CBRT), the annual CPI is expected to be between 11.5% and 16.3% (mid-point of 13.9%) by the end of 2019.

SECTION 1: CORPORATE INFORMATION

Board of Directors

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

Board of Directors	
Tuncay Özilhan	Chairman
Kamilhan Süleyman Yazıcı	Vice Chairman
Nikolaos Stathopoulos	Board Member
Talip Altuğ Aksoy	Board Member
Salih Metin Ecevit	Board Member
Rasih Engin Akçakoca	Board Member
Recep Yılmaz Argüden	Board Member
Ömer Özgür Tort	Board Member and CEO
İzzet Karaca	Independent Board Member
Hüseyin Faik Açıkalın	Independent Board Member
Şevki Acuner	Independent Board Member
Tom Heidman	Independent Board Member

At the ordinary general assembly meeting held on May 16, 2019, Tuncay Özilhan, Kamilhan Süleyman Yazıcı, Nikolaos Stathopoulos, Talip Altuğ Aksoy, Salih Metin Ecevit, Rasih Engin Akçakoca, Recep Yılmaz Argüden, Ömer Özgür Tort were elected as members of the Board of Directors and İzzet Karaca, Hüseyin Faik Açıkalın, Şevki Acuner and Tom Heidman were elected as independent members of the Board of Directors until the General Assembly Meeting of the Company's for the year of 2019. According to the Board decision dated 29 May 2019, Tuncay Özilhan was elected as the Chairman of the Board and Kamilhan Süleyman Yazıcı as the Vice-Chairman.

Information on external positions held by Board members and Independent Board Members' Affidavit is provided at the Company corporate website at www.migroskurumsal.com. 21 Board resolutions were taken in the first half of 2019.

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

According to the Articles of Association of the Company, the Board of Directors have the authority to take any decision with the exception of matters that needs the resolution of the General Assembly in accordance with the laws and the Company's Articles of Association. The Board of Directors of the Company were appointed at the 2018 Ordinary General Assembly Meeting dated May 16, 2019 until the General Assembly Meeting in which the Company's 2019 accounts are to be discussed.

Committees of Board of Directors

In accordance with the Board of Directors resolution dated May 29, 2019, it was resolved that, within the scope of the Communiqué on Corporate Governance (II-17.1) of the Capital Markets Board ("CMB"), the Corporate Governance Committee shall be responsible for the duties of the Nomination Committee and Remuneration Committees and that the committees of our Company shall comprise of the following members.

Audit Committee		
İzzet Karaca	President	Non-executive
Şevki Acuner	Member	Non-executive

Corporate Governance Committee		
Hüseyin Faik Açıklın	President	Non-executive
Kamilhan Süleyman Yazıcı	Member	Non-executive
Recep Yılmaz Argüden	Member	Non-executive
Mehmet Hürşit Zorlu	Member	Non-executive
Affan Nomak	Member	Head of Investor Relations & Risk Management

Early Recognition of Risk Committee		
Tom Heidman	President	Non-executive
Talip Altuğ Aksoy	Member	Non-executive
Hüseyin Faik Açıklın	Member	Non-executive

Working Principles of Committees

Working Principles of the Audit Committee

Scope and Objective

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

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

Authority

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

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

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

The Committee convenes at least four times a year. The results of these meetings are set down in minutes that are submitted to the Board of Directors along with any decisions that are taken.

Working Principles of the Corporate Governance Committee

Scope and Objective

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

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

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

Authority

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

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

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

The Committee convenes at least four times a year. The results of these meetings are set down in minutes that are submitted to the Board of Directors along with any decisions that are taken.

Working Principles of The Early Detection Of Risk Committee

Scope and Objective

The Early Detection of Risk Committee, which was formed under the framework of the Capital Markets legislation and article 378 of the Turkish Commercial Code numbered 6102, is continuing its activities under the auspices of the Board of Directors.

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

Authority

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

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

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

The Committee convenes six times a year. The results of these meetings are set down in minutes that are submitted to the Board of Directors along with any decisions that are taken.

Senior Management

Migros Senior Management consists of Ömer Özgür Tort (General Manager) and Assistant General Managers Ahmet Fuat Yanar (Chief Operations Officer), Ferit Cem Doğan (Chief Financial Officer), Olcay Yılmaz Nomak (Chief Human Resources Officer), Cem Lütfi Rodoslu (Chief Marketing Officer), Hakan Şevki Tuncer (Chief Expansion&Property Officer), Tarık Karlıdağ (Chief Construction Officer), Mustafa Murat Bartın (Chief Large Format&Online Retail Officer), Bülent Kuntay (Chief Supply Chain & Logistics Officer) and Kerim Tatlıcı (Chief Information Officer).

Senior management compensation

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

Total compensation provided to the key management personnel by the Company for the periods ended 30 June 2019 and 30 June 2018 has been provided at Note 20 of Condensed Consolidated Financial Statements for the Interim Period 1 January – 30 June 2019 of the Company.

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

Number of Employees

As of 30 June 2019, the Company employs an average of 32,037 employees including its subsidiaries in Turkey and abroad (31 December 2018: 28,990).

Subsidiaries

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

As of June 30, 2019;

Subsidiaries	Country of incorporation	Geographical segment	Nature of business	June 2019 (%)	Dec. 2018 (%)
Ramstore Bulgaria E.A.D.	Bulgaria	Bulgaria	Dormant	100.0	100.0
Ramstore Kazakhstan LLC	Kazakhstan	Kazakhstan	Retailing	100.0	100.0
Ramstore Macedonia DOO	Macedonia	Bulgaria	Retailing	99.0	99.0
Sanal Merkez Ticaret A.Ş. (*)	Turkey	Turkey	Dormant	100.0	100.0

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

The shareholding structure of Migros Ticaret A.Ş.

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

The share capital of our Company is TL 181,054,233. The capital structure is as follows:

As of June 30, 2019;

Migros Ticaret A.Ş. Direct Shareholding Structure		
Shareholder	Share (%)	Amount (TL)
MH Perakendecilik ve Ticaret A.Ş.	49.18	89,046,058
Kenan Investments S.A.	14.88	26,937,336
Moonlight Capital S.A.	7.94	14,371,000
Migros Ticaret A.Ş.	1.64	2,962,116
Other	26.37	47,737,723
Total	100.00	181,054,233

Migros Ticaret A.Ş. Indirect Shareholding Structure		
Shareholder	Share (%)	Amount (TL)
AG Anadolu Grubu Holding A.Ş.	50.00	90,527,116
BC Partners & related funds	23.19	41,995,397
Other	26.81	48,531,720
Total	100.00	181,054,233

Information About the Most Recent Capital Increase

No increase was made in the capital during January 01 – June 30, 2019.

Information on General Assembly Meeting

General Assembly Meeting

Meeting Minutes and List of Attendees pertaining to 2018 Ordinary General Assembly Meeting of our Company dated May 16, 2019 were disclosed in our corporate web site (www.migroskurumsal.com). In the Ordinary General Assembly Meeting, the statutory and the consolidated financial statements dated 31.12.2018, which was prepared in accordance with TFRS and the other agenda articles were duly accepted.

Information regarding the General Assembly Meeting was posted in the Turkish Trade Registry Gazette, the company's corporate website at www.migroskurumsal.com, Public Disclosure Platform and the Electronic General Assembly Portal of Central Registry Agency.

Amendments in the Articles of Association

In the Company's public disclosure dated 19 April 2019, it was stated that the Board of Directors resolved to amend "Article 3 – Purpose and Scope" of the Company's articles of association with regard to the Company's needs. The amendment text was posted in the attachment of the aforementioned disclosure.

The necessary permissions required for the amendment text have been obtained from the Capital Markets Board (CMB) as well as the Ministry of Trade and it was submitted to the approval of our shareholders at the General Assembly Meeting held on 16.05.2019 and accepted.

The aforementioned resolution was registered on 23.05.2019 and announced in the Turkish Trade Registry Gazette dated 29.05.2019 and numbered 9839.

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

Authorities and Duties of the Auditors

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

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

At the Company's 2018 Ordinary General Assembly Meeting dated May 16, 2019, DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. was elected as auditor for 2019 fiscal year. The aforementioned resolution has been registered on May 23, 2019 and published in the Turkish Trade Registry Gazette on May 29, 2019.

The Dividend Policy of Migros

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

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

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

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

SECTION 2: FINANCIAL INFORMATION

Sales

(Thousand TL)	Jan. 01 – June 30, 2019	Jan. 01 – June 30, 2018
Domestic sales	10,666,348	8,463,265
Foreign sales	288,099	228,934
Other sales	16,108	8,422
Gross sales	10,970,555	8,700,621
Less: Discounts and returns	-239,740	-237,239
Sales revenue, net	10,730,815	8,463,382

Financial Statements

Migros - IFRS Consolidated Income Statement Summary (Thousand TL)	Jan. 01 – June 30, 2019	(%)	Jan. 01 – June 30, 2018	(%)
Net Sales	10,730,815	100.0	8,463,382	100.0
Cost of sales (-)	-7,812,954	-72.8	-6,296,895	-74.4
Gross Profit	2,917,861	27.2	2,166,487	25.6
Operating Expenses	-2,328,817	-21.7	-1,893,559	-22.4
Other Operating Income / (Expense)	-239,978	-2.2	-154,289	-1.8
Operating Profit	349,066	3.3	118,639	1.4
Income / (Expense) from investment activities	8,489	0.1	200	0.0
Operating Income Before Financial Income / (Expense)	357,555	3.3	118,839	1.4
Financial Income / (Expense)	-742,443	-6.9	-631,588	-7.5
Income/Loss Before Tax	-384,888	-3.6	-512,749	-6.1
Tax Income / (Expenses)	-1,239	0.0	-37,868	-0.4
Deferred Tax Income	4,841	0.0	11,058	0.1
Net Profit / Loss	-381,286	-3.6	-539,559	-6.4
<i>Non-controlling Interest</i>	73	0.0	-3,293	0.0
<i>Equity holders of Parent</i>	-381,359	-3.6	-536,266	-6.3

EBITDA	710,389	6.6	475,927	5.6
EBITDA (with IFRS 16 impact)	1,076,274	10.0	-	-
EBITDAR	1,219,244	11.4	886,295	10.5

Migros IFRS Consolidated Balance Sheet Summary (Thousand TL)	June 2019	(%)	December 2018	(%)
Current Assets	5,039,043	35.3	4,474,261	41.1
Non-current Assets	9,235,588	64.7	6,410,600	58.9
Total Assets	14,274,631	100.0	10,884,861	100.0
Current Liabilities	7,416,339	52.0	6,674,919	61.3
Non-current Liabilities	6,592,855	46.2	3,574,852	32.8
Total Liabilities	14,009,194	98.1	10,249,771	94.2
Equity Attributable to Owners of Parent	263,865	1.8	632,904	5.8
Non-controlling Interest	1,572	0.0	2,186	0.0
Total Equity	265,437	1.9	635,090	5.8
Total Liabilities and Equity	14,274,631	100.0	10,884,861	100.0

Financial Structure and Profitability Ratios

LIQUIDITY RATIOS	June 2019	December 2018
Current Ratio	0.68	0.67

FINANCIAL STRUCTURE RATIOS	June 2019	December 2018
Financial Leverage (Total Liabilities / Total Liabilities & Equity)	0.98	0.94
Total Liabilities / Equity	52.78	16.14
Financial Liabilities / Total Assets	0.34	0.42
Net Cash Position (Thousand TL)	-2,725,397	-2,818,831

PROFITABILITY RATIOS (%)	Jan. 01 – June 30, 2019	Jan. 01 – June 30, 2018
Gross Profit Margin	26.8%	25.6%
Gross Profit Margin (with IFRS 16 impact)	27.2%	-
Operating Profit Margin	3.3%	1.4%
EBITDA Margin	6.6%	5.6%
EBITDA Margin (with IFRS 16 impact)	10.0%	-
EBITDAR Margin	11.4%	10.5%
Net Profit / Loss Margin	-3.6%	-6.4%

SHARE PERFORMANCE RATIOS	June 2019	December 2018
Market Cap (Thousand TL)	2,449,664	2,697,708
Share Price (TL)	13.53	14.90
Earnings Per Share (EPS) (TL)	-2.11	-4.61

Financial Evaluation

Migros applied the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019. IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. The date of initial application of IFRS 16 is 1 January 2019 retrospectively taking into account the cumulative effect in the financial statements. IFRS 16 standard increased the Company's EBITDA and financial liabilities. Other impacts of this standard on the items of balance sheet and P&L as well as financial outlook and cash flow are provided in the Note 2 of the Condensed Consolidated Financial Statements for the Interim Period 1 January – 30 June 2019 of the Company.

Information on major accounting estimates and related forecasts is provided in the Note 2 of the Condensed Consolidated Financial Statements for the Interim Period 1 January – 30 June 2019 of the Company.

Migros' consolidated sales surpassed TL 5.8 billion with a sales growth of 28.4% in the second quarter of 2019. In the first half of 2019, the Company's consolidated sales reached TL 10.7 billion with a sales growth of 26.8%. The Company opened 68 new stores in the first six months of the year. The consolidated gross profit in the first half of 2019 increased by 32.9% versus the same period of last year and reached TL 2,879 million. (TL 2,918 million with IFRS 16 impact)

Migros generated TL 710 mn EBITDA (TL 1,076 mn with IFRS 16) corresponding 6.6% EBITDA margin (10.0% with IFRS 16) in 1H 2019. Yearly EBITDA growth of 49.3% is driven by stronger sales performance and a better fixed cost absorption due to increase scale. Migros recorded TL 1,219 mn consolidated EBITDAR (EBITDA before rent) representing a margin of 11.4% in 1H 2019.

On the other hand, the company recorded TL 4,909 million total financial debt as of 30 June 2019. (TL 7,946 million financial debt with IFRS 16 impact)

In addition to the impact of TFRS 16 in the first half of the year, further depreciation of TL against Euro increased Company's FX losses as well as financial expenses and the Company reported a net consolidated loss of TL 381 mn in 1H 2019. The Company's shareholders' equity decreased according to the last year and reached TL 265 million as of June 30, 2019.

Migros surpassed its sales target in first half of the year. Hence, the consolidated sales growth guidance is revised upwards from ~20% to 23-25% for 2019 FY. Furthermore, the guidance for EBITDA margin (w/o IFRS 16) is also upped from ~6% to 6-6.5%. Migros aims at opening 100 new stores in total this year and maintains its capex guidance as TL 300 million in 2019.

The Dividend Distribution

In the General Assembly Meeting on 16 May 2019, the General Assembly discussed the Board of Directors' dividend distribution proposal. Accordingly;

Within the Communiqué of Capital Markets Board (CMB) No. II-19.1 and in accordance with our articles of association and dividend distribution policies that were disclosed to public by our company, it was resolved not to distribute dividend for 2018 fiscal year as the company recorded net loss at the 2018 consolidated financial statements prepared in accordance with the Turkish Commercial Code and CMB legislation.

The financial resources and the risk management policies

Financial Debts

As of June 30, 2019, the outstanding financial loans and bonds of the Company stands at TL 4,894,546 thousand (TL 7,931,704 thousand including TFRS 16). Detailed information related to financial debts is provided in the Note 9 of the Condensed Consolidated Financial Statements for the Interim Period 1 January – 30 June 2019 of the Company.

The redemption schedule of principal amounts of financial debt at 30 June 2019:

(Thousand TL)	Tenge Loan TL Equivalent	Euro Loan TL Equivalent	TL Loan	Total TL Equivalent	Percentage (%)
1 July 2019 - 30 June 2020	9,261	375,296	440,969	825,526	17.1%
1 July 2020 - 30 June 2021	17,813	815,757	399,521	1,233,091	25.6%
1 July 2021 - 30 June 2022	18,180	984,514	193,256	1,195,950	24.8%
1 July 2022 - 30 June 2023	11,005	1,209,556	190,980	1,411,541	29.3%
1 July 2023 - 18 January 2024	1,295	0	148,080	149,375	3.1%
	57,554	3,385,123	1,372,806	4,815,483	%100.0

Risk Management and Internal Control Mechanism

Pursuant to the applicable provisions of the Turkish Commercial Code, the Early Detection of Risk Committee, which is charged with early diagnosis of risks that may threaten the existence, development and survival of the Company, and with ensuring that necessary actions are taken in relation to those risks, carried on with its activities.

Within the scope of the activities conducted with the Company employees, the Committee follows up various risk indicators, which have been created to ensure identification of the risks that could preclude the achievement of the Company's strategic business goals, to monitor the factors that make up these risks, to determine and measure the probability and impact of the risks, and follows up the risk criteria deemed important.

These risk indicators are analyzed and followed up by the related Company units, and changes are monitored by the Risk Committee. In periodic meetings, the Risk Committee evaluates whether appropriate actions have been taken.

The company's exposure to the fluctuations in foreign exchange rates and interest rates is mainly due to the foreign exchange denominated loans in its Balance Sheet. The Company's shareholders' equity has decreased in the last periods. Foreign exchange risk from loans and fluctuations in Euribor rates are continuously monitored and limited by hedging derivative instruments. Detailed information has been provided at Note 22, titled Exchange Rate Risk and Foreign Currency Position, of Condensed Consolidated Financial Statements for the Interim Period 1 January – 30 June 2019 of the Company.

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

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

In the conduct and performance of its financial and operational reviews, the Internal Audit Department adheres to the following principles.

- Effective utilization of the resources of the Company,
- Effectiveness of the internal control mechanisms on operations,
- Reliability of financial statements,
- Confirmation of Company assets
- Efficiency and effectiveness of business operations,
- Compliance of employees with the quality management documentation and administrative instructions approved by the management,

The fundamental duties of the Internal Audit Department consist, among other things, of investigating/examining activities and transactions which previously had been determined and reported as having elements of risk in order to ascertain the degree to which such risks have been eliminated or brought under control in line with management-approved recommendations; performing follow-up reviews in situations where more detailed investigations and examinations are necessary.

Any problems that may be discovered during the course of review activities are investigated in detail with the aim of allowing measures to be taken as necessary while recommendations are also made concerning what action should be taken to deal with any losses which the Company is ascertained to have suffered. In all of these efforts, altering processes in such a way as to prevent recurrences of similar incidents is an issue of fundamental concern.

In line with the risk based audit approach and the year's internal control plan, in 2018 the Internal Audit Department conducted financial and operational reviews of various departments and processes. Assessments and recommendations based on review results are submitted to company senior management along with the reports in which matters where improvements may be made in keeping with the philosophy of continuous development are also pointed out. Besides financial and operational reviews, the Internal Audit Department also conducts follow-up reviews on issues about which senior management was previously informed and it was agreed that measures needed to be taken. Similar risk analysis and audits were conducted in the first 6 months of 2019.

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

Bond Issuances

The details of the debt securities (corporate bonds) with floating-rates that the Company issued exclusively for domestic qualified investors are as follows:

ISIN Code	Issue Amount (TL)	Issue Date	Maturity	Maturity (Days)	Coupon Number	Number of Coupons Paid
TRSMGTI72011	75,000,000	19.07.2018	16.07.2020	728	8	4/8
TRSMGTI72110	75,000,000	19.07.2018	14.07.2021	1,091	12	4/12
TRSMGTIE2015	46,000,000	24.10.2018	21.10.2020	728	8	3/8
TRSMGTI22115	200,000,000	27.02.2019	24.02.2021	728	8	1/8

As of 30 June 2019, the debt securities issued by our Company reached TL 396 million.

In our public disclosure dated 19 June 2019, it was announced that the Migros Board of Directors resolved to issue debt instruments in Turkey in Turkish Liras up to TL 1,000,000,000 and to file an application to the Capital Markets Board for the approval of the issuance certificate(s). Within this context, the application was submitted to CMB on 26 June 2019 and the approval of CMB was granted on 18 July 2019.

SECTION 3: OPERATIONAL ACTIVITIES

Position of Migros in the Sector and Investments

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

During January 01 – June 30, 2019, Migros Ticaret A.Ş. opened 68 new stores - 38 Migros, 26 Migros Jet, 2 Macrocenter, 1 wholesale and 1 Ramstore abroad - and made TL 130,012 thousand capital expenditures.

The Company operates a network of 2,144 stores in total at the end of June 30, 2019, including 1,154 supermarkets, 814 Migros Jets, 56 hypermarkets, 54 Macrocenter and 21 wholesale stores in seven geographical regions throughout Turkey, as well as 18 Ramstores in Kazakhstan and 27 Ramstores in North Macedonia operated through its subsidiaries abroad.

New stores opened:

M		MM		MMM		Migros Jet	
Adana	1	Amasya	1	İstanbul	1	Antalya	3
Ankara	1	Ankara	3			Aydın	3
Antalya	1	Bursa	1			Bartın	1
Burdur	1	Erzurum	1			Bursa	2
Bursa	1	İstanbul	3			Çanakkale	1
Çanakkale	1	Kayseri	1			Diyarbakır	1
Eskişehir	1	Malatya	1			Düzce	1
Giresun	1	Samsun	1			Edirne	1
İstanbul	6					Hatay	2
İzmir	4					Isparta	1
Karaman	1					İstanbul	1
Mersin	1					İzmir	2
Sakarya	1					Kocaeli	1
Samsun	1					Muğla	4
Şanlıurfa	1					Trabzon	1
Van	1					Zonguldak	1
Yalova	1						
TOTAL	25	TOTAL	12	TOTAL	1	TOTAL	26

Macrocenter	
Bursa	1
İstanbul	1
TOTAL	2

Wholesale	
Diyarbakır	1
TOTAL	1

Ramstore	
North Macedonia	1
TOTAL	1

SECTION 4: CORPORATE GOVERNANCE

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

The Corporate Governance Rating of our Company was disclosed as 9.58 (95.81%) as of December 28, 2018 by SAHA in their report made public.

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

Sub Sections	Weight	Rating (%)
Shareholders	25%	95.67
Public Disclosure and Transparency	25%	98.01
Stakeholders	15%	99.51
Board of Directors	35%	92.75
Average	100%	95.81

Statement of Compliance with Corporate Governance Principle

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

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

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

Pursuant to the Capital Markets Board of Turkey (CMB) resolution no. 2/49 dated 10 January 2019, Corporate Governance Compliance Reporting, which is made under the Corporate Governance Communiqué no. II-17.1, shall be made using the Corporate Governance Compliance Report (CRF) and Corporate Governance Information Form (CGIF) on the Public Disclosure Platform (KAP). The said reports can be reached under the Corporate Governance tab on the KAP website. (<https://www.kap.org.tr/en/sirket-bilgileri/ozet/1494-migros-ticaret-a-s>)

Corporate Governance Committee

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

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

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

Investor Relations

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

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

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

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

Other Matters

- i. In August 2018, Fitch Ratings revised Migros' rating to 'A+(tur)'. The outlook is stable.
- ii. The stakeholders can reach the Corporate Governance Principles Compliance Report as well as the information on corporate social responsibility activities which has an impact on social and environmental matters, employees' rights and their vocational training at the Company corporate website at www.migroskurumsal.com. The assessment of the Board of Directors on the Committees' work guidelines and their effectiveness is included in the Corporate Governance Principles Compliance Report.
- iii. As announced on October 26, 2018 by Borsa Istanbul, Migros which was included in the BIST - Sustainability Index since the beginning of the index in 2014 was found eligible to stay in index, as the only food retailer so far. The Sustainability Report of the Company is posted on the Company corporate website under the Investor Relations page.
- iv. Information about various lawsuits filed against or in favour of the Group is provided in the Note 10 of the Condensed Consolidated Financial Statements for the Interim Period 1 January – 30 June 2019 of the Company. In our public disclosure dated 18.06.2019, it was announced that a lawsuit was filed regarding certain decisions taken at the General Assembly meeting dated 16.05.2019. There are no administrative or judicial sanctions against the Company or members of the Board of Directors as a result of practices contrary to legislative provisions.
- v. Information on asset divestitures and impairment of assets is provided in the Note 5 of the Condensed Consolidated Financial Statements for the Interim Period 1 January – 30 June 2019 of the Company.
- vi. Information on tax assets and liabilities is provided in the Note 18 of the Condensed Consolidated Financial Statements for the Interim Period 1 January – 30 June 2019 of the Company.
- vii. Information on related parties is provided in the Note 20 of the Condensed Consolidated Financial Statements for the Interim Period 1 January – 30 June 2019 of the Company
- viii. According to the agreement between our Company and Tez-Koop. Labor Union, the collective labor agreement covers the period of 01.05.2017 - 31.12.2019.

Donations and Assistance

The upper limit to donations and assistance to grant in 2019 was approved as TL 2,000,000 at the General Assembly.

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

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

Research and Development Activities

The Company's total R&D expenditures for first 6 months of 2019 is TL 14,439 thousand (1H 2018: TL 9,755 thousand).

Migros Ticaret A.Ş., which was issued an R&D Center certificate from the Ministry of Science, Industry and Technology, has been continuing with its technical research and development activities in areas of business and software development in 2019.

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

Subsequent Events

Information about subsequent events is provided in the Note 24 of the Condensed Consolidated Financial Statements for the Interim Period 1 January – 30 June 2019 of the Company.