

Processing

Migros is committed to providing safe, high-quality products produced under socially responsible conditions. In 2015, it pushed ahead with implementing social standards and trained even more suppliers. It also took further measures to improve its recipes.

It is important to Migros that its products are produced under **good working conditions**. It therefore stipulates that its suppliers adhere to certain social standards. For textile own brands, all of its suppliers must follow the Eco guidelines. Migros also makes sure that the products made by M-Industry contribute towards a balanced diet.

Better working conditions through social standards

As a founding member of the Business Social Compliance Initiative (BSCI), Migros demands that all suppliers and producers meet the minimum social requirements of the BSCI Code of Conduct or equivalent requirements. This is included in the basic requirements and is being gradually implemented in all Migros Group companies.

In order to check working conditions in the production plants, Migros needs to know where the products are produced. As the supply chain often involves several intermediaries who do not always wish to disclose the identity of their manufacturers, **full transparency** over the supply chain is difficult to achieve. A further challenge lies in the dynamic nature of the supplier portfolio: Migros is continuously adopting new suppliers and cutting ties with existing ones.

In 2015 the Migros Group managed to reduce the proportion of non-transparent supply chains to 34% (2014: 42%). It procured raw materials or products from 99 countries, 51 of which were high-risk countries. Overall, Migros worked with 8'474 suppliers. 3'505 of these suppliers (41%) have potentially risky supply chains.

In a **supply chain with risk potential**, the production plants may be located in a high-risk country such as India, China or Eastern Europe, with production processes that involve a great deal of manual labour. The definition of a high-risk country is based on the World Wide Governance indicators of the World Bank, which relate to issues such as corruption, rule of law and the implementation of legislation in a country.

To **check the working conditions and social standards** for producers in high-risk countries, Migros generally relies on the Business Social Compliance

8'474

suppliers collaborate with the Migros Group.

Initiative (BSCI), as well as factory visits by Migros specialists, and gradually integrates the producers in the BSCI process.

In 2015, Gries Deco Company visited twelve of its most important suppliers in Asia and inspected around twenty factories. The aim was to find out more about the local working conditions in order to work on implementing the BSCI Code of Conduct together with the supplier and addressing individual problems. At the end of 2015, 101 suppliers in high-risk countries were involved in the BSCI process. This represents 60% of the purchasing volume of Gries Deco Company in those countries.

More audits and new BSCI Code of Conduct

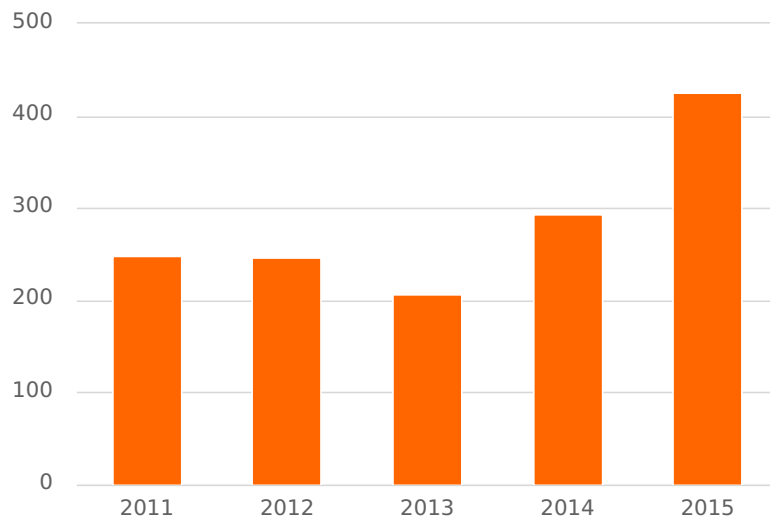
The Migros Group integrates its business partners into the BSCI process on the basis of a risk assessment, which takes into account the type of supply chain, the country of production, the industry and the sales volume.

During a BSCI audit, external specialists spend several days assessing the employment and working conditions in the suppliers' factories and recommend ways to remedy any non-conformities that are discovered. A follow-up audit checks whether the measures have been successfully implemented.

In 2015, Migros conducted more factory visits and audits than in the previous year. For example, 425 BSCI audits (2014: 294) and 78 factory visits were conducted by specialists (2014: 45), the majority of which were in India and China. 55 companies (13%) achieved good results in the audits. Minor non-conformities were found at 281 companies (66%), and 89 companies (21%) need to correct more serious problems. These figures are within the sector average.

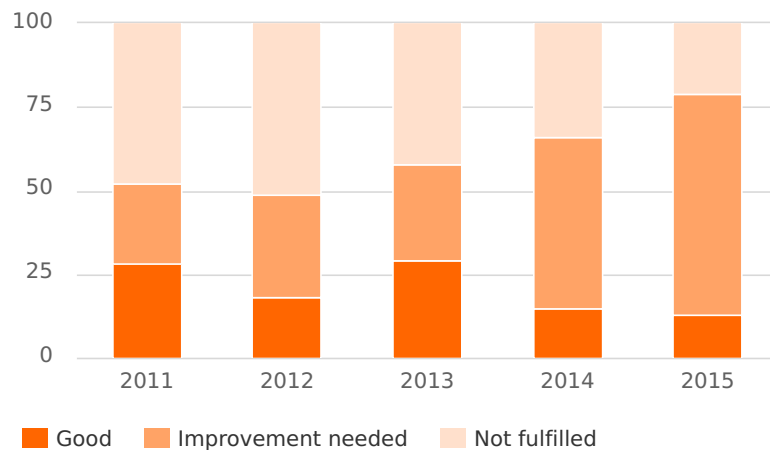
BSCI audits

Total amount of audits with Migros producers



Results BSCI Audits: first audits and follow-up audits

in %



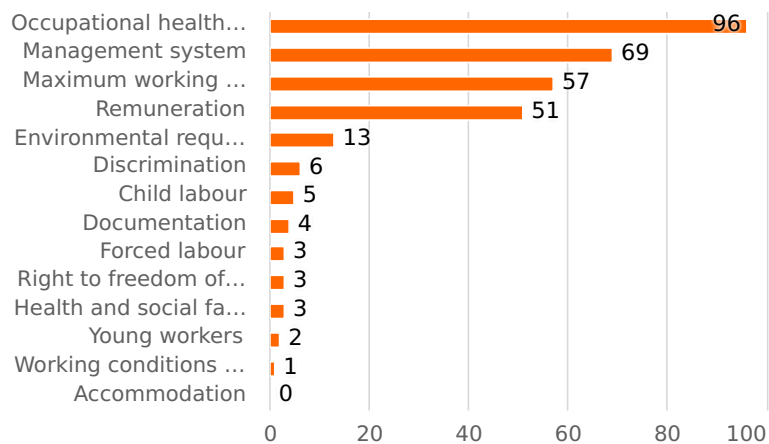
Factory visits by Migros specialists have a positive effect on adherence to the BSCI Code of Conduct. This can be seen using the example of a textiles factory in Turkey. After a BSCI audit had found some more serious non-conformities relating to employee time tracking, two specialists discussed the possible causes with the local managers and outlined some improvement measures that were flawlessly implemented.

Most of the **non-conformities** at Migros' supplier companies are found in occupational health and safety, management system, maximum working hours and remuneration. The focus during the factory visits is on correcting these deficiencies. Non-conformities in the area of child labour (2%) and forced labour (1%) are rare. In two factories in Malaysia, foreign employees were required to surrender their passports to management. Thanks to Migros' intervention, this practice was stopped in the factories concerned.

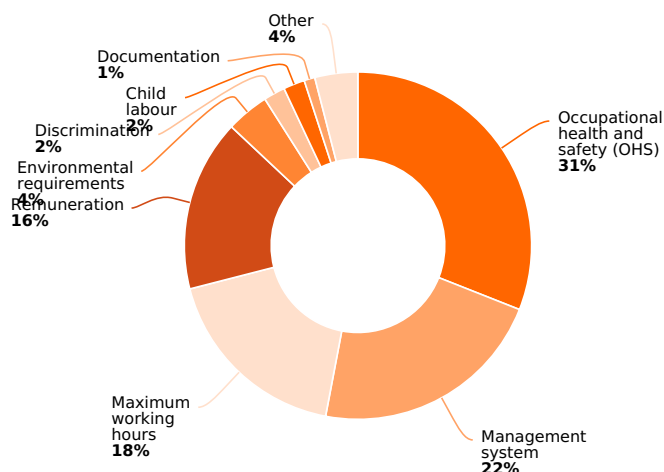
BSCI audits: breakdown by type of non-conformity

BSCI Audits: broken down into type of non-conformity

2015



BSCI Audits: broken down into type of non-conformity
2015



In 2015, Migros helped **evolve the BSCI Code of Conduct** and its implementation system as part of various BSCI committees and working groups. In doing so, it contributed to improving the development approach of BSCI. Factories should not just be checked on the basis of audits. Instead, their employees should be taught how to interpret and implement the Code correctly, in order to establish sound management practices that meet the requirements of BSCI.

As an active member of the BSCI Swiss Contact Group, Migros took part in workshops to help Swiss companies apply the Code and implement it in the supply chain.

Capacity building: training and empowering suppliers

As part of the development approach, Migros provides training, factory visits and courses to help its suppliers implement social standards.

Cooperative Retailing set itself the goal of **improving the working**

conditions of 75'000 employees in supplier companies by the end of 2015. Between 2013 and mid-2015, more than 137'000 employees of Migros suppliers benefited from programmes and tailored training. Migros trained a further 16'420 people by the end of 2015, with more to follow this year.

In 2015, the focus of capacity building in Cooperative Retailing was on **Asia and Eastern Europe**. For example, Migros sent its experts to production plants and factories in China and India, where they inspected working conditions and initiated improvement measures. In addition, 19 employees of suppliers completed an e-learning course, which teaches subjects such as fire safety, remuneration management, occupational health and safety and environmental protection in a practice-oriented way in the local language.

The **Migros purchasing offices in Hong Kong and India** play a key role in the factory visits. The purchasing offices in Hong Kong celebrated their 20 year anniversary. In the reporting year, three specialists in social standards conducted audits to verify compliance with the Code of Conduct and trained staff at suppliers. Since the end of 2014, one employee has been working in the Migros Liaison Office in India, which is primarily concerned with factory visits and improvement measures as part of the BSCI implementation in the factories.

Migros has set itself the target of increasing the number of audits and factory visits even further this year and addressing the issue of living wages.

"Sustainability is just as important as price in procurement. That is why we develop sustainable structures that guarantee quality."

Patrick Supan, Head of Asia
Procurement Office

Eco label: for 100% sustainable textiles

The Eco label, developed by Migros in 1996, stands for seamless documentation and traceability across all stages of the textile production process and ensures that no health- or environment-critical substances are used.

At the end of 2015, 77% of all clothing products of Cooperative Retailing carried the Eco label. Migros has set itself the target of **producing all own-brand textiles in an environmentally and socially sustainable and traceable way in accordance with the Eco label guidelines by the end of 2017.**

Compliance with the Eco requirements is checked by independent third parties on behalf of Migros. All participants in the textile value-added chain are known. The standard aims to ensure that all stages of production – from yarn to finishing – are documented with details of the chemical products and production processes that are used, as well as being assessed and checked for compliance with Migros' requirements. By showing its suppliers how to handle harmful substances and chemicals, for example, and providing staff training, Migros helps to improve the relationships with suppliers and ensure traceability.

Recipe improvements: less salt, sugar and fat

Migros improves its products continuously. Together with the suppliers, it launches improved products and thereby makes a contribution to a balanced diet. Thanks to its own industry in particular, it is able to have a direct influence on the recipes.

Migros is aiming to produce **more than 150 products containing less sugar, salt and fat, but more fibre**, by the end of 2018. Migros has analysed more than 1'400 products since 2013. In the past two years, it has improved 184 product recipes, especially those for ready meals, dairy products and instant soups.

184

recipes have been improved by Migros in the past two years.

In the reporting year, Migros signed a memorandum of understanding with other food retailers and producers, which serves as the basis for developing voluntary promises of action as part of the Swiss government's Initiative actionsanté. The aim is to gradually reduce the amount of sugar contained in yoghurts and breakfast cereals over the next four years. Between 2011 and the end of 2013, Migros **reduced the sugar content in 56% of its yoghurts**. By signing the memorandum, it has demonstrated its intent to systematically continue this trend.

Processed food: guaranteed safe

Migros takes a whole range of food safety measures to ensure that its food is suitable for consumption and will not impair the consumer's health in any way.

To ensure perfectly safe food, the Migros Group companies apply various standards during quality assurance, such as those certified by **The Global Food Safety Initiative (GFSI)**. Most domestic and foreign third party suppliers of processed foods, including the M-Industry companies, are certified according to a standard recognised by the GFSI.

For the remaining suppliers, Migros carries out **risk-based inspections**. The standards recognised by the GFSI and the inspection requirements of Migros cover areas such as production hygiene as well as product safety guidelines for preventing contamination through pollutants or allergens. In 2015, the implementation rate among suppliers was 89% in Migros Industry, 73% in Commerce and 86% in Cooperative Retailing.

20'000

product tests were performed by Cooperative Retailing in 2015.

In addition, Migros and its suppliers have their products continuously monitored during introduction and sale. On behalf of Migros, **Swiss Quality Testing Services (SQTS)** subjects the products to risk-based tests as part of self-regulation. Using a modern analysis method, SQTS checks the quality and safety of the products and whether they conform to the applicable laws. In 2015, Cooperative Retailing performed around **20'000 product tests**; 17 products had to be recalled due to deficiencies, such as Alnatura Tahin Sesammus, which was found to contain salmonella.

Globus offers many products that are hand-made by small producers. During artisanal production, there is a higher risk of contamination with germs, as the quality assurance measures are usually less professional than those in industrial production. In 2015, Globus analysed a total of 900 products. The company also helps to increase food safety by checking products before they

are adopted in the range. For example, a jarred terrine was rejected because the pasteurisation process used was inadequate.

Research projects to increase food safety

Alongside research projects in the environmental field, Migros also intends to support projects that increase food safety in the future. This year, a project to research the causes of tropane alkaloids in cereal production will be launched at the Research Institute of Organic Agriculture (FiBL).

Another project will focus on researching different pathogens. The aim is to broaden the basis of analysis and range of measures in the quality assurance of food originating from animals and plants which is intended for raw consumption.

ETH professorship for sustainable food processing

In addition to raising awareness among its customers and employees, Migros also promotes research. This year, the M-Industry companies began funding a professorship for sustainable food processing at ETH Zurich.

The new assistant professorship researches the development of new procedures for making the production of food more environmentally friendly and sustainable, as well as ensuring that less food, resources and energy go to waste.