

Review by the Chief Executive Officer

Migros continued to deliver good performance in the year under review and to maintain its leading position in the Swiss market despite an extremely challenging environment. Price reductions, falling crude oil prices and a shrinking travel business had an adverse impact on sales. While market share in the retailing sector fell slightly, overall market share remained stable despite stiffer competition. Process improvements and increased Group-wide collaboration contributed to a higher operating result.

2009 was characterised by widespread uncertainty triggered by the global financial crisis, and dampened consumer sentiment. According to the State Secretariat for Economic Affairs (SECO), consumer sentiment only began to improve again at the end of 2009 (-7 points at end-2009 versus -39 points in July), largely due to more optimistic expectations regarding the general economic trend and the job market situation.

Although the downturn affected the individual market segments to varying degrees, the non-food segment was most heavily affected by consumer restraint in 2009. While higher-value and durable goods such as sports equipment and furniture showed no significant drop in sales, income from travel business declined sharply. In retailing there was a noticeable increase in competition from new players who substantially stepped up their presence on the Swiss market during the reporting year.

Market share remains stable

Over a quarter of food products purchased in Switzerland stem from outlets belonging to the Migros Group. Despite difficult economic conditions and the changing competitive situation, sales and market share (20.5 per cent) remained stable. This was largely attributable to strong growth (2.5 per cent) posted by Denner and a positive trend – despite a shrinking market – in the specialist markets (1.6 per cent growth in sales). Market shares in the Cooperative Retailing segment fell slightly in 2009.

Earnings before finance income, income tax and pension plan effect (EBIT) of the Migros Group increased by 3.6 per cent, or CHF 39.8 million, to 1'153.1 million CHF, up from 1'113.3 million CHF in 2008. The higher result was attributable to enhanced Group-wide cooperation and significant process improvements in all segments. Deflation of around 0.2 per cent had an adverse effect on earnings in 2009. The foreign business of the industrial companies was also hit by the stronger Swiss franc.

Investments remained at a very high level of 1'480 million CHF (previous year 1'674 million CHF), enabling Migros to retain its position as an important business partner in Switzerland and safeguard thousands of jobs. Most of the investments were made by the Cooperatives and the Commercial companies for new, expanded and modernised sales outlets and by Migros Industry for modernisation and capacity expansion at production locations.

Expansion of sales network and lower prices

Last year, sales space at supermarkets/hypermarkets and specialist markets increased by 1.2 per cent to 1'266'062 m² (previous year: 1'251'115 m²).

While Migros Cooperatives reported higher sales volumes year-on-year, revenues were significantly impacted by across-the-board price reductions of over 300 million CHF.

2009 highlights

Collaboration within Migros was stepped up during the year under review as various strategic initiatives were implemented and internal processes optimised. Interio, for instance, teamed up with Depot in Switzerland to realise the Depot-Interio store concept. By the end of 2009 over 130 Migrolino stores had been opened ahead of schedule.

In Cooperative Retailing in 2009, the 2010 store concept was implemented at the Schönbühl (Berne) and Stücki (Basel) shopping centres as well as in the Kreuzlingen and Pully stores. The new concept turns shopping into an experience.

Innovations are a key differentiator for the Group. New approaches have a tradition at Migros. For example, decades ago Migros was the first retailer to introduce a "best before" date printed on the product under M-Data.

Migros also made targeted investments in new products, processes and distribution channels in 2009. Some of the main product innovations included a new active ingredient derived from Swiss apples which is used in Mibelle Cosmetics, a line in which even US First Lady Michelle Obama places her trust.

Migros' positioning was further consolidated in 2009. In spring, the company appeared under its new slogan: "Ein M besser" or "One M better". Migros stands for Swissness, regionality, sustainability, freshness and best value for money. This claim is a bold expression of these standards.

At the end of 2009, Migros had a total workforce of 83'780. During the year under review, 3'264 apprentices were trained in over 40 trades. Migros offered a total of 1'303 new training places in 2009. Our employees worked hard in a challenging market environment and we would like to take this opportunity to thank them as well as our customers, suppliers and all Cooperative members.

Sustainability in practice

Migros remained committed to sustainable business practices in 2009. Responsible management is an integral part of Migros' corporate culture and Group strategy.

Migros' sustainability policy received special acclaim at the World Retail Congress 2009 in Barcelona, when the jury named Migros the world's most sustainable retailer.

Also in terms of its products, Migros ensures that ecological and social standards are complied with throughout the production process. Examples include the Business Social Compliance Initiative BSCI, initiated by Migros and designed to ensure humane working conditions among suppliers; and TerraSuisse, which is committed to ecological, animal-friendly farming.

Since 2008 Migros has identified the most climate-friendly products in its range with the CO2 label of the independent organisation climatop, thereby helping customers to shop in an environmentally-friendly way.

Outlook and goals 2010

Migros is determined to continue on its current course. As Switzerland's leading commercial enterprise, it aims to use its position in a targeted manner and live up to its corporate credo so that consumers nationwide can "live better every day".

Further robust growth

Despite the cautious outlook, the strategy of robust growth will be further pursued next year. Migros is adhering to its expansion targets. Strategic alliances and acquisitions will be realised, bringing real benefits to society and consumers.

Significant investments in the Swiss market

Investments in the Swiss market will be implemented as planned. Over the next three years, Migros intends to invest around CHF 5 billion in Switzerland. These investments will serve to strengthen the Group's local presence and ensure the provision of a comprehensive customer service. This includes targeted infrastructure expansion and extension of the online platforms.

Living sustainability

By 2012 Migros aims to reduce its carbon emissions by 27 per cent versus 2000 through its ambitious climate protection concept. Industrial companies, stores and operations centres are all on target. This year's raft of measures includes further increasing energy efficiency in buildings and installations, reducing harmful emissions from cooling and refrigeration systems, cutting down on packaging materials and stepping up the use of rail transport.

Enhancing efficiency

Across the entire Group, the aim is to continue making efficiency improvements through targeted operational measures without compromising on our high quality standards. The Executive Board is confident that Migros can master the challenges posed in 2010 and the years ahead, and in so doing continue to offer all customers a comprehensive range of products and services – simply one M better.

Herbert Bolliger
Chief Executive Officer