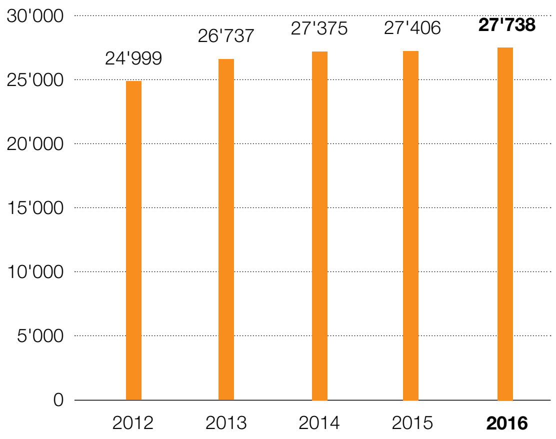
Financial reporting 2016

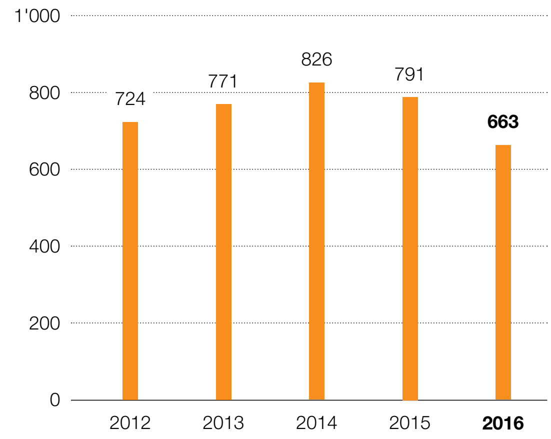
MIGROS GROUP

Development of Group results

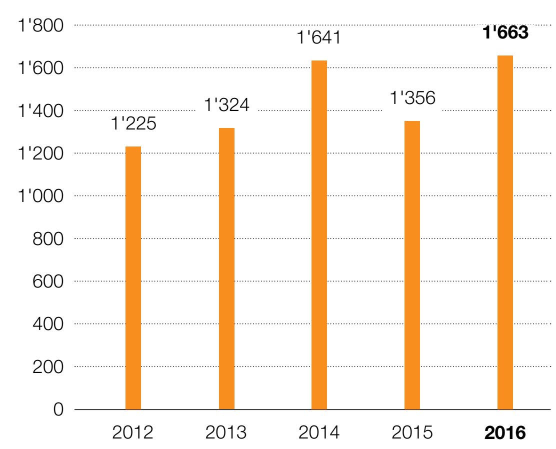
Income
[in million CHF]



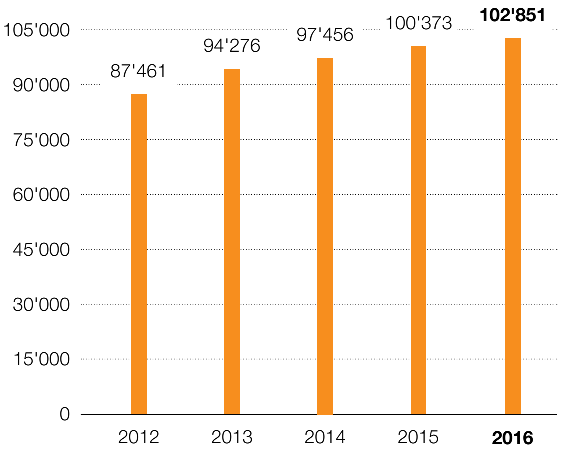
Profit [1]
[in million CHF]



Investments
[in million CHF]



Workforce
[Number of persons]



[1] 2012–2013 IFRS, before effect from pension plans

Key figures and ratios

CHF million, except where indicated		2012	2013	2014	2015	2016	Change from previous year in %
Income		**24'999**	**26'737**	**27'375**	**27'406**	**27'738**	**+1.2**
↳ of which income before income from financial services business		24'077	25'846	26'502	26'546	26'921	+1.4
↳ of which Migros retail sales		21'334	22'867	23'052	22'996	23'269	+1.2
↳ of which income of the Cooperatives		14'524	15'844	15'910	15'613	15'634	+0.1
Total Migros distribution sites	number	631	639	648	659	685	+3.9
Total Migros sales area	m²	1'344'738	1'348'664	1'362'083	1'377'633	1'397'454	+1.4
EBITDA (earnings before interest, taxes, depreciation and amortisation)		**2'177**	**2'266**	**2'392**	**2'314**	**2'281**	**–1.4**
as % of income	%	8.7	8.5	8.7	8.4	8.2	
↳ of which EBITDA of the Retail and Industry sector		1'902	1'986	2'076	2'000	1'981	–0.9
EBIT (earnings before interest and taxes)		**986**	**1'044**	**1'126**	**982**	**911**	**–7.2**
as % of income	%	3.9	3.9	4.1	3.6	3.3	
Profit[1]		**724**	**771**	**826**	**791**	**663**	**–16.2**
as % of income	%	2.9	2.9	3.0	2.9	2.4	
Cash flow from operating activity		**1'268**	**1'225**	**2'362**	**2'696**	**2'503**	**–7.2**
as % of income	%	5.1	4.6	8.6	9.8	9.0	
↳ of which cash flow of the Retail and Industry sector		2'045	688	1'703	2'047	1'658	–19.0
Investments		**1'225**	**1'324**	**1'641**	**1'356**	**1'663**	**+22.6**
Equity		**15'248**	**15'969**	**15'970**	**16'802**	**17'455**	**+3.9**
as % of balance sheet total	%	26.5	27.2	26.4	27.0	27.5	
↳ of which equity of the Retail and Industry sector		13'100	13'663	13'548	14'181	14'646	+3.3
as % of balance sheet total	%	62.5	65.1	65.4	66.5	67.5	
Balance sheet total		**57'534**	**58'809**	**60'585**	**62'138**	**63'537**	**+2.3**
↳ of which balance sheet total of the Retail and Industry sector		20'958	20'984	20'709	21'323	21'703	+1.8
Expenditure for cultural, social and economic policy purposes		**125**	**120**	**122**	**120**	**120**	**–0.0**
Workforce / Migros Cooperatives							
Workforce (number of persons – annual average)	number	87'461	94'276	97'456	100'373	102'851	+2.5
Migros Cooperatives (number of members)	number	2'111'084	2'136'959	2'155'331	2'166'145	2'182'171	+0.7

[1] 2012 – 2013 IFRS, before effect from pension plans

Report on the financial situation of Migros Group

A. Overview

The individual amounts have been rounded to the nearest million CHF (see also Note 3, Basis for preparation).

A.1. Key figures and ratios

	Migros Group	
CHF million	2016	2015
Earnings before interest and taxes	911	982
Profit	663	791
Cash flow (from operating activity)	2'503	2'696
↳ of which cash flow of the Retail and Industry sector [1]	1'658	2'047
Investments	1'663	1'356
Equity	17'455	16'802
↳ of which equity of the retail and industry sector [1]	14'646	14'181
Balance sheet total	63'537	62'138
↳ of which balance sheet total of the retail and industry sector [1]	21'703	21'323

[1] Unaudited; before consolidation of transactions between the two sectors.

A.2. Income statement

	Migros Group		Retail and Industry sector [1]		Financial Services sector [1]	
CHF million	2016	2015	2016	2015	2016	2015
Net revenue from goods and services sold	26'547	26'201	26'550	26'205	3	3
Other operating income	374	345	373	348	6	1
Income before financial services business	**26'921**	**26'546**	**26'923**	**26'553**	**10**	**4**
Income from financial services business	817	861	–	–	817	861
Total income	**27'738**	**27'406**	**26'923**	**26'553**	**827**	**864**
Cost of goods and services sold	15'762	15'674	15'764	15'675	–	–
Expenses of financial services business	246	272	–	–	246	272
Personnel expenses	5'774	5'609	5'600	5'438	174	171
Depreciation	1'370	1'332	1'339	1'302	30	30
Other operating expenses	3'675	3'537	3'578	3'440	107	107
Earnings before interest and taxes	**911**	**982**	**642**	**698**	**270**	**284**

[1] Unaudited; before consolidation of transactions between the two sectors.

A.3. Balance sheet

CHF million	Migros Group 2016	Migros Group 2015	Retail and Industry sector[1] 2016	Retail and Industry sector[1] 2015	Financial Services sector[1] 2016	Financial Services sector[1] 2015
ASSETS						
Cash and cash equivalents	6'490	5'929	1'708	1'935	4'894	4'519
Receivables due from banks	660	687	303	209	358	479
Mortgages and other customer receivables	36'484	36'048	–	–	36'516	36'107
Other receivables	933	862	937	866	–	–
Inventories	2'563	2'519	2'563	2'519	–	–
Other financial assets	1'312	1'354	552	543	760	811
Investments in associated companies and joint ventures	92	88	830	826	0	0
Investment property	371	363	347	337	24	25
Fixed assets	12'828	12'410	12'720	12'279	108	131
Intangible assets	811	957	775	914	34	42
Other assets	994	920	969	894	25	26
BALANCE SHEET TOTAL	**63'537**	**62'138**	**21'703**	**21'323**	**42'718**	**42'140**
LIABILITIES AND EQUITY						
Payables due to banks	378	252	334	255	77	56
Customer deposits and liabilities	32'646	31'690	–	–	32'759	32'215
Other financial liabilities	1'862	1'855	1'861	1'853	0	2
Other liabilities	2'662	2'870	2'588	2'769	78	105
Provisions	116	111	116	110	0	0
Issued debt instruments	6'032	6'170	150	150	5'882	6'020
Liabilities from employee benefits	819	831	799	812	20	19
Current income tax payables	128	155	86	107	42	48
Deferred income tax liabilities	1'440	1'402	1'124	1'085	316	317
Total liabilities	**46'082**	**45'336**	**7'057**	**7'142**	**39'174**	**38'784**
Total equity including minority interests	**17'455**	**16'802**	**14'646**	**14'181**	**3'545**	**3'356**
BALANCE SHEET TOTAL	**63'537**	**62'138**	**21'703**	**21'323**	**42'718**	**42'140**

[1] Unaudited; before consolidation of transactions between the two sectors.

A.4. Cash flow statement

CHF million	Migros Group 2016	Migros Group 2015	Retail and Industry sector[1] 2016	Retail and Industry sector[1] 2015	Financial Services sector[1] 2016	Financial Services sector[1] 2015
Cash flow from operating activity	2'503	2'696	1'658	2'047	487	1'064
Cash flow from investing activity	–1'542	–1'390	–1'595	–1'319	53	–72
Cash flow from financing activity	–388	282	–278	–49	–165	361
Changes in cash and cash equivalents	**574**	**1'588**	**–214**	**679**	**375**	**1'353**
Cash and cash equivalents, at beginning of year	5'929	4'349	1'935	1'264	4'519	3'166
Influence of foreign currency translation	–13	–8	–13	–8	–	–
Cash and cash equivalents, at end of year	**6'490**	**5'929**	**1'708**	**1'935**	**4'894**	**4'519**

[1] Unaudited; before consolidation of transactions between the two sectors.

B. Introduction

Apart from companies in the sectors Retail, Industry and Wholesaling, Migros Group also owns Migros Bank. The financial services business of Migros Bank differs fundamentally from other segments of Migros Group. For this reason, in the annual accounts of Migros Group two sectors have been added in the report on the financial situation: Below, Migros Group without the financial services business is referred to as **the Retail and Industry sector** and Migros Bank as **the Financial Services sector**. This separate reporting allows outsiders to gain a good insight into the results of operations, financial position and net assets of the two sectors. The table below provides an overview of the segments assigned to the sectors:

Sector	Consisting of the strategic business units (sector)
Retail and Industry sector	Cooperative Retailing, Commerce, Industry & Wholesaling, Travel, Others
Financial Services sector	Financial Services (Migros Bank)

C. Acquisitions and disposals

During the last two years, Migros Group has acquired various companies. Transactions carried out in the 2016 financial year included the following:

On 1 January 2016, the Migros Cooperative Zurich and its German subsidiary Migros Freizeit Deutschland GmbH increased their minority interest in INLINE Unternehmensberatung für Fitness- und Wellnessanlagen GmbH in Dorsten from 30 % to 100 %. With INJOY, INLINE has a franchise system comprising more than 200 fitness studios in Europe.

On 15 April 2016, the Migros Cooperative Neuchâtel-Fribourg acquired the real estate company JSL Real Estate SA and therefore the group of buildings that make up the Migros shopping centre in Granges-Paccot.

On 1 February 2016, Micarna SA acquired Gabriel Fleury SA, the Valais-based long-established company renowned for dried meat, together with its 15 employees at its production facility in Granges.

On 31 July 2016, the Mibelle Group acquired the Ondal France S.a.r.l. production facility in Sarreguemines from P&G (Procter & Gamble), together with its entire workforce of approximately 180 employees. This transaction consolidates the already close commercial relationship which Migros enjoys with P&G and is a systematic continuation of the international growth strategy. The company specialises in hair, face and body care products.

On 27 September 2016, Estavayer Lait SA (ELSA) acquired a majority interest in the company Idhéa, based in Hochfelden in the Alsace region of France. Idhéa specialises in the production and sale of cold sauces and spices. This merger sees the two companies joining forces in an effort to further promote the sale of sauces both domestically and abroad. The production of salad sauces and other sauces will be transferred gradually from Estavayer-le-Lac to Hochfelden by the start of 2018.

As far as the following transactions are concerned, the information relating to financial statements was either unavailable at the time of the Migros Group financial statements being released or not all of the contractual conditions had been met. Consequently, the initial recognition of the business combination was not possible. Full-year inclusion in Migros Group will only be shown in 2017:

- Acquisition of Checkup Center Zürich AG by Medbase AG on 31 October 2016, thereby strengthening the preventive health care sector
- Acquisition of the travel agency Beo AG in Thun by Hotelplan on 31 October 2016
- Acquisition of a majority shareholding in Sushi Mania SA, a company providing Japanese cuisine and Asian specialities and based in Vuadens in the canton of Fribourg, together with 110 employees by Bischofszell Nahrungsmittel AG on 13 December 2016

On 31 October 2016, Hotelplan Group divested its business unit Hotelplan Italia, which was sold to the Italian tour operator Eden Viaggi on favourable terms that included the retention of all existing jobs.

Please see Note 39 for further details.

The following companies were acquired during the 2015 financial year:

On 2 December 2014, Micarna SA acquired Rudolf Schär AG, Thal. Since information relating to the financial statements of the acquired Rudolf Schär AG was not yet available at the time of the 2014 Migros Group financial statements being released, the initial recognition of the business combination was not possible until the 2015 financial year (inclusion on 1 January 2015). Rudolf Schär AG was established in 1945 in St. Gallen and is a producer of speciality sausage products. Under a succession arrangement, Micarna SA acquired the long-established company, together with all 90 employees, which generated sales of around CHF 33 million in 2015. On 1 July 2015, Micarna SA acquired Maurer Speck, a leading manufacturer of high-quality and traditional speciality bacon products based in Flüh in the canton of Solothurn, also under a succession arrangement.

A further succession arrangement saw Saviva, which is also part of Migros Industry, acquire the Lüchinger + Schmid Group with effect from 1 January 2015. With sales of CHF 184 million and a workforce of 270 employees, the company is known for selling and producing eggs, egg products, chilled fresh produce and frozen products and will continue to operate independently on the market. The acquisition will see Saviva further expand its market position in the delivery wholesale business.

On 1 February 2015, the Mibelle Group acquired a majority shareholding of 51 % in the British Quantum Beauty Company, thereby expanding its business in exclusive brands. The portfolio includes brands such as Lee Stafford, Arganoil and Salon Science.

Migrol AG acquired 90 % of the shares in Swisstherm AG with retroactive effect from 1 January 2015. For Migrol, this represents a key strategic step towards being able to serve the heating market in Switzerland with additional products and services.

With retroactive effect from 1 January 2015, Activ Fitness AG, which is part of the Migros Cooperative Zurich, acquired the four Pleine Forme fitness centres in the canton of Neuchâtel, which together have 3'500 members. On 1 April 2015, the Migros Cooperative Zurich also acquired Marinello AG, which operates a number of food stores in Zurich, together with the company's 75 employees. The “Marinello” brand, as well as Marinello + Co AG, which operates in Zurich's Engros market, are not part of the acquisition.

On 1 April 2015, the Federation of Migros Cooperatives increased its share package in Digitec Galaxus AG from an original interest of 30 %, and of 39.1 % following the departure of one of the company's co-founders, to 70 %, thus making it the majority shareholder. Digitec has for years been the leading online player in the Swiss consumer electronics market, with sales of over CHF 600 million. Galaxus is already Switzerland's largest online shop, a position which it aims to strengthen and expand further.

In mid-October 2015, Medbase AG acquired a 70 % stake in santémed Gesundheitszentren AG from SWICA, thereby increasing its involvement in the health sector. The partnership has given rise to the largest network for basic outpatient medical care.

In July 2015, the Migros Cooperative Aare entered into a partnership with Golf Limpachtal and immediately assumed responsibility for running the golf course. To this end, Migros Aare acquired 54.4 % of the shares in Public Golf Bucheggberg AG (driving range, property) and 100 % of Golf Limpachtal Betriebs- und Verwaltungs AG (personnel, machinery, EDP and administration).

The acquisitions of Explore Worldwide, the soft adventure provider, and the diving specialist Regaldive by Hotelplan Group on 1 December 2015, are not shown in the 2015 financial year. Since information relating to the financial statements of these two companies was not yet available at the time of the Migros Group financial statements being released, the initial recognition of the business combination was not possible. The two British companies, in which Hotelplan Group has acquired 100 % of the shares, together generate annual sales of around CHF 75 million and employ more than 120 people.

D. Income trend (sales trend) of Migros Group

In 2016, Migros Group generated total sales of CHF 27.7 billion and achieved growth of CHF 331 million (+ 1.2 %).

In the Retail and Industry sector, income increased by CHF 370 million to CHF 26.9 billion (+ 1.4 %). In the core retailing business, nominal sales in Switzerland and abroad totalled CHF 23.3 billion (CHF + 273 million or + 1.2 %). With average negative inflation of – 0.9 %, real growth amounts to 2.1 %. Retail sales abroad comprise the sales of Migros France, Tegut Group, Gries Deco Group in Germany and Austria and Probikeshop. Compared to the previous year, retail sales abroad increased by CHF 103 million to CHF 1.8 billion (+ 6.2 %).

In the Financial Services sector, income fell by a total of CHF 38 million to CHF 827 million, due in particular to the low interest-rate level.

D.1. Income trend (sales trend) in the Retail and Industry sector

CHF million	Total income 2016	Total income 2015	Change from previous year in %
Cooperative Retailing	16'799	16'646	0.9
Commerce	7'602	7'354	3.4
Industry & Wholesaling	5'918	5'879	0.7
Travel	1'292	1'314	–1.7
Others	119	128	–7.2
Eliminations (within Retail and Industry sector)	–4'806	–4'768	
Total Retail and Industry sector	**26'923**	**26'553**	**1.4**

Stable sales trend in Cooperative Retailing amid continuing shopping tourism

The activities of the regional Migros Cooperatives, the Federation of Migros Cooperatives and the services of the Group's logistics companies are combined in the **strategic business unit Cooperative Retailing**. At CHF 14.4 billion, the ten regional Cooperatives more or less maintained the level of domestic sales achieved in the previous year (CHF – 23 million, or – 0.2 %). Growth of CHF 43 million to CHF 1.2 billion (+ 3.7 %) was generated in sales abroad. Total sales rose by CHF 21 million to CHF 15.6 billion (+ 0.1 %). The domestic market share was 15.5 %, up from 15.3 % a year earlier.

In local currency terms, Migros France suffered a decline in sales of 0.9 % year-on-year, to EUR 119 million. Tegut recorded sales of EUR 996 million (+ 1.5 %) and increased productivity per area by a further 1.2 %. With seven new store openings and eight store closures, the total number of markets at the end of 2016 was 272 (previous year: 273).

Migros supermarkets and hypermarkets generated domestic sales of CHF 11.7 billion (+ 0.2 %, or CHF + 19 million). With negative inflation across the Migros ranges averaging – 0.3 %, this corresponds to growth in real terms of 0.5 % in the ten Migros Cooperatives.

The specialist markets Micasa, SportXX, Melectronics, Do it + Garden and OBI posted sales of CHF 1'602 million (CHF – 20 million, or – 1.2 %). Adjusted for negative inflation of – 3.6 %, the five specialist markets together recorded growth of 2.4 % in real terms. The sales trend in the online shops of the specialist markets remains positive, increasing by + 12.8 %. Following the successful launch of PickMup, the collection service from Migros for online orders, the network of collection sites was increased to 305. This means that 90 % of the Swiss population is no more than a 15 minute drive away from a PickMup location.

Continued high demand for regional and sustainable products: Demand for regional and sustainable products, as well as products for allergy sufferers, continued to grow in 2016. The “Aus der Region. Für die Region.” (From the region. For the region.) range continues to be extremely popular, posting a sales volume of CHF 940 million (+ 4.7 %). Sales of products with ecological and social added value totalled CHF 2'854 million (CHF + 176 million, or + 6.6 %), with highlights including a doubling of sales in Alnatura brand products in particular and year-on-year growth of 16.1 % and 28.4 % respectively in the sales of MSC and ASC fish products. Products bearing the aha! quality seal, which are particularly suitable for customers who suffer from allergies and intolerances, posted an increase in sales of 22.2 %.

As part of Migros' sustainability strategy, a further five commitments were made to Generation M ("Generation von morgen" or "The generation of tomorrow") in 2016. In all of its activities, Migros looks for solutions with the right economic, social and ecological balance.

As every year, the regional Cooperatives made substantial investments in the construction of new stores and the renovation of existing ones. The **Migros network of sales outlets** increased by 26 in total to 685 sites at the end of 2016. The sales area for supermarkets, hypermarkets, specialist markets and catering services grew by a total of 19'821 m² (+1.4%). The productivity per area in supermarkets/hypermarkets in Switzerland totalled CHF 12'855/m² (–1.7%), while the correspondng figure in specialist markets was CHF 3'820/m² (–1.8%).

Sales in **catering** fell by 0.3% overall compared to the previous year, to CHF 682 million. Sales at the Migros restaurants decreased (–1.7%), as did those of Migros take-aways (–5.6%). In contrast, new catering formats such as Chickeria (+123.5%) recorded pleasing growth, while a sharp increase in sales (+16.8%) was also posted in community catering.

Underlying conditions sometimes difficult for Commerce

The **strategic business unit Commerce** mainly includes the retail companies Denner, Migrol, Magazine zum Globus, Ex Libris, Office World Group (OWiba), Interio, Depot (Gries Deco Group), migrolino, Le Shop, Probike and Digitec Galaxus (fully integrated on 1 April 2015).

Denner recorded an increase of 2.0% in sales to CHF 2'959 million, thereby increasing its market share further in the highly competitive retailing business. An increase in customers of 3.9% was reported in 2016. At the end of 2016, Denner had 809 stores (previous year: 797). By the end of the year, implementation of the "Fokus" store concept in 510 Denner stores was virtually completed. In order to adapt the design of Denner's satellite stores to that of its own stores, Denner will be modernising around 40 satellite stores per year over the next four to five years, with their name being changed to Denner Partner.

Sales of **Migrol** were impacted negatively by the continued sharp fall in the price of crude oil and the decline in fuel sales in regions close to the border as a result of the strong Swiss franc as well as the warm weather in the winter of 2015/2016. These decreased by 5.1% to CHF 1'290 million.

In a difficult market environment, **Magazine zum Globus** (including Schild) posted sales of CHF 879 million (–5.4%, like-for-like –2.1%) in 2016. Globus department stores recorded sales of CHF 658 million (–5.1%, like-for-like –1.5%), while the corresponding figures for Herren Globus and Schild were CHF 68 million (–3.4%, like-for-like –1.4%) and CHF 153 million (–7.3%, like-for-like –4.1%) respectively.

Ex Libris' sales fell by 7.3% year-on-year to CHF 112 million.

The **Office World Group** kept its sales steady at CHF 179 million (–0.6%) in the reporting year.

Interio generated sales of CHF 168 million (–7.6%) in 2016.

The retail chain **Depot** (Gries Deco Company abroad and in Switzerland) posted sales of EUR 460 million (+7.2%) or CHF 501 million (+9.8%).

migrolino generated sales of CHF 431 million (+13.0%). At the end of 2016, migrolino had a total of 307 shops (+20), including 59 sites and 248 service station shops.

Le Shop increased annual sales for the fourth time in succession in 2016, to CHF 182 million (+3.5%). One reason for this positive trend is the expanded service offering with more flexible time frames and a completely redeveloped online shop.

The French online market leader for bicycle accessories, **Dolphin France SAS (Probikeshop),** posted an increase in sales of 21.0% to EUR 69 million (in Swiss franc terms +23.9% to CHF 75 million).

In the 2016 calendar year, the online shop **Digitec Galaxus** generated sales of CHF 704 million (+ 41.1 %; full integration of Digitec Galaxus as of 1 April 2015). 2016 saw the company withdraw fully from the wholesale business. In its private and corporate customer business, the company recorded the highest rate of growth in its 15-year history.

Thanks to the e-bike specialist **m-way** and its subsidiary **sharoo** – a platform for using and sharing private and commercial vehicles – Migros has proven that it is also innovative in the field of alternative energy/sustainable mobility and in implementing new trends, such as the sharing economy.

In the **e-commerce business,** Migros further cemented its position as the undisputed market leader. Total e-commerce sales amounted to CHF 1'852 million (+ 15.8 %) in nominal terms, with the main sales driver being Digitec Galaxus following its full integration.

M-Industry posts strong growth in international business

Sales in the **strategic business unit Industry & Wholesaling** grew by CHF 134 million to CHF 6'389 million (previous year: CHF 6'255 million) in 2016. Its market positions were strengthened with strategic acquisitions in Switzerland and abroad. The international business (export and overseas locations) recorded pleasing growth of CHF 109 million (+16.0 %) and generated sales of CHF 790 million. Business with Migros Group was increased by 0.9 % to CHF 4'530 million. The market environment in the wholesale business was extremely challenging and sales decreased by 1.5 % to CHF 1'069 million.

Geopolitical events impact negatively on travel business

The **strategic business unit Travel** had to deal with troublesome geopolitical events in a number of core destinations. Emphasis was placed on optimum capacity utilisation, resulting in a contraction in revenue at Hotelplan Suisse. Hotelplan UK, on the other hand, recorded organic growth in local currency terms, driven by the acquisitions of Explore Worldwide and Regaldive. However, the depreciation of the British pound eliminated some of this growth when converted into Swiss francs. The Holiday Home division has also grown. Overall, posted sales shrank by 3.0 % to CHF 1'435 million, while net sales fell by 1.6 % to CHF 1'284 million. This also includes sales already generated by bedfinder, a start-up within the Hotelplan Group aimed at selling travel services globally online.

D.2. Income trend in the Financial Services sector

Total income in the Financial Services sector amounted to CHF 827 million in the reporting year, with interest revenue of CHF 677 million or 81.9 % constituting the main share of total income. The fall in income of CHF 38 million in total can therefore also be attributed primarily to lower interest revenue.

E. Operating results of Migros Group

The operating result (EBIT) of Migros Group was CHF 911 million, CHF 70 million or 7.2% below the previous year's figure.

In the Retail and Industry sector, the result decreased by CHF 55 million to CHF 642 million (–7.9%).

In the Financial Services sector, the operating result decreased by CHF 14 million to CHF 270 million (– 4.9 %).

E.1. Operating result of the Retail and Industry sector

CHF million	Earnings before interest and taxes 2016	2015	Change from previous year in %
Cooperative Retailing	542	534	1.7
Commerce	–87	–31	–181.3
Industry & Wholesaling	154	154	–0.1
Travel	–12	–15	21.3
Others	51	57	–10.0
Eliminations (within Retail and Industry sector)	–6	–1	
Total Retail and Industry sector	**642**	**698**	**–7.9**

Efficiency programmes, the auditing and standardisation of processes, new structures and procedures – i.e. **sustainable cost management** – all had an influence on the gross margin and the operating result of the commercial and industrial business. In addition to efficiency programmes, however, **procurement management**, **commodity prices** and **exchange rates** weighed considerably on the gross margin and operating result. Efficiency gains and improvements in the procurement of goods are passed on to customers largely in the form of reduced sales prices.

The optimisation of the value chain and structures is an ongoing process. In the financial year just ended, **various optimisation measures were initiated, continued and completed in the strategic business unit Cooperative Retailing**.

Centralisation and standardisation of IT continues

The roll-out of an SAP-based standardised national system for commercial **real estate management** was completed in the 2016 financial year.

As part of the decentralisation process, the first 2'400 systems from the local data centres were integrated into the new **national data centre infrastructure**. Included among these were those systems for which the requirements in terms of availability are the most demanding.

The roll-out of the **M-Workplace** as a further measure to standardise and optimise processes was also in full swing in 2016. In addition to the FMC, Globus, Interio, Office World, Ex Libris and BINA (Bischofszell Nahrungsmittel AG), other companies that were successfully integrated into the new workstation environment were Migros Geneva, Midor, Migrolino and Micarna. By the end of 2016, the M-Workplace had more than 7'000 users.

The Forecasting and Material Requirements Planning system that has been used to date will be replaced by the new SAP system **"Forecasting & Replenishment"** for the fresh product range. Thanks to improved algorithms and factors influencing individual demand, this will allow 700 supermarket outlets to work in future with an order proposal that is of a higher quality. This will optimise the stores' inventories and sharply reduce food waste. The results from the first pilot installations that are in productive operation are promising.

The **Avanta** project, which was launched in 2014 and is scheduled to be completed by the end of 2019, involves the development of an innovative point-of-purchase solution that is aligned with all sales channels. This will replace the current Visualstore point-of-sale solution in supermarkets/hypermarkets, in the specialist markets and in the catering activities of the Cooperative Retailing segment. Following a two-year design phase, the project is now in the development and testing phase and will be followed by an initial pilot project in the first quarter of 2017.

Migros Verteilzentrum Suhr AG ensures efficient and cost-effective delivery of food products to Migros stores as well as logistics for migrolino AG. Productivity continued to improve in 2016 and logistics service prices were reduced once more. Due to the growth of migrolino AG, the start-up of the new, automated order-picking facility for small-quantities logistics was completed successfully in spring, thereby marking a further step along the path towards the streamlining of operations. At the end of September, the sixth silo for the high-bay racking warehouse was put into operation, increasing the storage capacity by a further 16'500 pallet spaces to over 100'000 spaces.

At **Migros-Verteilbetrieb Neuendorf AG,** the current year has seen progress made with the construction of the new frozen store facility 4 (high-bay racking warehouse and production hall). The cooling of the facility to between – 26 and – 28 degrees was carried out in December. Work on the buildings and technical operations is due to be completed over the next few months and final integration tests to examine the facility's networked functions will also be carried out. The facility as a whole will begin operations in mid-2017. The photovoltaic system on the roofs of MVN has been extended further. The area on the newly constructed fourth frozen storage facility was used to increase the size of the system by 6'221 m2, or 15 %. Switzerland's most powerful solar facility now covers a service area measuring 47'589 m2 in total. It consists of 29'743 photovoltaic modules and has an output of 7.80 megawatts-peak. The annual output of approximately 7.25 GWh is equivalent to the annual power consumption of 1'812 average households.

Procurement management as a key corporate function designed to safeguard price and performance management: Following the turbulence of the previous year, which saw the sudden abolishment of the minimum exchange rate for the Swiss franc against the euro, 2016 was marked by natural and political influences in terms of procurement. Commodity markets were extremely mixed. Forecasts of poor harvests from the main areas of production drove the price of cocoa in pound sterling per megatonne to a six-year high by mid-August. The United Kingdom's Brexit decision and the currency fluctuations which followed subsequently resulted once again in a slight reduction in purchase prices in Swiss francs. The Brexit decision had a reverse effect on coffee exchanges, which responded with rising prices. This upward trend was exacerbated by the drought in some regions of Brazil.
The delayed effects of the severe drought in Asia in summer 2015 caused by the weather phenomenon known as “El Nino” led to very poor harvests of the oilseed crops of palm and coconut in 2016, which in turn resulted in higher prices. Whereas vegetable oils from Europe (sunflower, rapeseed) suffered no negative effects, in Italy the olive fruit fly decimated the olive harvest. Adverse effects on the environment also greatly restricted the availability of farmed salmon, which subsequently drove prices up.

Exchange rate developments did not have a significant impact on the Retail and Industry sector during the reporting year.

Logistics and transport: In addition to preparations for the integration of the Jowa container pool in January 2017, another new container was included in the Migros Exchange Equipment Management pool in 2016. Thanks to the Returnable Plastic Bulk Container (RPBC), it was possible to provide a reusable container for transporting bananas from Columbia. Besides saving on cardboard, the container also prevented the bananas from becoming damaged.
In the area of international transport operations, a number of bulk goods consignments were switched from road to rail. For instance, processed tomato products from southern Italy are now transported by rail. Efforts to further reduce CO2 emissions are to be continued in 2017 following the launch of the “Fruit and Vegetable Imports – Intermodal Transport” test pilot at the end of 2016. The switch to transportation by rail can cut CO2 emissions by around 2-3 tonnes per day.

Decline in earnings in a challenging market environment

Thanks to rigorous procurement management and process optimisation measures, **gross profit** increased by CHF 281 million to CHF 11'159 million (+2.6%). In addition to salary rises of between 0% and 0.5%, the increase in **personnel expenses** by CHF 162 million to CHF 5'600 million (+ 3.0 %) is mainly due to the change in the scope of consolidation and the expansion of a number of companies. In addition to normal investment activities, the increase of CHF 37 million in **depreciation and amortisation** to CHF 1'339 million (+ 2.8 %) was also due to the higher level of impairments in comparison to the previous year. The increase in **other operating expenses** by CHF 138 million to CHF 3'578 million (+ 4.0 %) is due mainly to higher advertising costs as well as higher logistics and IT expenses. Savings were made in administrative costs.

Overall, the **operating result for the Retail and Industry sector** decreased by CHF 55 million to CHF 642 million (– 7.9 %). Impairments weighed heavily upon the strategic business units Commerce and Industry & Wholesaling in particular.

E.2. Operating result of the Financial Services sector

The Financial Services sector generated income from financial services business totalling CHF 817 million with costs of CHF 246 million. Net income from financial services business decreased from CHF 588 million to CHF 571 million, due to lower interest income (see Note 7 of Migros Group financial statements).

Whereas income from financial services business decreased by CHF 43 million, expenses and impairment losses in the financial services business fell by just CHF 26 million as the possibilities for cutting the rates of interest paid on deposits have been virtually exhausted.

Personnel expenses increased slightly, by CHF 3 million to CHF 174 million. Other operating expenses as well as value adjustments on non-current assets remained on a par with the figures recorded for the previous year.

Overall, improvements in terms of expenses were outweighed by the fall in income, with the operating result decreasing by CHF 14 million to CHF 270 million.

F. Balance sheet of Migros Group

The Financial Services sector has had a considerable impact on the balance sheet of Migros Group. Compared to the previous year, the balance sheet total rose by CHF 1.4 billion to CHF 63.5 billion, much of which can be attributed to the increase in mortgage and other customer receivables as well as customer deposits and liabilities. Customer deposits as at 31 December 2016 amounted to 51.4 % of the balance sheet (previous year: 51.0 %).

F.1. Balance sheet of the Retail and Industry sector

The balance sheet total for the Retail and Industry sector increased by 1.8% to CHF 21.7 billion as at 31 December 2016.

The carrying amount of fixed assets increased by CHF 441 million on the previous year to CHF 12'720 million as a result of extensive investment activities by Migros Group. During the past financial year, companies in the Retail and Industry sector invested a total of CHF 1'640 million (previous year: CHF 1'339 million), mainly in renewing the branch network and plants in Switzerland. Investments totalling CHF 85 million (previous year: CHF 87 million) were made outside of Switzerland.

Intangible assets amounted to CHF 775 million as at 31 December 2016 (previous year: CHF 914 million). The change can be largely attributed to company acquisitions in the reporting year as well as to current depreciation and amortisation and impairments.

The balance sheet structure of the Retail and Industry sector remains very healthy. Based on the current EBITDA of CHF 1'981 million (previous year: CHF 2'000 million), net finance debts of CHF 289 million (previous year: CHF 219 million) can be paid off within two months. Equity increased by CHF 465 million to CHF 14'646 million and corresponds to 67.5% (previous year: 66.5%) of the balance sheet total.

F.2. Balance sheet of the Financial Services sector

During the reporting year, mortgages and other customer receivables increased by CHF 0.4 billion on the previous year to CHF 36.5 billion (+ 1.1 %).

On the liabilities and equity side, customer deposits and liabilities increased by CHF 0.5 billion or 1.7 %. Customer deposits totalled CHF 32.8 billion at the end of 2016. Migros Bank thus continues to benefit from a comfortable refinancing structure.

Due to the positive result for the year, the bank once again managed to significantly strengthen its equity base. As at 31 December 2016, the bank's equity amounted to CHF 3.5 billion, significantly above the coverage required under Swiss banking law.

G. Cash flow statement of Migros Group

Cash flow from operating activity of CHF 2.5 billion

The cash and cash equivalents of Migros Group stood at CHF 6'490 million as at 31 December 2016 and increased on a currency-adjusted basis by CHF 561 million on the previous year (31 December 2015: CHF 5'929 million).

With cash flow from business activities of CHF 2'503 million (previous year: CHF 2'696 million), it was possible to finance in full the investments in both fixed and intangible assets totalling CHF 1'663 million as well as the acquisition of subsidiaries and other associated companies totalling CHF 84 million.

The remaining increase in liquid funds was used to repay debt, which resulted in a cash outflow from financing activity of CHF 388 million (previous year: cash inflow of CHF 282 million).

G.1. Cash flow statement of the Retail and Industry sector

At the end of 2016, cash and cash equivalents of the Retail and Industry sector came in at CHF 1'708 million, representing a fall of CHF 227 million compared with CHF 1'935 million at the end of 2015.

In 2016, cash inflows from operating activity amounted to CHF 1'658 million (previous year: CHF 2'047 million). The reduction in operating cash flow compared to the previous year is due to the higher commitment of cash and cash equivalents for time deposits at banks, receivables and inventories.

The cash outflow from investing activity came to CHF 1'595 million in the reporting period (previous year: CHF 1'319 million) and is characterised primarily by investments in both fixed and intangible assets of CHF 1'640 million. The highest investment volumes were in the Cooperative Retailing (CHF 1'156 million) as well as in the Commerce (CHF 225 million) and Industry & Wholesaling (CHF 206 million) segments.

From financing activity, the cash outflow as a result of debt repayment amounted to CHF 278 million (previous year: CHF 49 million).

G.2. Cash flow statement of the Financial Services sector

At the end of 2016, cash and cash equivalents of the Financial Services sector amounted to CHF 4'894 million. This represents an increase of CHF 375 million on the previous year (CHF 4'519 million).

Cash inflows from operating activity totalled CHF 487 million in 2016 (previous year: CHF 1'064 million). This is due mainly to the increase in customer deposits and the reduction in receivables due from banks, which are greater than the cash outflow for mortgage and other customer lending.

CHF 23 million was invested in extending the bank's infrastructure. Furthermore, fixed asset securities totalling CHF 51 million were sold in the reporting year, along with tangible assets and investment property worth CHF 25 million. Overall, a cash inflow of CHF 53 million resulted from the investment activities in the reporting year (previous year: cash outflow of CHF 72 million).

Financing activity resulted in a cash outflow of CHF 165 million during 2016 (previous year: cash inflow of CHF 361 million). Of this figure, CHF 138 million has been repaid for medium-term bonds and mortgage-backed loans. A dividend of CHF 27 million was also paid out.

H. Value-oriented management as basis for creating value added

Value-oriented management is a recognised form of corporate financial management. For all companies, regardless of what they do, how big they are or what their legal form is, it is of central importance that they are geared to the creation of value added. Migros applies a model of value-oriented management specifically adapted to Migros Group as a basis for its financial management. Its basis is that Migros Group has to act just like any other company with regard to creation of value added and efficiency. The paramount objective for Migros here is to guarantee long-term success by means of sustained value added. To achieve this, differentiated targets are set for the various corporate sectors. Migros therefore differs from capital market oriented businesses in its use of the value created. The financial values created are made available to customers, to secure jobs, for the Culture Percentage or for long-term investments in major projects. Further information about this may be found in the Statement of Value Added.

The concept applied, and its methodology, are not intended solely to strengthen the notion of value added; they also improve the quality and transparency of decisions and ensure the availability of relevant financial information. This means that Migros can focus more on the sustained implementation of its corporate strategy and on greater integration of strategic, financial and investment planning. Annual results, budgets and plans are assessed on the basis of established targets and new projects evaluated accordingly. Sector-specific evaluations with differentiated targets also enable Migros to carry out a radical evaluation of its activities and risks, showing the value added by the corresponding sectors or projects. Key variables such as appropriate returns, growth and creation of value added are therefore a component of operations and strengthen Migros' influence in an increasingly competitive market environment. Accordingly, the key concept of value-oriented management and a positive focus on greater attractiveness are ever-present considerations.

I. Risk management and Internal Control System (ICS) in Migros Group

I.1. Risk management and Internal Control System (ICS) in the Retail and Industry sector

I.1.1. General risk management

Migros Group operates a comprehensive risk management system across all companies of Migros Group. The Board of Directors of the Federation of Migros Cooperatives is responsible for the way this system is structured. It defines the underlying conditions of the risk management activities within Migros Group and ensures that risk assessments are conducted in a timely and appropriate manner.

Using a systematic risk analysis, the boards of directors and the management of the individual companies identify the main risks and assess them as regards the likeliness of occurrence and financial effects. These risks are prevented, reduced or passed on by using suitable measures that have been decided upon by the boards of directors. Risks borne by the company are rigorously monitored. Risks in business processes affecting the financial reporting are reduced by the internal control system.

The companies of the strategic business units Cooperative Retailing, Commerce, Industry & Wholesaling, Travel and Others are active in many markets and are thus exposed to very different risks. The results of the risk assessments of the individual companies are therefore summarised and grouped by strategic business units (bottom-up view). The departmental managers carry out an overall risk assessment for their respective strategic business unit (top-down view).

The Board of Directors of the Federation of Migros Cooperatives is regularly informed about the risk situation in Migros Group and the strategic business units by the Executive Board. Based on this information, the Board of Directors will assess the influence of the main risks on the strategic business units and will consequently decide on further measures.

Internal auditors also provide a monitoring and control function. As they operate outside of the operational activities, they are able to identify any weaknesses in the internal control system and to provide measures for improving the effectiveness and efficiency of monitoring and control processes.

The risk management process is integrated in the annual financial planning and strategy process. The results of the risk evaluation are appropriately considered during the annual analysis of the corporate strategy.

I.1.2. Financial risk management
As a result of its operating business activity, the Retail and Industry sector is confronted with financial risks caused by a change in interest rates, exchange rates and the price of raw materials and fuel. In order to limit these financial risks, original and derivative financial instruments are used to hedge against risks from arranged and planned transactions. Internal guidelines determine the required scope, competencies and controls. Financial instruments are entered into only with contractors of sound standing, and limits set for counterparties for this purpose and the utilisation of such limits are consistently monitored and reported.

Exchange rate risks originate from the purchase of commodities, raw materials and services from abroad, as well as to a limited extent from international activities in the Cooperative Retailing, Commerce, Industry & Wholesaling and Travel business segments. Each entity defines its maximum foreign currency exposure from which it defines its hedging requirement. The individual enterprises enter into hedging relationships with the Treasury department of the Federation of Migros Cooperatives. The Treasury department of the Federation of Migros Cooperatives is responsible for hedging against foreign currency exposure in the market in different currencies used by the Retail and Industry sector. The main currencies are the euro and US dollar. The main hedging instruments used are forward exchange contracts and foreign currency swaps are used as hedging instruments. The individual companies report their foreign currency exposure on a regular basis to the Treasury department of the Federation of Migros Cooperatives, which generates the foreign exchange exposure or foreign exchange risk of the Retail and Industry sector from these figures.

As most of the liquidity and financing of the Federation of Migros Cooperatives is centralised, the interest risk can be centrally monitored and controlled. Because of the volatility of market interest rates, other interest-bearing financial investments as well as lending are exposed to an interest rate risk that may have negative effects on the net worth and earnings. The interest rate risk is monitored with a simulation calculation and is mainly controlled with interest rate swaps.

Migros also buys a limited amount of equities to maintain liquidity. Share price fluctuations consequently have a direct effect on the result. In this regard, care is taken to ensure that equity investments based on markets, securities and sectors are diversified in a reasonable manner. Loss of value risks are reduced by analyses before the purchase and by the regular monitoring of the investments' performance and risks.

Raw material price risks result from the planned purchase of raw materials such as coffee and cacao, heating oil, diesel and fuel. Where possible, price increases are passed on to customers. In order to limit the effects of raw material price fluctuations, swaps and futures are sometimes also used for hedging against risks for a period of up to 18 months.

The financial requirements of the Retail and Industry sector are met by raising short- or long-term funding in the money and capital markets. Financing is essentially based on a “three-pillar” concept: the investment savings accounts of Migros employees, bilateral credit lines from domestic and foreign banks and fixed-interest capital market bonds, and private placements with institutional investors.

The companies within the Retail and Industry sector obtain their funding centrally from the Federation of Migros Cooperatives, providing capital at the best available cost and diversified in respect of maturity staggering and counterparties. The creditworthiness of the Retail and Industry sector is regularly checked by independent external specialists.

Financial risk management helps to maintain a strong balance sheet and healthy balance sheet ratio. These activities are based on a conservative approach that places the strategic financial targets of “flexible and adequate cash flow” and “minimisation of risk” before the “achievement of a maximum return”. Long-term planning of investment activities means that a strategy can be followed that will keep the effective level of debt low and the timing of maturities staggered. This should also safeguard the continued independence of the Retail and Industry sector.

I.1.3. Insurance risk management

Insurance cover for the Retail and Industry sector is provided by the Group's own insurance and by contracts with private insurers and public law insurance institutions. Based on the actual risk situation, the potential damage and the criteria of the likelihood of occurrence and extent of damage, it is generally decided whether a risk is to be self-financed, i.e. covered by the Group's own insurance, or whether it is to be covered externally, i.e. passed on. The insurance department of the Federation of Migros Cooperatives acts as an in-house insurance broker with insurance companies. Having group contracts means, first, that the insurance cover available is very comprehensive and extensive, and, second, that the amounts covered are high. This also ensures that all companies of the Retail and Industry sector have the best insurance cover available, at reasonable premiums.

To cover property risks (fire, storm and tempest, theft and burglary, water, EDP) the FMC operates an internal insurance scheme, whereby it carries common risks itself, up to a certain total amount. Major risks and risks of disaster are covered by a group policy. For all businesses that are part of the Retail and Industry sector, insurance cover exists for public liability and product liability risks under a basic and excess contract. Here, too, the Federation of Migros Cooperatives operates an internal insurance scheme, i.e. the company bears losses up to a certain amount per event and per year itself. Transportation risks for imports and exports are covered by an own insurance solution. Claims for damages or loss which exceed the deductible are covered by a separate group policy. A group vehicle fleet insurance covers mandatory third-party liability insurance and comprehensive risks which have been specifically requested. For companies not subject to SUVA (the Swiss accident insurance fund), accident insurance has been concluded with private insurance companies (cover in accordance with the Swiss Accident Insurance Act UVG and in some cases supplementary insurance). Sickness allowance insurance solutions are likewise concluded with private insurance companies. Special risks such as new construction/conversion projects, machinery, epidemics, etc. are covered by separate policies depending on the risk situation and the extent to which they warrant insurance. For losses in the area of insurance for our own account of the relevant insurance sectors, corresponding provisions are made on outstanding losses.

I.1.4. Tax and VAT risk management

The management of tax risks is an integral part of tax planning. Tax risks are thus those uncertainties that could have negative effects for the company in the various types of taxation. In case of associated risks (tax legislation and tax practices), process risks (correct fiscal handling of different circumstances and transactions) and information risks (tax evaluation based on uncertain assumptions) risks are recorded, measured and appropriate action taken, where necessary.

I.1.5. Risk management of legal cases

The annual risk assessment within the Retail and Industry sector has shown that the sector is not involved in any court or arbitration proceedings as plaintiff or defendant that could have a considerable negative effect on the economic situation. Also, no administrative proceedings exist that could have a considerable adverse effect on the economic situation of the sector. In order to avoid any legal conflicts, case-related advisory services are offered and training on current subjects is carried out proactively and in a risk-based manner.

Like all companies of a certain size, businesses of the Retail and Industry sector will face third-party claims. Provisions are set up for such claims, as far as is allowed in accordance with Swiss GAAP FER. The sector also enjoys extensive insurance cover, where this makes economic sense.

I.1.6. Internal Control System (ICS) in the Retail and Industry sector

The ICS in the Retail and Industry sector has a conceptual and uniform structure and encompasses the levels of Company – Processes – IT. The decisive concept describes the technical and organisational nature of the ICS and is used by all businesses within this division. In compliance with the statutory regulations of Article 728a OR, the Retail and Industry sector has defined the goals to be fulfilled by the ICS as follows: reliable data quality and data consistency – reliable financial reporting – compliance with applicable laws and regulations – protection of assets – efficiency of operation. The aim is to achieve ICS level 3 (1 being the lowest level and 5 the highest level), at which controls are defined, are in place, are documented and communicated to the parties involved. Deviations from the standard are generally detected and corrected. The ICS is uniformly based on the COSO model and is risk focused. High and regularly occurring medium risks defined by a risk matrix (frequency of occurrence/extent of damage) are minimised by checks. The aim is to cover the following risks in particular: economic performance risks of the five to seven most important business processes – personnel risks – IT and financial risks, as well as other relevant risks. The ICS can only cover risks specific to the company and sector as well as risks relating to corporate strategy to a limited extent. The Board of Directors has overall responsibility for the ICS; the Management is responsible for the operation and monitoring of the system. An ICS Manager has been appointed for each business, ensuring the operation of the system and reporting, at least once a year, the existence and functioning of the ICS to the Management and the Board of Directors.

I.2. Risk management and Internal Control System (ICS) in the Financial Services sector

I.2.1. General risk management

Risk management is a key task for any bank. It includes the detection, assessment, control and monitoring of all risks arising from operating activities. The Board of Directors is responsible for determining the risk policy. The policy is periodically checked for its appropriateness and will be adapted, where necessary. The risk policy deals with all risk categories in detail. A specific risk policy was formulated for credit risks, financial market risks, Asset & Liability Management (balance sheet structure risks), operational risks, as well as legal and compliance risks. The risk policy defines the risk assessment as well as the method of risk restriction. For each type of risk, overall limits and specific competence levels are determined.

Because of their special business activities, banks have to comply with comprehensive regulatory regulations concerning risk management, as stipulated in particular by banking legislation and circulars of the Swiss Financial Market Supervisory Authority. Quantitative regulations refer, in particular, to minimum levels of equity capital, liquidity provisions and risk distribution.

The Management is responsible for setting up adequate systems for monitoring risk, controlling risk in line with targets and ensuring that performance targets are met. Risk management instruments are consistently being improved and adapted.

Every quarter, a comprehensive risk report is submitted to the Board of Directors, informing them about the developments of risks and the compliance with specific risk limits.

The Risk Management department headed up by the Chief Risk Officer is responsible for the operational implementation and monitoring of the risk policy. The Chief Risk Officer is a member of the management team of the bank. The focus is on financial risk management and, in particular, credit risks, financial market risks as well as Asset & Liability Management.

Every month, the Risk Management department produces a comprehensive risk report for each of these risk categories and submits this report to the Risk Council and the Board of Directors. The Risk Report verifies that risk limits have been complied with, illustrates the different dimensions and aspects of the risk management and points out particular developments. The Risk Council discusses and assesses the current risk position of the bank and decides on measures to reduce risk.

I.2.2. Financial risk management

As a result of its operational business activities, the Financial Services sector is confronted with financial risks arising from changes to the credit, liquidity and financial market risks.

The Financial Services sector has always pursued a restrained and somewhat conservative risk policy. The management of risk is regarded as a central core competence. Security and the assessment of risks are of utmost importance for its activities and form the basis for all decisions relating to risk strategy, risk culture and risk processes. Risks are in appropriate proportion to generated income. The paramount objective is to limit risk with the aid of risk policy guidelines and limit structures in order to protect the bank against unexpected burdens.

The credit and counterparty risk in the Financial Services sector is that a party defaults on its obligations. Both traditional banking products such as mortgages as well as trading activities constitute credit risks. If a customer fails to meet its obligations, the result may be a loss for the bank. Detailed rules determine the competences graded by credit types and levels of authority.

The Financial Services sector uses a rating model with ten levels for credit-rating decisions. It takes qualitative and quantitative elements into consideration for customers who are required to keep accounts and their business-specific collateral. For business customers, the ratings of commercial credits are reviewed annually. A rating procedure based on the respective mortgage is used for the mortgage business. The period after which credit checks are carried out in the mortgage business varies depending on the rating result, the personal contribution and cover. The rating model ensures that the credit commitment is managed commensurate to the risk involved.

Credit transactions are in general secured. Most loans are secured by charges on land. Credit allocation is based on conservative lending margins. Current valuations of the properties to be mortgaged are part of each credit advance. Most of the corresponding collateral comes from the private housing sector, and is well diversified throughout Switzerland. In order to determine the sustained affordability, a technical interest rate corresponding to a long-term average interest rate is assumed for residential mortgages.

The liquidity risk contains, on the one hand, the market liquidity risk and, on the other hand, the refinancing risk. The liquidity and/or refinancing situation in the short-term sector is controlled daily by central money trading. Compliance with the statutory bank criteria for short- and medium-term liquidity is in particular ensured. Medium- and long-term liquidity risks are monitored and controlled during monthly meetings of the Risk Council.

Financial market risks in the Financial Services sector mainly refer to the danger and uncertainties of price fluctuations, including interest rate changes.

In the traditional core business – the mortgage business – which represents a considerable amount in the balance sheet, interest changes can have a major influence on the results. Special software is used for the central measuring, control and monitoring of interest changes in the bank ledger. In addition, effects on the balance sheet structure, value and income are determined and compared on a monthly basis. The Financial Services sector mainly uses interest rate swaps as hedging instruments against its risk exposure based on expected interest rates.

A special software is used for systematic measuring, control and monitoring of market risks in the trading ledger. A limit structure restricts the risk exposure which is assessed using the mark-to-market method. The risk exposure is produced periodically and earnings with profit and loss figures are recorded daily and communicated to the responsible competence parties.

I.2.3. Management of legal and compliance risks

Legal and compliance risks refer to risks resulting from the legal and regulatory business environment. Predominantly, these are liability and default risks, regulatory risks and behavioural risks. The department Legal Services & Compliance, reporting directly to the Chief Risk Officer, is responsible for managing the risks.

Compliance risks are legal, reputation and loss risks resulting from an infringement of legal standards and ethics. The Compliance Officer ensures that the business activities comply with applicable regulations and the due diligence of a financial intermediary. He is responsible for checking the requirements and developments on the part of the legislator, supervisory authorities and other organisations, and ensures that instructions are changed in line with regulatory changes and are also complied with. A special IT application is used for monitoring and complying with money laundering regulations. The application identifies unusual inflows and outflows of assets, as well as deviations from customer transaction patterns and forwards these to the responsible persons for processing. Responsibilities and measures for complying with the Obligation of Due Diligence of Banks (VSB) have been clearly defined. The implementation is continuously monitored by the Legal Services & Compliance department.

In order to prevent legal risks in transactions with customers and business partners, standardised contractual documents are used, where possible. The preventative tasks of the Legal Services & Compliance department therefore also include the legal assessment of new products and contracts.

The Legal Services & Compliance department is also responsible for recording, processing and monitoring all pending legal cases. Where necessary, specialists of the Legal Services of the Federation of Migros Cooperatives or external legal advisors are consulted.

The Legal Services & Compliance department submits a comprehensive quarterly report about pending or impending legal disputes and any regulatory infringements to the Risk Council. Where it is deemed necessary, respective provisions are made for such legal cases.

I.2.4. Internal Control System (ICS) in the Financial Services sector

The basic features of the Internal Control System (ICS) of Migros Bank comply with the respective regulatory regulations of the circular “Monitoring and Internal Control” published by the Swiss Financial Market Supervisory Authority.

The ICS consequently contains all control structures and control processes that form the basis for achieving business policy goals at all levels of the bank and which result in a correct banking operation. In addition to retrospective control activities, internal control also contains planning and steering activities. An effective internal control also includes control activities integrated in work processes, processes for managing risk and the compliance with applicable standards (Compliance), a risk control that is independent from the risk management, as well as the Compliance function. The internal control is monitored and evaluated by internal auditors, thus contributing to its continuous improvement.

The actual implementation of the circular “Monitoring and Internal Control” is regulated in general instructions issued by the bank. The bank passes on the responsibility for monitoring the processes and implementing adequate control measures to the Process and IT Security department, reporting directly to the Chief Risk Officer.

All control measures and rules of conduct apply as binding instructions for the entire bank and are also made available to respective staff and management personnel on the Intranet. These ICS instructions include, in particular, the criteria control object, purpose, periodicity, responsible parties, tools, procedures, extent of control, duty of documentation and preservation of documents. Carried out checks have to be signed, initialled and contain control notes to become valid and thus traceable. ICS officers are appointed in the local organisational units, who report each quarter that the material and formal implementation of the controls have taken place.

J. Statement of value added

	Retail and Industry sector[1]			
CHF million		2016		2015
ALLOCATION				
to employees		5'600		5'438
to culture / social (culture percentage)		120		120
to lenders		41		63
to public sector		1'046		962
↳ taxes	172		98	
↳ value-added taxes	188		185	
↳ customs duties / fees / fiscal charges	686		679	
to the company (self-financing)		476		592
Net value added		**7'283**		**7'175**

[1] Unaudited; before consolidation of transactions between the two sectors.

The **statement of value added of Migros Group** in the Retail and Industry sector shows the **added value created for the society** by the Group. The aim of the Group is to create a sustainable value added by striving for a future-oriented management of available resources that will safeguard the future of the business, thus secure jobs and guarantee public-sector contributions.

Personnel costs account for the lion's share of value added, at 76.9 %. They increased by 3.0 % in comparison to the previous year, due to the change in the scope of consolidation (in particular the additions of Ondal France, Explore and Regaldive), the expansions at Denner and Migros Eastern Switzerland as well as to the wage increase of 0 % to 0.5 % in Migros Group. The Retail & Industry sector has 101'344 employees (previous year: 98'871).

Contributions to **Migros Culture Percentage**, a voluntary commitment by Migros in the areas of culture, society, education, leisure and business, amounted to 1.7 % of the value added, as in previous years. This helped make cultural and social benefits accessible to the population.

Lenders received 0.6 % in the form of interest during the reporting year. The Group's unchanged sound financial situation coupled with the sustained low level of interest rates mean that this figure has fallen slightly compared to that of the previous year.

The **public sector** received 14.4 % (previous year: 13.4 %) in taxes, customs duties and fees. The public sector has therefore received higher contributions than the previous year, due to special items (including deferred taxes applied upon the restructuring of a group company) in the previous year.

The Group secures its **continuation as a going concern** and guarantees **innovation** by consistently aligning the value chain to dynamic market trends. Maintaining an adequate profit serves both to achieve this goal and to secure jobs and pass on goods and services to customers on fair terms and conditions.

Finance Department

Migros Group financial statements 2016

Income statement of Migros Group

CHF million	Notes	2016	2015
Net revenue from goods and services sold		26'547	26'201
Other operating income	*8*	374	345
Income before financial services business		**26'921**	**26'546**
Income from financial services business	*7*	817	861
Total income	*6*	**27'738**	**27'406**
Cost of goods and services sold	*9*	15'762	15'674
Expenses of financial services business	*7*	246	272
Personnel expenses	*10*	5'774	5'609
Depreciation and amortisation	*11*	1'370	1'332
Other operating expenses	*12*	3'675	3'537
Earnings before interests and taxes		**911**	**982**
Finance income	*13*	16	28
Finance cost	*13*	–40	–61
Share of (loss) / profit from associates and joint ventures		3	–2
Profit before income tax		**890**	**947**
Income tax expense	*14*	227	155
Profit Migros Group		**663**	**791**

Attribution of profit of Migros group		
Profit attributable to members of the Cooperatives	683	801
Profit / (loss) attributable to minority interests	–20	–10
Profit Migros Group	**663**	**791**

Balance sheet of Migros Group

CHF million	Notes	31.12.2016	31.12.2015
ASSETS			
Cash and cash equivalents	*17*	6'490	5'929
Receivables due from banks		660	687
Mortgages and other customer receivables	*18*	36'484	36'048
Trade receivables	*19*	749	702
Other receivables	*19*	185	160
Inventories	*20*	2'563	2'519
Other financial assets	*21–24*	1'312	1'354
Investments in associates and joint ventures		92	88
Investment property	*25*	371	363
Fixed assets	*26*	12'828	12'410
Intangible assets	*27*	811	957
Assets from employee benefits	*33*	630	598
Current income tax receivables		41	37
Deferred income tax assets	*14*	70	49
Other assets	*28*	252	237
TOTAL ASSETS		**63'537**	**62'138**
LIABILITIES AND EQUITY			
Payables due to banks		378	252
Customer deposits and liabilities		32'646	31'690
Other financial liabilities	*29*	1'862	1'855
Trade payables	*30*	1'692	1'634
Other liabilities	*30*	970	1'236
Provisions	*31*	116	111
Issued debt instruments	*32*	6'032	6'170
Liabilities from employee benefits	*33*	819	831
Current income tax payables		128	155
Deferred income tax liabilities	*14*	1'440	1'402
Total liabilities		**46'082**	**45'336**
Cooperative capital	*34*	22	22
Retained earnings		17'420	16'751
Currency translation differences		–36	–43
Equity attributable to members of Cooperatives		**17'406**	**16'729**
Minority interests		49	73
Total equity		**17'455**	**16'802**
TOTAL LIABILITIES AND EQUITY		**63'537**	**62'138**

Statement of changes in equity of Migros Group

		Attributable to members of the Cooperatives					
CHF million	Notes	Cooperative capital	Retained earnings[1]	Currency translation difference	Equity of the Cooperative members	Minority interests	Total
Equity as per 1 January 2015		**22**	**15'948**	**–41**	**15'928**	**42**	**15'970**
Profit Migros group		–	801	–	801	–10	791
Change in Cooperative capital	*34*	0	–	–	0	–	0
Currency translation difference		–	–	–2	–2	–0	–3
Dividends paid to minorities		–	–	–	–	–0	–0
Changes in scope of consolidation / equity interest[2]		–	2	–	2	42	44
Equity as per 31 December 2015		**22**	**16'751**	**–43**	**16'729**	**73**	**16'802**

[1] In retained earnings there is no amount (previous year CHF 1 million) reserved for the Culture percentage. Also see note 15.
[2] Changes in scope of consolidation in particular by the addition of Digitec Galaxus AG as well as the substantial changes in equity interest in Medbase AG (+29.9 %) and Centravo AG (+4.4 %).

		Attributable to members of the Cooperatives					
CHF million	Notes	Cooperative capital	Retained earnings[1]	Currency translation difference	Equity of the Cooperative members	Minority interests	Total
Equity as per 1 January 2016		**22**	**16'751**	**–43**	**16'729**	**73**	**16'802**
Profit Migros group		–	683	–	683	–20	663
Change in Cooperative capital	*34*	0	–	–	0	–	0
Currency translation difference		–	–	8	8	0	8
Dividends paid to minorities		–	–	–	–	–0	–0
Changes in scope of consolidation / equity interest[2]		–	–14	–	–14	–4	–18
Equity as per 31 December 2016		**22**	**17'420**	**–36**	**17'406**	**49**	**17'455**

[1] In retained earnings there is no amount reserved for the Culture percentage. Also see note 15.
[2] Substantial changes in equity interest in Sweet Works Confections LLC (+49 %) and Oak Leaf Confections Co. (+49 %).

Cash flow statement of Migros Group

CHF million	Notes	2016	2015
Profit before income tax		**890**	**947**
Depreciation, amortisation and impairment (net)	*11*	1'370	1'332
Impairment of other financial assets (net)		4	11
(Profit) / loss from sale of non current assets		–25	–7
(Profit) / loss from sale of fixed asset securities		–7	2
Profit from associates and joint ventures		–2	2
Increase / (decrease) provisions		5	–12
Change to operating assets and liabilities			
↳ (Increase) / decrease receivables due from banks		26	984
↳ (Increase) / decrease mortgages and other customer receivables		–436	–831
↳ (Increase) / decrease inventories		–43	11
↳ (Increase) / decrease other financial assets		14	–2
↳ (Increase) / decrease other assets		–114	131
↳ Increase / (decrease) payables due to banks		20	–3
↳ Increase / (decrease) customer deposits and liabilities		956	453
↳ Increase / (decrease) other liabilities		93	–89
Paid income tax expense		–248	–232
Cash flows from operating activity		**2'503**	**2'696**
Acquisition of fixed assets and investment property		–1'616	–1'307
Proceeds from sale of fixed assets and investment property		159	74
Acquisition of intangible assets		–48	–49
Proceeds from sale of intangible assets		2	4
Acquisition of fixed asset securities and loans		–193	–362
Proceeds from sale of fixed asset securities and loans		241	411
Acquisition of subsidiaries and business activities, net of cash acquired		–77	–157
Proceeds from sale of subsidiaries and business activities, net of cash disposed		–3	–
Acquisition of associates and joint ventures		–7	–5
Proceeds from sale of associates and joint ventures		0	–
Cash flows from investing activity		**–1'542**	**–1'390**

CHF million	Notes	2016	2015
Proceeds from issuance of long-term bonds		–	–
Repayment and redemption of long-term bonds		–	–250
Proceeds from issuance of medium-term bonds and mortgage backed loans		–	721
Repayment of medium-term bonds and mortgage backed loans		–138	–83
Increase (decrease) of short-term payables due to banks		106	–31
Increase (decrease) of long-term payables due to banks		–26	–1
Proceeds (repayment) from issuance of other short-term financial liabilities		16	–76
Proceeds (repayment) from issuance of other long-term financial liabilities		–324	15
Dividends paid to minorities		–0	–0
Increase in Cooperative capital		0	0
Reduction in Cooperative capital		–0	–0
Change in equity interests of controlling interests		–22	–13
Cash flows from financing activity		**–388**	**282**
Changes in cash and cash equivalents		**574**	**1'588**
Cash and cash equivalents, at beginning of year		5'929	4'349
Foreign exchange impact		–13	–8
Cash and cash equivalents, at end of year		**6'490**	**5'929**

Cash and cash equivalents include:			
Petty cash / postal accounts / bank accounts		6'369	5'826
Fixed-term deposits with an original maximum maturity of 90 days		121	103
Total cash and cash equivalents	*17*	**6'490**	**5'929**

Cash flows from operating activities include:			
Interest received		687	730
Interest paid		–243	–311
Dividends received		6	7

Notes to Migros Group financial statements

1. Information about Migros Group

Migros Group (also referred to below as “the Group”, or “Migros”) is Switzerland's largest retailer. Apart from Migros' core business of Cooperative Retailing and Commerce (e.g. Denner, Globus), group companies are active in various other business segments. For example, in the sector Industry & Wholesaling, Migros manufactures goods (Migros own brands; e.g. Chocolat Frey); in other sectors, Migros provides financial (Migros Bank) and travel (Hotelplan Group) services. Migros is also actively committed to culture, society, leisure, education and the economy. The key activities of Migros Group are presented in the segment reporting in Note 6. Note 42 contains a list of group entities.

Migros Group is a cooperative federation, consisting of ten independent regional Cooperatives, which jointly hold the Cooperative capital of the Federation of Migros Cooperatives (FMC). The FMC coordinates the activities of Migros Group and formulates its strategy. Its federal structure means that Migros Group can be regarded as an economic entity under an integrated management. The Migros Group financial statements are prepared with the aim of presenting the profit or loss, financial position and the cash flows of this economic entity.

Because of the legal and statutory arrangements of the ten Cooperatives and of the FMC, the Group financial statements differ from the consolidated annual financial statements of a group with a traditional holding structure. Accordingly, the Group's financial statements are not based on the FMC as the parent company, but represent an aggregation of the annual financial statements of the ten Cooperatives and the other Migros entities. The total capital of the ten Cooperatives represents the capital of the Group.

The registered office of the FMC is at Limmatstrasse 152, 8005 Zurich (Switzerland).

The present Migros Group financial statements were approved by the Board of Directors on 16 March 2017. The Assembly of Delegates takes note of the Migros Group financial statements.

The Group financial statements are available in German, French and English. The German version takes precedence.

2. Basis of preparation

Conformity with Swiss GAAP FER

The present Migros Group financial statements have been prepared in conformity with the provisions of the law and with all of the current guidelines of the Swiss Accounting and Reporting Recommendations (Swiss GAAP FER). In order to provide readers of the financial statements with as much transparency as possible, Migros Group has decided to impose more stringent accounting and disclosure requirements in many areas than those required by Swiss GAAP FER. Accordingly, Swiss GAAP FER forms the basis for financial reporting which is as transparent, clear and reader-oriented as possible.

Critical accounting estimates and judgments

Preparation of the annual financial statements of Migros Group in conformity with Swiss GAAP FER necessitates the use of accounting estimates and judgments that may affect the reported assets and liabilities, revenue and expenditure, and also the disclosure of contingent assets and liabilities in the reporting period. Although to the best knowledge and belief of the executive management these accounting estimates have been made on the basis of current events and possible future operations of Migros Group, the actual results ultimately achieved may differ from these estimated values. Areas that may incorporate a greater number of uncertain accounting estimates and judgments are clarified in Note 5.

Presentation according to decreasing liquidity

The financial services business contributes more than half of the balance sheet total of Migros Group. To take the characteristics of the financial services business and their significance into account, the Migros Group balance sheet is grouped by decreasing liquidity and not by current and non-current assets and current and non-current liabilities. Finance income and finance costs from the financial services business, together with the underlying cash flows, are presented as operational items. Finance income and finance costs of entities that are not involved in the financial services business are reported in finance income or finance expenses. The breakdown by maturity is shown in Note 35.

Different reporting date

The financial year of Migros Group corresponds in principle to the calendar year. By way of variation, the Hotelplan Group is included on the basis of the subgroup financial statements of the Hotelplan Group as at 31 October. Interim financial statements have not been prepared. Significant transactions in the Hotelplan Group between 31 October and 31 December are taken into account in the Group financial statements. The reason for the different financial year of the Hotelplan Group is the tourism year which follows the seasonal cycle of the travel business and is split into a summer and a winter business.

Changes to accounting policies

The annual financial statements of Migros Group are based on all accounting and reporting recommendations which have been published and are to be applied as of 1 January 2016, insofar as these are relevant to Migros Group. The application and corresponding effects on Migros Group of the new and amended standards published at the time of the preparation of group financial statements are listed below.

Changes to accounting policies as of 1 January 2016

As of 1 January 2016, the new rules for revenue recognition in accordance with the FER framework, FER 3 and FER 6 are to be applied. Under the standard, revenue is recognised if an asset was delivered or a service provided and the right of disposal as well as the benefits and risks have been transferred to the buyer. Furthermore, FER defines net revenue from goods and services as revenue arising from ordinary business activities, where revenue comprises the value of the service provided less revenue reductions. In the event of intermediary transactions, only the value of the service provided by the company itself is reported. Separately identifiable components of business transactions must be recognised and valued separately. The most important sources of revenue and their recognition must be explained in the Notes.

Migros Group has complied with the rules since the switch to Swiss GAAP FER on 1 January 2015. No changes have therefore been made to reporting.

FER 21 “Accounting for charitable, non-profit organisations” was revised in 2014. Companies for which the revised standard applies are obliged to implement it with effect from 1 January 2016. The revision covered clarifications to individual provisions, as well as integration into the basic concept of FER with a distinction made in terms of requirements based on the size of the company. None of the companies in Migros Group have the characteristics of a charitable, social non-profit organisation. Accordingly, Migros Group is not obliged to apply this recommendation.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these group financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis for preparation

The Migros Group financial statements are presented in Swiss francs (CHF). All amounts and totals are rounded to the nearest million CHF, unless otherwise stated. The sum of the rounded individual values may therefore differ from the total shown. Amounts of less than CHF 0.5 million are shown as “0”, and amounts which represent zero are shown as “–”.

Consolidation policies

(a) Subsidiaries

Subsidiaries are fully consolidated if Migros Group controls them. Migros Group is assumed to have control if it holds the majority of the voting rights in a subsidiary, either directly or indirectly. Control can also be exercised if Migros Group holds less than half of the voting rights but is able to make the key decisions (e.g. in relation to shareholder agreements, voting majority in supervisory and executive bodies, etc.).

Inter-company transactions, receivables and debts, plus unrealised gains / losses on transactions between group companies are eliminated when the financial statements of Migros Group are prepared.

The company concerned is deconsolidated once Migros Group no longer exercises control.

(b) Joint Ventures

In a joint venture, two or more parties have shared control of a company on the basis of a contractual agreement. None of the parties have the option of controlling the joint-venture. The joint venturers record their own share of the net assets as an equity interest and the following results in accordance with the equity method (cf. comments under (c) Associates).

(c) Associates

Associates are entities in which Migros Group has a significant influence on the financial and business policy, which generally means a direct or indirect shareholding of between 20 % and 50 % of the voting rights. They are initially recognised at cost, and thereafter using the equity method. The goodwill paid for associates is included in the carrying amount of the investment concerned. The Group's share in the current gains and losses of associates is recognised in income and shown separately in the Group's statement of income. If the share in the losses is equivalent or greater than the investment in the associate, no further losses are recognised unless further obligations exist in respect of these companies. Differences arising from the conversion of shares in associates in foreign currencies are recognised directly in the equity of the Group, under currency translation differences.

Upon the acquisition of additional shares related to the attainment of control of associates, old shares are not revalued but instead are transferred at the current equity carrying amount.

(d) Minority interests and transactions with minority interests

The minority interests shown represent the share in the profit or loss, plus the net assets of subsidiaries that are not fully owned by the Group. Minority interests are reported separately in the income statement and equity of the Group. Transactions with minority interests are recorded within equity as long as no loss of control is associated herewith. When control is lost, the corresponding gain or loss is recognised in income.

With regard to company acquisitions, Migros Group has the option to acquire further shares. At the same time, the counterparties are given the right to sell. The prices of these buying and selling rights usually correspond to the fair value at the time they are executed. They are therefore not reported in the balance sheet.

Segment reporting

Information about operating segments is disclosed on the basis that it is applied for internal reporting to executive decision makers. Within Migros Group, the Executive Board of the Federation of Migros Cooperatives is the chief operating decision-maker that allocates resources and assesses performance.

Foreign currency translation

(a) Functional and presentation currency

Each subsidiary prepares its own financial statement in its functional currency, i.e. in the currency of the primary economic environment in which it operates. The financial statements of Migros Group are presented in Swiss francs (CHF).

(b) Translation from transaction currency into functional currency

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or using monthly average exchange rates, provided these are a reasonable approximation thereof. Foreign currency profits and losses from such transactions and from the conversion to the functional currency of financial foreign currency positions at the balance sheet date are included in income.

(c) Translation of functional currency into presentation currency

The annual financial statements of all subsidiaries that are not prepared in CHF are translated into the presentation currency as follows:

Assets and liabilities at year-end rates (exchange rate on the balance sheet date) and income and expenses at average exchange rates for the year.

The resulting currency translation differences are recognised directly in equity under “currency translation differences”.

Any currency translation difference arising from the sale of a foreign subsidiary is recognised in profit and loss as part of the disposal proceeds.

Goodwill and fair value adjustments to individual balance sheet items arising from the acquisition of a foreign entity are treated as assets or liabilities of the foreign entity, and translated from the functional currency into the presentation currency at the closing rate.

The procedure is the same for associates and joint ventures in foreign currencies.

Revenue recognition

Revenue comprises the fair value of proceeds received or due from the sale of goods and services. It is recognised net, after deduction of sales or value-added taxes, returns and rebates, plus deferrals of awards under customer loyalty programmes. Income is recognised when the amount can be reliably measured, when it is probable that the economic benefits associated with the transaction will flow to the entity, and when the specific conditions listed below have been satisfied.

(a) Income from retailing and sales of goods

Income from the retailing business is recognised, after taking income-reducing items into account, at the date of sale to the customer. Income from sales of goods are recognised in the income statement when the risks and rewards associated with the title to the goods have been transferred to the customer.

(b) Income from the travel business

Income from the travel business is recognised, after taking income-reducing items into account, at the date of performance (commencement of travel by the customer). Pure intermediary activities are recognised net based on the commission received.

(c) Income from financial services

Commission income and income from the financial services business are recognised on an accrual basis, as soon as the corresponding service has been provided. Interest income on mortgages and other customer receivables, and other financial assets are deferred on an accrual basis.

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

Payments from the Culture Percentage

Payments made as part of Migros Culture Percentage are a voluntary commitment by Migros in the areas of culture, social, education/training, leisure and economic policy, and are charged to other operating expenses. The financing of this item of expenditure is specified in the statutes and rules of the Cooperatives (incl. the FMC). The Cooperatives have undertaken to spend at least 0.5 % (FMC 0.33 %) of their retail sales – over a four-year average – on cultural, social and economic policy purposes. According to Swiss GAAP FER, shortfalls within the four-year period do not qualify as obligations and excess expenditure does not qualify as an asset. Provisions are thus only made for performance obligations towards third parties existing at the balance sheet date. Compliance with the stipulations of the statutes and rules is thus verified by the calculation of the so-called “Culture Percentage reserve”. The calculation highlights any shortfalls in Culture Percentage expenditure that has to be made up over the coming years. Note 15 contains further information about payments under the Culture Percentage and the Culture Percentage reserve.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, postal giro and sight deposits held at banks, and short-term highly liquid investments with a maximum original maturity of 90 days. These are measured at cost i.e. fair value.

Receivables due from banks

Receivables due from banks include amounts due under money market investments and receivables from central banks and commercial banks with originally more than 90 days to maturity. Receivables due from banks are initially measured at cost i.e. fair value plus external transaction costs that can be directly allocated at commencement. Receivables due from banks are subsequently measured at amortised cost, taking account of any deductions for impairment or uncollectibility.

Mortgages and other customer receivables

Mortgages and other customer receivables are loans by the financial services business that are granted directly to the borrower. Loans are recognised when the funds flow to the borrower. Receivables granted or acquired are initially measured at cost i.e. fair value plus external transaction costs that are directly attributable to the acquisition of this financial asset. Mortgages and other customer receivables are subsequently measured at amortised cost, taking account of any deductions for impairment or uncollectibility.

Mortgages and other customer receivables are reviewed at regular intervals for recoverability. Credit commitments are individually assessed, taking into account the personal circumstances of the borrower, such as their financial situation, payment record, existence of any guarantors, and if necessary the realisable value of any collateral. All mortgages and other customer receivables classified in counterparty-specific terms as not at risk are grouped economically into homogeneous portfolios that are tested together for impairment and their value adjusted if necessary on the basis of historical probability of default. If there is objective evidence that the whole amount owed, according to the original contractual terms, or the corresponding consideration of a receivable will not be collected, an impairment loss will be recorded. Impairments of mortgages and other customer receivables are disclosed in the Notes under the heading interest and commission expenses and impairment losses on the financial services business. On submission of a loss certificate, or if a waiver is granted, the receivable is derecognised and charged to the corresponding allowance account.

Trade receivables and other receivables

Trade and other receivables are initially measured at cost i.e. fair value. They are subsequently measured at amortised cost, taking account of any deductions for impairment or uncollectibility. Impairments are recognised in other operating expenses. Receivables at risk of default are individually impaired. Receivables that are not individually impaired are impaired on a flat rate basis, based on empirical payments and corresponding maturity.

Inventories

Inventories are stated at the lower of purchasing or manufacturing cost and net realisable value. As a general rule, the valuation base used for inventories is the average-cost method. Costs include production overheads, based on normal utilisation of production capacities. Financing costs (including discounts) are not capitalised. The net realisable value is equivalent to the estimated selling price, less direct selling costs and finishing costs, if any.

Gains and losses arising from the maturity of cash flow hedges on purchased goods are transferred to inventory costs (concurrent with the entry of the hedged purchase).

Other financial assets

Migros Group classifies its other financial assets in the categories of “current asset securities”, “fixed asset securities” and “loans”. The classification depends on the actual purpose for which a financial asset is acquired, as well as on the time for which it is held. The Management makes the classification on acquisition and reviews it at each balance sheet date.

(a) Current asset securities

Financial assets in the category “current asset securities” include other financial assets held for trading purposes. These relate to interest-bearing securities and investment securities (shares), which have been acquired by Migros Group with the intention of selling them in the near term.

(b) Fixed asset securities

The category “fixed asset securities” comprises securities which Migros Group intends to invest on a longer-term basis.

(c) Loans

The category “loans” covers interest-bearing receivables from related foundations, public law institutions and other third parties with an original term of more than 90 days. It does not include mortgages and other customer receivables under the financial services business, or receivables due from banks.

Principles for recognising and measuring other financial assets:
All other financial assets with the exception of “loans” are recognised on the trading date on which Migros Group entered into the obligation to buy or sell an asset. “Loans” are recognised on the settlement date. Fixed asset securities and loans are initially measured at fair value plus external transaction costs. In the “current asset securities” category, transaction costs are recognised on acquisition as an expense in the income statement. Other financial assets are derecognised when the rights to receive payments from the other financial asset have lapsed, or if essentially all risks and income from the other financial asset have been transferred to a third party. Other financial assets in the categories “current asset securities” are subsequently measured at fair value, those in the category “fixed asset securities” and “loans” at amortised cost.

In the financial services business, premiums and discounts on debt instruments which are intended to be held to maturity are amortised in the income statement on a linear basis over the term in accordance with the so-called accrual method.

Gains and losses (realised and unrealised), including interest and dividend income from other financial assets in the category “current asset securities” are recognised in the income statement at the time they occur.

Exchange gains and losses, plus interest and dividend income on other financial assets are recognised as follows: (a) in interest and commission income and gains on financial instruments of the financial services business, in the case of other financial (net) assets of the financial services business, and (b) in finance income in the case of other financial assets of other businesses.

Measurement of the fair value of quoted other financial assets is based on the official stock market price (bid price) achieved in an active market. A market is deemed to be active if transactions between knowledgeable, willing contracting partners who are independent of each other (“at arm's length transactions”) regularly take place. If there is no active market, or in the case of unlisted other financial assets, a recognised measurement method is used. Recognised measurement methods include comparisons with recent market transactions, the fair value of other, essentially identical financial assets as well as calculations of discounted cash flows and option price models.

At each balance sheet date, Migros Group assesses whether there is any objective evidence of permanent impairment of an other financial asset or group of other financial assets. Examples of objective evidence of permanent impairment are substantial financial difficulties of the borrower; breach of contract, such as default or delay in interest or redemption payments; or financial redevelopment. In the case of “fixed asset securities”, the following factors give rise to impairment:
– a significant reduction in the fair value of at least 20 % below cost, or
– a decrease in the fair value below cost that lasts over a period of two consecutive balance sheet dates.
If an impairment need is determined on the basis of this information, the cumulative loss as the difference between cost and current fair value is transferred to the income statement as an impairment loss. Reversals of impairments are recognised in profit and loss, up to a maximum of cost.

Derivative financial instruments and hedge accounting

Migros Group uses derivative financial instruments to hedge foreign exchange, interest rate and commodity risks. No derivative financial instruments are concluded for speculative purposes. Migros Group distinguishes between the following cases when applying hedge accounting: (a) hedging of the risk on the change in the fair value of an asset or liability recognised in the balance sheet (fair value hedge) or (b) hedging of the risk of fluctuations in cash flows in connection with an asset or liability recognised in the balance sheet, or the risk associated with a planned future transaction (cash flow hedge).

In the financial services business of Migros Group, interest rate swaps are used as instruments to hedge the risk of interest rate changes and – in connection with this – the fair value risk of fixed-interest items. In particular, the interest rate risk on mortgage receivables and other customer receivables in the financial services business is, where necessary, hedged by means of interest rate swaps at portfolio level.

Future sales of heating oil by Migros Group, which are exposed to a risk arising from changes in the fair value caused by changes in the market price, are hedged by commodity futures.

(a) Fair value hedge

Instruments to hedge the risk of the change in value of balance sheet assets are reported in the balance sheet and measured at each balance sheet date at fair value through profit and loss.

(b) Cash flow hedge

Hedges of future cash flows which are connected either with balance sheet assets or a future transaction (in particular purchases of inventories in foreign currencies) and which meet the requirements of hedge accounting, are not entered in the balance sheet. Cash flow hedges are recorded in the income statement only when the transaction is executed and, as a result, at the same time as the underlying transaction matures. The fair value and contract volume are then disclosed accordingly (see Note 24).

At the inception of the transaction, Migros Group documents the relationship between hedging instruments and hedged risk, as well as its risk management objectives and strategies for each hedging transaction. The Group also monitors the effectiveness of the hedge both at hedge inception and on an ongoing basis.

(c) Derivative financial instruments that do not meet the requirements for a hedging transaction

Certain derivative financial instruments do not satisfy the requirements of a hedging transaction, even though they are used for hedging purposes as part of Migros Group's risk strategy. The fair values of these contracts are reported under current asset securities and the changes in their value are recognised in the income statement.

Investment property

Investment property is measured at cost and depreciated by the straight line method on the basis of its useful life; depreciation is charged to the income statement:

Buildings	20 to 67 years
Fixed equipment	5 to 20 years

Mixed-use properties are classified as investment property or as fixed assets, depending on the degree of own use.

Fixed assets

Fixed assets consist of undeveloped plots of land, buildings required for operations (such as sales outlets, operations centres, warehouse buildings), operating equipment and machinery (such as shop fittings, conveyors, warehousing systems), assets under construction and other fixed assets (such as furniture, vehicles and EDP equipment).

Fixed assets are recognised at cost, less cumulative depreciation. Cost also includes all transaction costs attributable to the purchase. If parts of a fixed asset have different useful lives, these are kept and depreciated as separate items. Depreciation is calculated by the straight line method on the basis of the following estimated useful lives:

Buildings	20 to 53 years
Operating equipment, machinery	5 to 30 years
Furniture, vehicles	5 to 10 years
EDP equipment	3 to 8 years

The estimated useful lives are reviewed annually and adjusted if necessary.

Land, which is recognised in fixed assets, is not depreciated. Subsequent capitalisations of expenses on existing fixed assets are recognised only if it is probable that an additional economic benefit can be generated from them. Repair and maintenance costs are recognised as an expense.

The value of fixed assets is tested at the level of the smallest identifiable group of assets or cash generating units (CGUs), generating inflows of funds that are to the greatest possible extent independent of inflows of funds of other assets or other groups of assets. Fixed assets are checked for impairment where results or changes to the circumstances at Cooperative level indicate that the carrying amount can no longer be achieved. In addition, specific value retention considerations are made for shopping centres, where value drivers, assumed at the time the investment decision was made, can no longer be continuously achieved. For the industrial companies falling under the segment Industry & Wholesaling, the CGU are defined for each business unit or company. For the segment Commerce, value retention is checked at the level of sales formats or companies.

Gains and losses from the disposal of a fixed asset are recognised in other operating income and other operating expenses respectively as the difference between the net disposal proceeds and the carrying amount.

Any financing costs incurred during the creation of fixed assets are recorded directly in income.

Leasing (finance leases and operating leases)

(a) Migros Group as lessee

Finance lease agreements:
Lease agreements for properties, facilities and other fixed assets where Migros Group essentially assumes all risks and rewards connected with ownership are classified and treated as finance leases. The fair value of the leased asset or the carrying amount of the lease payments, if that is lower, is recognised at the beginning of the lease agreement in fixed assets. Each lease payment is divided into amortisation and interest. The amortisation portion is deducted from the capitalised lease debt, which is recognised under other financial liabilities. Fixed assets in finance leases are depreciated over the useful life or the lease term, whichever is the shorter.

Operating lease agreements:
Other lease agreements are classified as operating lease agreements. These are not reported in the balance sheet. The lease payments are recognised on a straight line basis over the lease term as an expense in the income statement.

(b) Migros Group as lessor

Finance lease agreements:
Finance lease agreements are concluded by Migros Bank as part of customer lending. Corresponding receivables are reported under other customer receivables.

Operating lease agreements:
Investment property that is leased under operating lease agreements is recognised separately in Migros Group's balance sheet. The rent received is recognised on an accrual basis in other operating income.

Intangible assets

(a) Goodwill

Goodwill arises on the purchase of a company (subsidiary, associate entity, joint venture or business division). It corresponds to the amount by which the cost of the acquisition exceeds Migros Group's share in the fair value of the identified net assets of the company purchased by Migros Group at the acquisition date. Goodwill on the purchase of a company is recognised in intangible assets and amortised on a scheduled basis using the straight line method over a useful life of between 5 and 20 years. Tests as to whether there are any signs of impairment are carried out each year. If there are, an impairment test is carried out. The goodwill paid for associates as well as joint ventures is included in the carrying amount of the investment concerned, which is why the full carrying amount of the investment is tested for impairment. Goodwill is recognised at cost taking account of its amortisation on a straight line basis over the useful life, less any impairment. Any impairment recognised on goodwill cannot be reversed in subsequent periods. On the disposal of an entity, the relevant residual goodwill is accounted for in the operating result.

For the purpose of testing impairment of goodwill, it is allocated to the cash generating units (CGUs, see notes under Fixed assets) or a CGU group.

These conditions apply for the segment Cooperative Retailing at Cooperative level, for the segment Commerce at sales format or company level, for the segment Industry & Wholesaling at business unit or company level and for the segment Travel at the organisational unit or company level. The other business areas have no material goodwill.

(b) Software and software development

Purchased software licences are recognised at cost. This comprises the purchase price and additional costs incurred for commissioning (customising, etc.). Internal and external costs connected to the internal development of entity-specific software applications are capitalised as intangible assets if there are likely to be future benefits over a number of years. All other costs connected with software development and maintenance are recognised as an expense. Capitalised software is depreciated on a scheduled basis over its expected useful life (three to ten years).

(c) Trademarks, licences, patents, publishing rights

Trademarks, licences, patents and publishing rights are recognised at cost. The cost of trademarks, licences, patents and publishing rights that were acquired as part of the purchase of a company corresponds to their fair value on the acquisition date. The intangible assets capitalised in this category have a finite useful life, and are depreciated on a scheduled basis (5 to 20 years).

Impairment of assets

Impairment is recognised if the recoverable amount is lower than the carrying amount of the asset. The recoverable amount is the higher of its fair value less costs to sell (estimated sale proceeds after deduction of all costs incurred that are directly connected to the sale) and the value in use (carrying amount of the estimated future cash inflows and outflows from use). In order to test the impairment of goodwill and fixed assets, a respective allocation to the CGU is made. The impairments on an asset in earlier periods (with the exception of impairment on goodwill) are tested annually to ascertain whether they should be reversed.

Discontinued operations

Discontinued operations concern activities which have either been sold or where a decision has been made to close the operation. Discontinued operations are disclosed in the Notes.

Payables due to banks

Payables due to banks are measured at their amortised cost, which generally corresponds to the nominal value.

Customer deposits and liabilities

Customer deposits and liabilities arise from liabilities to customers in the form of savings and investments, such as savings, private, investment and retirement accounts, plus current accounts and time deposits. Customer deposits and liabilities originate exclusively from the financial services business. They are measured at amortised cost, which generally corresponds to the nominal value.

Other financial liabilities

The following balance sheet items are recognised in other financial liabilities:

(a) Finance leases

See section above, “Leasing (finance leases and operating leases)”.

(b) Derivative financial instruments

Negative fair values of derivative financial instruments that are entered in the balance sheet are recognised in this item. See section above on derivative financial instruments and hedge accounting.

(c) Other financial liabilities

Financial liabilities recognised in other financial liabilities are those that do not represent payables due to banks or originate from the financial services business. These include, for example, personnel investment accounts and loans. Other financial liabilities are measured at amortised cost, which generally corresponds to the nominal value.

Trade payables and other liabilities

Trade payables and other liabilities are measured at amortised cost, which generally corresponds to the nominal value.

Provisions

Provisions for guarantees, restructuring, onerous contracts and other legal claims are recognised when Migros Group has a present obligation (legal or constructive) arising from a past event that is likely to result in an outflow of resources, and the amount can be reliably estimated. No provisions are created for future losses. If the amount of the obligation cannot be reliably estimated, it is recognised as a contingent liability. Measurement is based on the best possible estimate of the expected expense. If there is a significant effect of the time value of money, the provision is discounted. Restructuring provisions are not recognised until a detailed plan has been submitted and a public announcement made.

Issued debt instruments

Issued debt instruments include bonds issued on the capital market, mortgage-backed loans and medium-term bonds from the financial services business and private placements. Issued debt instruments are initially recognised at cost, i.e. at the fair value of the consideration received less transaction costs. At Migros Bank, the difference between cost and repayment amount (nominal amount) is recognised in interest expense over the term in profit and loss, using the straight line amortisation method.

Employee benefits

Benefits paid by Migros Group to employees cover all forms of compensation granted in exchange for employee services provided, or under special circumstances. Employee benefits include short-term benefits, post-employment benefits (pension obligations), other long-term benefits and termination benefits.

(a) Short-term benefits

Short-term employee benefits are benefits that are expected to be paid in full within twelve months of the end of the reporting period, such as wages, salaries, social security contributions, annual leave and overtime claims, and non-monetary benefits to active employees. Recognition of short-term benefits is done on an accrual basis.

(b) Post-employment benefits (pension obligations)

The pension arrangements of Migros Group are tailored to local circumstances in respect of entry and range of benefits. Funding is generally shared by the employer and the employees. The majority of employees in Switzerland are insured under the company provisions by the defined benefit plans of the Migros Pension Fund in respect of age, disability and death.

In other countries, old-age provision is mainly covered by defined contribution state plans. The primary benefits under this form of provision are pensions that are paid post-employment. Contributions to defined contribution plans made on a contractual, legal or voluntary basis are recognised directly in profit and loss. Once the contributions owed have been paid, the Group has no further obligations.

Within the framework of the statutory employee benefits in Switzerland, independent pension funds prepare annual financial statements in accordance with the relevant provisions (Swiss GAAP FER 26). On the balance sheet date, Migros Group examines whether, in addition to the statutory contributions paid, there is an economic benefit or an economic obligation which would be considered as a pension asset or a pension liability.

(c) Termination benefits

Termination benefits arise when employment is terminated by the employer either before the normal retirement date or as a result of the employee accepting a corresponding offer made by the employer. Examples of such benefits include settlements and benefits under social plans. Termination benefits are recognised as an expense in profit and loss once the employer is no longer able to withdraw the offer of such benefits, or at the time of the earlier recognition of the corresponding restructuring costs.

(d) Other long-term benefits

Other long-term employee benefits are all benefits to employees with the exception of short-term benefits, post-employment benefits (pension obligations) and termination benefits. In Migros Group, these are primarily long-service awards. The amount recognised in the balance sheet corresponds to the nominal value of the obligation thus calculated at the balance sheet date.

All assets and liabilities from employee benefits are stated in an asset/liability position in the balance sheet. A detailed breakdown is shown in Note 33.

Income tax liabilities

Current income taxes are recognised on an accrual basis, based on the operating profit or loss of the consolidated entities recognised locally in the reporting year.

Deferred income taxes are accrued on all temporary taxable or tax-deductible differences between the tax and Swiss GAAP FER values according to the liability method. However, deferred income taxes are not recognised if they are linked to the initial recognition of an asset or liability arising from a transaction that does not relate to a business combination and where recognition has no effect on the accounting or taxable profit. Deferred income taxes are measured using the tax rates that are expected to apply to the period in which an asset is realised or a debt discharged.

Deferred income tax asset on loss carry forwards are capitalised only if it is probable that there will be future gains that can be used to offset the tax on the loss carry forwards.

Deferred income taxes are not recognised on temporary differences in connection with investments in subsidiaries and associate entities as well as joint ventures, where the reversal date can be controlled by the Group and which will not be realised in the foreseeable future.

Equity

(a) Cooperative capital

The Cooperative capital consists of the Cooperative capital amounts of the ten Cooperatives.

(b) Retained earnings

Retained earnings comprise the retained profits of Migros Group and the profit of the reporting year.

(c) Currency translation difference

The currency translation difference includes the currency translation differences arising from the conversion into the presentation currency, CHF, of the annual financial statements of foreign subsidiaries that are not denominated in CHF. A further component are translation differences from the measurement of investments in associates and joint ventures in foreign currencies, in accordance with the equity method.

(d) Minority interests

The minority interests shown represent the share in the profit or loss, plus the net assets of subsidiaries that are not fully owned by the Group.

Government grants

Government grants are recognised when it is certain that the requisite conditions will be met and that the grants will flow to Migros Group. Grants for assets are deducted from the purchasing or manufacturing costs of the assets concerned. They are recognised over the useful life of the assets in the income statement by means of the reduced depreciation amounts. Grants related to income are recognised in the income statement in the same period as the reduction of the corresponding expenses that they were approved to compensate, or, if these cannot be clearly determined, as other operating income.

4. Risk management

4.1 Risk management within Migros Group

Migros Group operates its own risk management. The risk management process is part of the annual strategy and financial planning process of Migros Group. The Board of Directors of the Federation of Migros Cooperatives is responsible for a comprehensive risk management across all entities of Migros Group.

Based on a systematic risk analysis, the most significant risks are identified and their likelihood of occurrence and financial effects are evaluated by the entities. The results are summarised in an individual risk report for each company and are discussed by the Board of Directors each year. The larger entities of Migros Group introduce suitable measures for preventing, reducing or passing on such risks. Risks borne by the company are rigorously monitored. Financial risks affecting the financial reporting are reduced by the internal control system. The risk reports of the individual companies are combined into a final report for each strategic business unit to which generally a top-down risk analysis/evaluation is added. The final report for each strategic business unit will be discussed by the Board of Directors of the FMC. The results of the risk evaluation shall be appropriately considered in the annual examination of the business units and corporate strategies.

4.2 Financial risk management and capital risk management

In their operating activities, Migros Group entities are exposed to a multitude of financial risks. The most significant financial risks arise from changes in foreign exchange rates, interest rates, commodity and share prices, and from credit and liquidity risk.

In its financial risk management and capital risk management, Migros Group distinguishes between the Retail and Industry sector (Cooperative Retailing, Commerce, Industry & Wholesaling, Travel and Others) and the Financial Services sector (Migros Bank). Management of financial risk in the two sectors is independently structured, and both sectors are monitored by the executive bodies responsible. The tables of the financial risk management show gross values, i.e. including the relationships between the two sectors. The risk control function and responsibility for independent risk control lies with the management of the individual businesses. The Board of Directors is responsible for independent monitoring of the risks.

4.2.1 Financial risk management in the Retail and Industry sector

Responsibility for financial risk management in the Retail and Industry sector is allocated to different management levels:

- Financial risk management is based on uniform policies and guidelines laid down by the executive Group management.
- The Boards of Directors of the different entities are responsible for strategy, supervision and control of the corresponding Group entities and for the financial risk management, including the determination of each entity's risk tolerance.
- The executive management of the different entities is responsible for the implementation, management and monitoring of the financial risk management, in particular the risk tolerance as defined by the Board of Directors.

The retail businesses (Migros Cooperatives, Denner, Globus, etc.), industry companies and service companies are independently responsible for their own treasury functions.

Simulation calculations are made to be able to estimate the effects of different market conditions. The simulation calculations are described in the presentation of the individual market risks.

Risks are regularly monitored. In conformity with the internal risk policy, derivative financial instruments are used to manage and hedge individual risks.
In the Retail and Industry sector, no financial risks are incurred that involve a non-assessable risk at the date of conclusion of the transaction.

Market risks

(a) Foreign exchange risks

As a retail group whose main sales activity is in Switzerland, a significant proportion of the purchasing of commodities is done in other countries, in foreign currencies. There are other foreign currency operations in other countries in the Cooperative Retailing, Commerce, Industry & Wholesaling and Travel segments.

Foreign exchange rate fluctuations – mainly against the euro, US dollar and sterling – can therefore have a considerable effect on the income statement, especially in the form of transaction risks on the purchases of goods and services in foreign currencies as well as in the form of translation risks on balance sheet items in foreign currencies.

Each company defines its maximum foreign currency exposure. Within clearly defined tolerance values, a certain volatility in the operating result as a result of currency fluctuations is acceptable. The individual group entities have a hedging relationship with the FMC Treasury. The Treasury department of the FMC is responsible for hedging the foreign currency exposure on the market in the different currencies used by the Retail and Industry sector. The main hedging instruments used are forward exchange contracts, currency swaps and investments and financing in foreign currency.

Foreign exchange risks are regularly monitored at individual company level. The individual group companies regularly report their foreign currency exposure to the FMC's Treasury department, which calculates the foreign currency exposure or exchange risk on the basis of a hypothetical change in the risk variables on the portfolio of financial instruments on the reporting date. It is assumed that the holdings on the reporting date are representative for the whole year.

Balance sheet by currency

31.12.2016

million	CHF	EUR	USD	GBP	Other	Total
Financial assets						
Cash and cash equivalents	1'520	77	12	72	26	1'708
Receivables due from banks	299	4	0	0	–	303
Trade receivables	550	162	16	16	9	752
Other receivables	146	32	2	4	2	185
Other financial assets	517	27	3	1	3	552
Total financial assets	**3'033**	**301**	**33**	**93**	**39**	**3'500**
Financial liabilities						
Payables due to banks	–112	–92	–72	–57	–1	–334
Other financial liabilities	–1'856	–1	–	–3	–0	–1'861
Trade payables	–1'311	–322	–37	–16	–6	–1'692
Other liabilities	–774	–62	–0	–56	–3	–895
Issued debt instruments	–150	–	–	–	–	–150
Total financial liabilities	**–4'204**	**–477**	**–110**	**–132**	**–10**	**–4'932**
Foreign currency net exposure before hedging	**–1'171**	**–176**	**–77**	**–39**	**30**	**–1'433**
Foreign currency derivatives		–12	–	–	–	
Foreign currency net exposure after hedging		**–188**	**–77**	**–39**	**30**	

31.12.2015

million	CHF	EUR	USD	GBP	Other	Total
Total financial assets	3'106	273	39	103	33	3'554
Total financial liabilities	–4'498	–397	–46	–72	–14	–5'027
Foreign currency net exposure before hedging	**–1'392**	**–123**	**–7**	**31**	**18**	**–1'473**
Foreign currency derivatives		–13	–	–	–	
Foreign currency net exposure after hedging		**–136**	**–7**	**31**	**18**	

Results of the sensitivity analysis
If EUR had been 5 % stronger against CHF on 31 December 2016, the pre-tax earnings would have been CHF 9 million (31.12.2015: CHF 7 million) lower. If it had weakened by the same amount against CHF, the effect on the pre-tax earnings would have been the reverse.

If USD had been 5 % stronger against CHF on 31 December 2016, the pre-tax earnings would have been CHF 4 million (31.12.2015: CHF 0.4 million) lower. If it had weakened by the same amount against CHF, the effect on the pre-tax earnings would have been the reverse.

If GBP had been 5 % stronger against CHF on 31 December 2016, the pre-tax earnings would have been CHF 2 million lower (31.12.2015: CHF 2 million higher). If it had weakened by the same amount against CHF, the effect on the pre-tax earnings would have been the reverse.

(b) Interest rate risks

The Retail and Industry sector is exposed to interest rate risk because of the volatility of market rates. Demand funds, money markets, bond investments and derivative financial instruments are all subject to interest rate risk that can materially affect the profit and loss and financial position. There are also interest rate risks on the financing side, consisting of variable rate rollover credits from national and international banks, fixed-rate borrowings on the capital market, and variable rate staff investments accounts.

The Retail and Industry sector is mainly funded through the FMC on the loan capital market and the employees' staff investment accounts. The risk of fluctuating interest rates is mainly managed by means of the ratio of fixed to variable-rate borrowings. If necessary, the resulting interest rate risks are hedged with appropriate financial instruments.

Interest rate risk is monitored using a simulation calculation. This represents the effects of changes in market interest rates on finance income and cost.

Interest rate risk

31.12.2016	Interest rate adjustment within					
CHF million	0 – 3 months	3 – 12 months	1 – 5 years	> 5 years	no-interest bearing	Total
Financial assets						
Cash and cash equivalents	1'514	–	–	–	194	1'708
Receivables due from banks	3	300	–	–	–	303
Trade receivables	40	1	–	–	711	752
Other receivables	5	4	–	0	176	185
Other financial assets	56	40	189	117	150	552
Total financial assets	**1'617**	**345**	**189**	**117**	**1'231**	**3'500**
Financial liabilities						
Payables due to banks	–154	–95	–83	–2	–	–334
Other financial liabilities	–1'710	–10	–40	–96	–6	–1'861
Trade payables	–13	–0	–	–	–1'679	–1'692
Other liabilities	–35	–0	–	–	–860	–895
Issued debt instruments	–	–150	–	–	–	–150
Total financial liabilities	**–1'912**	**–256**	**–123**	**–97**	**–2'545**	**–4'932**
Interest rate repricing net exposure before hedging	**–294**	**89**	**66**	**20**	**–1'314**	**–1'433**
Interest derivatives	–	–	–	–	–	–
Interest rate repricing net exposure after hedging	**–294**	**89**	**66**	**20**	**–1'314**	**–1'433**

31.12.2015	Interest rate adjustment within					
CHF million	0 – 3 months	3 – 12 months	1 – 5 years	> 5 years	no-interest bearing	Total
Total financial assets	1'896	279	151	35	1'193	3'554
Total financial liabilities	–2'104	–81	–272	–105	–2'466	–5'027
Interest rate repricing net exposure before hedging	**–208**	**199**	**–121**	**–70**	**–1'273**	**–1'473**
Interest derivatives	–	–	–	–	–	–
Interest rate repricing net exposure after hedging	**–208**	**199**	**–121**	**–70**	**–1'273**	**–1'473**

Results of the sensitivity analysis

If market interest rates had been 0.25 % (25 basis points) higher on 31 December 2016, the pre-tax earnings would have been CHF 0.1 million (31.12.2015: CHF 0.3 million) higher. If market interest rates had been 0.25 % lower on 31 December 2016, the pre-tax earnings would have been CHF 0.1 million (31.12.2015: CHF 0.3 million) lower. The lower interest rate sensitivity compared to the previous year is due primarily to the lower holding of currency swaps.

(c) Share price risks

The FMC purchases shares to a lesser extent to invest its liquid resources. These shares are either classified as “current asset securities” or “fixed asset securities”. In the case of “current asset securities”, share price fluctuations have a direct impact on the result. If there are signs of an impairment, “fixed asset securities” are reviewed accordingly and, if necessary, are adjusted in the income statement. In this regard, care is taken to ensure that equity investments based on markets, securities and sectors are diversified in a reasonable manner. Loss of value risks are reduced by analyses before the purchase and by the regular monitoring of the investments' performance and risks.

Share price risk is monitored using a simulation calculation. This represents the effects of changes in share prices on the income statement. With a few exceptions, share investments of the Retail and Industry sector are listed. The sensitivity of the share price risk is determined when the following change occurs in the index:

	2016		2015	
CHF million	Index change	Change in result	Index change	Change in result
MSCI World	1.86 %	2	4.40 %	5

If the equity markets had finished higher by the assumed change to the index on 31 December 2016, the pre-tax earnings would have been CHF 2 million (31.12.2015: CHF 5 million) higher. If the index had been lower by the same amount, the effect on the pre-tax earnings would have been the reverse.

A lower level of shareholdings in current assets and lower index volatility led to a lower degree of income sensitivity to changes in market values in 2016.

d) Commodity price risks

The Retail and Industry sector is exposed to commodity price risk as regards operating stock in the fuel and heating oil business (Migrol). Migrol uses commodity futures to reduce this risk and the risk of prospective customer orders.

Credit risks

Credit risks comprise the counterparty risk on marketable debt instruments, the default risk on derivative financial instruments, current account balances and time deposits, and to a lesser extent the credit risk on open trade receivables. The maximum credit risk corresponds to the carrying amounts. For off-balance-sheet (financial guarantees, irrevocable loan commitments), the credit risk corresponds to the amounts stated in the liquidity risk.

Counterparty risk is reduced in principle by purchasing bonds from debtors that carry at least an investment grade rating or an equivalent rating from a major Swiss bank. In individual cases, bonds are also purchased from debtors with a lower rating, but only after a thorough analysis and positive assessment of any potential risks. To prevent cluster risks, the bond portfolio is broadly diversified.

The default risk on derivative financial instruments, current account balances and time deposits is reduced by selecting as counterparties only highly reputable banks, financial institutions, or also, in the case of time deposits, (public-law) entities that carry at least an investment grade rating or an equivalent rating from a major Swiss bank.

A rigid limits system restricts the exposure per counterparty and is constantly adjusted in line with developments in ratings and credit default swap-spreads, as well as general market developments.

The Retail and Industry sector of Migros Group is operationally subject to a very low credit risk, because transactions with customers are usually in cash. Of the existing trade receivables, these are mainly receivables by the industry companies and from the travel, oil and fuel business. In the case of new customers, their credit rating is determined by a detailed credit rating test and subsequently by permanent monitoring of open claims.

Liquidity risks

The Retail and Industry sector entities are in principle responsible for managing their own liquid resources. Investment of liquid resources and the procurement of loans for bridging tight liquidity positions, and also to fund investments, can be undertaken centrally at the FMC, which assumes the function of an internal group bank. This function enables the FMC to control most of the liquidity flow within the Retail and Industry sector.

To ensure that the resulting liquidity demands can be satisfied at any time, the FMC holds sufficient cash reserves and easily realisable securities. In addition, its high credit standing in the Retail and Industry sector enables it to raise cash resources for financing purposes at favourable terms on the national and international money and capital market.

Liquidity risk by contractual maturity, undiscounted (gross)

31.12.2016

CHF million	Maturing within 0 – 3 months	3 – 12 months	1 – 5 years	> 5 years	Total
Financial assets					
Cash and cash equivalents	1'718	–	–	–	1'718
Receivables due from banks	3	300	0	–	303
Trade receivables	743	8	1	–	752
Other receivables	176	11	5	1	193
Other financial assets					
Net cash flow from interest rate swaps	–	–	–	–	–
Forward exchange contract gross cash inflow	740	269	27	–	1'036
Forward exchange contract gross cash outflow	–734	–269	–25	–	–1'028
Debt instruments	3	15	192	58	269
Others	159	33	42	94	328
Total other financial assets	**168**	**49**	**236**	**153**	**605**
Total financial assets and other financial assets	**2'807**	**368**	**242**	**153**	**3'571**
Financial liabilities					
Payables due to banks	–156	–92	–84	–2	–334
Other financial liabilities					
Gross liabilities from finance leasing	–3	–9	–50	–155	–216
Commitments for purchasing financial assets	–	–	–	–	–
Net cash flow from interest rate swaps	–	–	–	–	–
Forward exchange contract gross cash inflow	512	49	–	–	562
Forward exchange contract gross cash outflow	–510	–49	–	–	–559
Others	–1'728	–0	–13	–6	–1'747
Total other financial liabilities	**–1'728**	**–9**	**–63**	**–161**	**–1'960**
Trade payables	–1'672	–20	–0	–0	–1'692
Other liabilities	–780	–114	–1	–1	–895
Issued debt instruments	–	–153	–	–	–153
Financial guarantees	–45	–0	–0	–	–45
Irrevocable loan commitments	–2	–	–	–	–2
Total financial liabilities	**–4'383**	**–388**	**–148**	**–163**	**–5'082**

31.12.2015

CHF million	Maturing within 0 – 3 months	3 – 12 months	1 – 5 years	> 5 years	Total
Total financial assets and other financial assets	**2'969**	**343**	**213**	**86**	**3'611**
Total financial liabilities	**–4'485**	**–218**	**–327**	**–177**	**–5'207**

The amounts cannot be reconciled with the balance sheet figures as under liquidity risk the flows of funds are shown as undiscounted, nominal values with contractual maturities and since future contractual flows of funds are also included.

4.2.2 Capital risk management in the Retail and Industry sector

For capital risk management purposes, the Retail and Industry sector is oriented to the requirements of the lending banks. The long-term aim is to achieve:

– a maximum ratio of net financial liabilities to equity of 30 %, and
– a minimum ratio of equity to balance sheet total of 40 %.

Ratios

CHF million	31.12.2016	31.12.2015
Liabilities due to banks	334	255
Other financial liabilities (interest bearing)	1'891	2'165
Issued debt instruments	150	150
Total financial liabilities	**2'375**	**2'570**
Cash and cash equivalents	1'708	1'935
Other financial assets	378	416
Total cash and cash equivalents and other financial assets	**2'086**	**2'351**
Net financial liabilities	**289**	**219**
Total equity (without non-controlling interests)	**14'597**	**14'108**
Ratio of net financial liabilities to equity	**2.0 %**	**1.6 %**
Balance sheet total	**21'703**	**21'323**
Ratio of equity to balance sheet total	**67.3 %**	**66.2 %**

The ratio of net financial liabilities to equity increased by 0.4 % to 2.0 % due to the increase in net financial liabilities and a smaller increase in equity in relative terms. As the relative increase in equity was slightly higher than the relative increase in the balance sheet total, the ratio between the two increased to 67.3 %.

4.2.3 Financial risk management in the Financial Services sector (Migros Bank)

Assumption of risks is one of the entrepreneurial functions of a bank, for which it is compensated by corresponding risk premiums. Consciously handling risks is therefore a key element of a bank's success. The Financial Services sector therefore regards financial risk management as one of its core competencies. Banks are also subject to extensive regulatory provisions relating to the individual types of risk, and compliance with those is regularly monitored by the auditors and the supervisory authorities.

The Financial Services sector traditionally adopts a conservative risk policy, concentrating its activities on business areas where risks tend to be moderate.

The bank's basic risk policy is set out in the organisational rules, and regulated in detail in the competence regulations and directions.

The Board of Directors is the most senior body responsible for financial risk management, setting out the levels of competence and limits. The Board also regulates the method of risk measurement and limitation. The Board of Directors is kept fully informed by the Executive Management about the development of all risks at its quarterly board meetings.

Within the Executive Management, the Chief Risk Officer is responsible for daily financial risk management. He heads the Risk Office, which is an independent unit that monitors compliance with credit authorities and risk limits, and is also responsible for measurement and reporting of risks.

At operational level, overall responsibility for financial risk management rests with the Risk Council. This comprises members of the Executive Management and other field specialists. The Risk Office advises the Risk Council at its monthly meetings about the development of all risks. Depending on how risks have developed, and the estimation of future market trends, it is within the competence of the Risk Council to decide to take on additional risk, or to order the hedging of existing risk.

Credit risks

Credit risk, or counterparty risk, relates to the risk that a party will not meet the obligations it has entered into. Credit risk exists both on traditional bank products (e.g. mortgages) as well as on trading activities. If a customer fails to meet its obligations, the result may be a loss for the bank.

To limit credit risk, a level-based approval procedure is in place for new credits. The credit decision-making process distinguishes between the internal competence of a branch and that of the head office or the Board of Directors, according to separate competence regulations. The approval procedure is based on a clear division between credit application and credit approval (four-eye principle). Because of the high volume of mortgage business, most transactions can be decided by internal authority. The internal decision-making pathways are short. The Central Credit Committee is responsible for supervising all credits transacted in respect of the applicable credit policy and compliance with the bank's relevant global instructions.

Most of the lending in the Financial Services sector relates to mortgage loans. These loans are secured on real estate. This real estate can be realised only if the borrower ultimately defaults.

In measurement of real estate, the applicable principle is that the market value must be equivalent to no more than the purchase price (lending base for funding). The market value is verified in all cases. In all cases, the market value is reviewed on the basis of own assessments, or on expert reports from representative architects, and always works from conservative values (land, buildings, rate of capitalisation, etc.). The measurement of individual real estate assets is done using a standardised form for market value estimates. In the owner-occupier homes sector (single-family house, privately owned flats), the bank uses actual values. Where there are special factors, such as properties for which there are only a few prospective buyers, the market values are corrected downwards. In the case of investment properties (apartment blocks and business premises), measurement is based in principle on the capitalised earnings value. The capitalisation rate is fixed according to the property-specific features (region, position, condition, rental structure, level of rental compared to surrounding area). In the case of investment properties, the real value is determined solely to assess whether it is reasonable. If a lower real value points to a clear discrepancy between these two values, a combined value is determined, with the weighting of two to three times the capitalised earnings value and one or two times the real value. For commercial and industrial properties, measurement is also based on the capitalised earnings value. In sectors of higher risk, the capitalisation rate is increased.

Credit quality of outstanding mortgages and other customer receivables
The Financial Services sector uses a rating model with ten rating levels to support the credit rating decision. It takes qualitative and quantitative elements into consideration for customers who are required to keep accounts and their business-specific collateral. For business customers, the ratings of commercial credits are reviewed annually. In the mortgage business, a rating procedure is used that is based on the value of the loan. The credit review period in the mortgage business varies according to the rating level, the amount of the commitment and the collateral received. The rating model ensures that the credit commitment is managed commensurate to the risk involved.

Analysis of mortgages and other customer receivables

Breakdown of receivables by rating levels (type of collateral)

	Mortgage receivables (part in %)		Other customer receivables (part in %)		Total (cumulative)	
Internal rating level	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
1	2.1	2.2	3.4	3.2	2.2	2.2
2	16.3	16.1	6.9	9.4	15.8	15.8
3	45.3	44.0	29.5	26.7	44.4	42.7
4	15.7	16.3	28.9	36.0	16.4	17.4
5	19.6	20.2	23.6	19.0	19.8	20.2
6	0.6	0.8	2.2	3.7	0.7	1.0
7	0.1	0.1	2.4	0.7	0.2	0.2
8	0.2	0.2	2.1	0.8	0.3	0.3
9	0.1	0.1	0.3	0.1	0.1	0.1
10	–	–	0.7	0.4	0.1	0.1
Total in %	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Total in CHF million	**34'218**	**33'580**	**2'298**	**2'528**	**36'516**	**36'107**

The bank estimates that rating levels 1–5 correspond to an investment grade rating.

Lending margins
The Financial Services sector works on a secured basis for most of its credit business. More than 90 % of customer lending is granted on that basis, with the emphasis on mortgage lending. Most loans are secured by charges on land. Credit allocation is based on conservative lending margins. In more than 90 % of the total mortgage business, the amount of the loan is less than 80 % of the prudently estimated market value. Current valuations of the properties to be mortgaged are part of each credit advance. Most of the corresponding collateral comes from the private housing sector, and is well diversified throughout Switzerland. In order to determine the sustained affordability, a technical interest rate corresponding to a long-term average interest rate is assumed for residential mortgages.

Identification of default risks
Commitments where there is an increased risk (limits exceeded, arrears of interest, etc.) are closely monitored and dealt with. Handling is done in principle by the account holding branch. Depending on the amount of the loan and the complexity of the credit item, the central credit committee will also be involved. The branches send monthly lists of exceeded limits and half-yearly credit risk lists with comments to head office. To assess the need for impairment where debts are at risk, the liquidation value (estimated realisable value) of the credit collateral is determined. The liquidation value is determined from a current internal or external market value estimate, based on a visit to the site. The usual value reductions, maintenance costs and liquidation expenses not yet incurred are deducted from the estimated market price.

Interbank business/trading business
The Financial Services sector controls counterparty and/or default risks on trading activities and interbank transactions by means of credit limits on each counterparty; these are also based primarily on the rating, in addition to other criteria. The relevant control figures for the credit risks are submitted to the Risk Council on a monthly basis for discussion.

Risk concentration
Under the Federal Banking Act, credit commitments that exceed 10 % of the bank's equity must be reported to the supervisory authorities. In the reporting year, as in the previous year, there were no such reportable commitments.

The Financial Services sector is centred mainly on mortgages. For the bank, this results in a concentration of risk in the Swiss real estate market. However, this risk concentration is considerably reduced by the structure of the credit portfolio. Accordingly, more than 90 % of the loan portfolio relates to residential housing, and the average credit amount is just CHF 0.4 million.

Market risks

Financial market risks are deemed to include mainly the risks and uncertainties of price fluctuations, including interest rate changes. Volatility changes, correlation modifications to the base products and derivatives can also be included, as well as possible changes to dividend payments. Above certain levels, trading liquidity can also have a corresponding impact on price formation, and thus alter the fluctuation risk. Market and trading risk is considerably affected by the behaviour of market operators.

(a) Interest rate risks

In the traditional core business of interest margin, interest rate changes can have a major impact on earnings. The Risk Office is responsible for the systematic measurement and monitoring of interest rate risk. The Risk Council is responsible for controlling interest rate risk based on these assessments and forecasts of future interest rate trends. Interest rate swaps are the principal means of controlling risk exposure.

The effects of interest rate changes on profit and loss are estimated using a dynamic income simulation, taking a number of different scenarios as a basis. In this case, the main scenario assumes a parallel shift of 1 % in the yield curve over twelve months.

According to this scenario, with a 1 % (100 basis points) rise in interest rates, the pre-tax earnings would have been CHF 95 million (31.12.2015: CHF 83 million) lower. With a 1 % fall in interest rates, the pre-tax earnings would have been CHF 95 million (31.12.2015: CHF 83 million) higher. Earnings reacted more sensitively to market interest rate changes in 2016 than 2015 since risk exposure increased due to the expiration of interest rate swaps.

(b) Share price risks

Trading is centralised, and conducted by a team of specialists. A special software is used for systematic measuring, control and monitoring of market risks in the trading ledger. A limit structure restricts the risk exposure, which is assessed using the mark-to-market method. The risk exposure is produced periodically and earnings with profit and loss figures are recorded daily and communicated to the responsible competence parties.

To minimise the share price risk, share investments are subject to an appropriate level of diversification based on markets, securities and branches. Loss of value risks are reduced by analyses before the purchase and by the regular monitoring of the investments' performance and risks.

Share price risk is monitored using a simulation calculation. This represents the effects of changes in share prices on the income statement. With few exceptions, equity investments in the Financial Services sector are listed on the stock market.

If share prices had been 10 % higher on 31 December 2016, earnings would have been CHF 0.3 million (31.12.2015: CHF 0.3 million) higher. If share prices had been 10 % lower on 31 December 2016, pre-tax earnings would have been CHF 0.3 million (31.12.2015: CHF 0.3 million) lower.

Due to the reduced share portfolio, a change in share prices in 2016 had little impact on income, as was also the case in 2015.

(c) Foreign exchange risk

As a retail bank that operates exclusively within Switzerland, the Financial Services sector is only exposed to a low volume of foreign currency risk in its business activity. Relevant foreign currency items arise solely from security investments in foreign currencies, stocks of banknotes and private accounts held in euros.

The maximum permitted foreign currency exposure for each currency is set out in the organisational rules and/or in the relevant limits regulation. The Foreign Exchange and Money Market Trading Department is responsible for hedging foreign currency exposure on the market. The main hedging instruments used are forward exchange contracts.

Foreign currency exposure is calculated monthly by the Risk Office and transmitted to the Risk Council.

Calculation of foreign currency exposure is based on a hypothetical change in exchange rates relative to the holdings of financial instruments on the reporting date. It is assumed that the holdings on the reporting date are representative for the whole year.

Balance sheet by currency

31.12.2016

million	CHF	EUR	USD	GBP	Other	Total
Financial assets						
Cash and cash equivalents	4'479	226	92	13	85	4'894
Receivables due from banks	–	241	117	–	–	358
Mortgages and other customer receivables	36'457	39	19	0	0	36'516
Other receivables	–	–	–	–	–	–
Other financial assets	377	379	3	1	1	760
Total financial assets	**41'313**	**884**	**231**	**14**	**85**	**42'528**
Financial liabilities						
Payables due to banks	–24	–38	–1	–0	–14	–77
Customer deposits and liabilities	–31'563	–854	–241	–19	–82	–32'759
Other financial liabilities	–0	–	–	–	–	–0
Other liabilities	–78	–	–	–	–	–78
Issued debt instruments	–5'882	–	–	–	–	–5'882
Total financial liabilities	**–37'547**	**–892**	**–242**	**–19**	**–96**	**–38'796**
Foreign currency net exposure before hedging	**3'766**	**–8**	**–11**	**–5**	**–11**	**3'732**
Foreign currency derivatives		1	–0	–	–0	
Foreign currency net exposure after hedging		**–7**	**–11**	**–5**	**–11**	

31.12.2015

million	CHF	EUR	USD	GBP	Other	Total
Total financial assets	40'749	854	225	13	76	41'916
Total financial liabilities	–37'201	–864	–233	–17	–83	–38'398
Foreign currency net exposure before hedging	**3'549**	**–10**	**–9**	**–5**	**–7**	**3'518**
Foreign currency derivatives		1	–0	–	–0	
Foreign currency net exposure after hedging		**–10**	**–9**	**–5**	**–7**	

Results of the sensitivity analysis
If EUR had been 5 % stronger against CHF on 31 December 2016, the pre-tax earnings would have been CHF 0.4 million (31.12.2015: CHF 0.5 million) lower. If it had weakened by the same amount against CHF, the effect on the pre-tax earnings would have been the reverse.

If USD had been 5 % stronger against CHF on 31 December 2016, the pre-tax earnings would have been CHF 0.6 million (31.12.2015: CHF 0.4 million) lower. If it had weakened by the same amount against CHF, the effect on the pre-tax earnings would have been the reverse.

Due to the reduced net position in EUR and in USD, a change in foreign currency prices in 2016 had little impact on income, as was also the case in 2015.

Liquidity risks

Liquidity risk includes both market liquidity risk and cash flow risk. The result of the latter is that an entity is not in a position to fulfil its financial obligations because of a lack of refinancing facilities.

The liquidity and/or refinancing situation in the short-term sector is controlled daily by central money trading. Medium- and long-term aspects are analysed and monitored in Asset & Liability Management.

The Risk Council is advised of the current situation monthly as part of the balance sheet reporting procedure, and also receives evaluations and comparative data on the benchmarks to be maintained under banking legislation, submitted quarterly.

To ensure that there is adequate liquidity, the legislature has decreed minimum stipulations for short-term and medium-term liquidity. These minimum stipulations are constantly maintained.

Compliance with liquidity requirements specified by the banking legislation

	Short-term liquidity		Medium-term liquidity	
CHF million	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Creditable liquidity	4'284	3'902	4'525	4'138
Required liquidity	210	211	2'507	2'424
Excess liquidity	4'074	3'691	2'018	1'714
Degree of compliance	2'040.0 %	1'849.3 %	180.5 %	170.7 %

4.2.4 Capital risk management in the Financial Services sector

In the Financial Services sector, capital risk management is oriented primarily to the equity rules under the banking legislation. These define a minimum ratio between risk-weighted assets and eligible own funds. Additional own funds are required for contingent liabilities and market risks incurred.

Capital adequacy requirements of the Financial Services sector

CHF million	31.12.2016	31.12.2015
Capital resources required and creditable as per the banking legislation		
Credit risks	1'305	1'314
Market risks	7	8
Risks not related to counterparties	64	71
Operating risks	90	90
Total capital resources required	**1'465**	**1'483**
Equity as per Swiss GAAP FER	3'545	3'356
Corrections due to banking legislation[1]	–32	–33
Creditable capital resources as per the banking legislation	**3'512**	**3'323**
Excess creditable capital resources	**2'048**	**1'841**
Excess in % of required resources	**139.8**	**124.1**

[1] The difference between equity recognised under Swiss GAAP FER and eligible capital resources under the Banking Act results primarily from the different accounting treatment of debt instruments as part of the other financial assets.

5. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, as well as future expectations that appear reasonable under the particular circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. There is also an explanation of the accounting principles that might have a significant impact on the Group financial statements because of the Management's assessment.

(a) Fair values of other financial assets and financial instruments

The fair value of other financial assets and financial instruments that are not traded in an active market (e.g. non-listed equity instruments and derivatives traded “over the counter”) is determined by using valuation techniques. This means making assumptions that rely on observable market data. The discounted cash flow method (DCF) was used to determine the fair value of a number of unlisted current asset securities. The DCF calculation is based on Bloomberg yield curves, taking into account the relevant parameters (rating, maturity, etc.).

(b) Impairment of fixed asset securities

Migros Group follows the guidelines of Swiss GAAP FER 20 to determine whether there is an impairment that is not of a temporary nature. To determine an impairment, the Management draws on a number of factors in its assessment, such as time development, scope of the impairment, branch, technological environment, development of credit default swap spreads, and so on. This procedure is thus based on significant estimates that involve some uncertainty. In both the reporting year and the previous year, fixed asset securities were impaired. See Note 7 Net income from the financial services business and Note 13 Finance income and cost.

(c) Useful lives of fixed assets

The useful lives of fixed assets are defined on the basis of current technical conditions and past experiences. However, the actual useful lives can vary from those originally determined, as a result of technological change and market conditions. Where variations from the useful lives as originally defined do occur, these are adjusted.

(d) Impairment of fixed assets and intangible assets

The recoverability of fixed assets, intangible assets and other non-current assets is always reviewed when there is specific evidence that the carrying amounts have been overstated. Recoverability is determined on the basis of management estimates and assumptions regarding the future benefit to be derived from these assets. The values actually arrived at may differ from these estimates. In connection with investment projects, uncertainties as regards cost overruns and income targets can exist. See also Note 26 Fixed assets and Note 27 Intangible assets.

(e) Income tax expense

As the Group is liable to pay tax in various countries and cantons, some estimated figures must be used for calculating provisions for taxation. Consequently, differences between the actual results and assumptions made by the Management can affect future tax expenditure and tax refunds. Based on appropriate estimates, provisions for taxation are made for obligations whose cost and likelihood of occurrence cannot be determined with certainty.

(f) Deferred income tax assets

Deferred income tax assets on unused loss carry forwards are recognised when it is probable that there will be future profits available to offset these loss carry forwards against tax. The assessment of recoverability of the recognised deferred income tax assets is based on assumptions regarding future realisable fiscal gains.

6. Segment reporting

Segment reporting contains information about the business segments, as well as additional details about the Group split into different regions.

6.1 Determination of operating segments

The operating segments of Migros Group are determined based on the organisational units internally reported to the Executive Board of the Federation of Migros Cooperatives as the chief operating decision maker responsible for all segments. For the purpose of internal reporting, Migros Group is divided into five strategic business units that, because of their key role, are reportable operating segments. Other activities that are not assigned to these strategic business units but that support the Group as a whole are generally independent operating segments. As such activities on their own are not large enough to be shown as an individual segment, they are grouped together under the Others segment. This results in the following six business segments differing by the products and services they produce or offer:

- **Cooperative Retailing:**
  All activities of the Migros Cooperatives and their subsidiaries in Switzerland and abroad (supermarkets and hypermarkets including the Tegut Group, wholesale, catering, specialist markets, leisure, health services, Club Schools), services of logistics companies of the Group (transport of goods, central warehouse) and services provided by the Federation of Migros Cooperatives (central purchasing, Migros Media, etc.) including all commitments of Migros Group relating to the Migros Culture Percentage.

- **Commerce:**
  Sale of goods and rendering of services by Denner (discount retailer), Globus and Schild (department stores, men's and ladies' wear), Interio (furniture stores), Gries Deco (home accessories), Digitec Galaxus and Le Shop as well as Dolphin France (internet retail stores), Ex Libris (entertainment media), Office World as well as Iba (office equipment), m-way (electromobility), Migrol and Swisstherm (heating/fuel oils and heat supply) and migrolino (convenience stores).

- **Industry & Wholesaling:**
  Production and sale of goods by Migros Industry companies within and outside of the Group as well as by the wholesale businesses Saviva (Scana and Cash+Carry Angehrn) and Lüchinger + Schmid.

- **Financial Services:**
  Services provided by Migros Bank in the Financial Services sector.

- **Travel:**
  Organisation, provision of tour operator and travel agent as well as other related tourist services through the Hotelplan Group.

- **Others:**
  Business activities of Liegenschaften-Betrieb AG (property management).

6.2 Information about operating segments

The internal reporting is completely based on the measurement methods used for the Swiss GAAP FER Group financial statements, according to Note 3.

The performance of the segments is, in particular, evaluated based on the result before finance income and income taxes. This also applies to the segment Financial Services because the income and expenses from the financial services business also constitute part of the operational activities and thus of the operating result before finance income. Transactions between the segments are generally based on market prices.

As regards segment assets and segment liabilities, the Financial Services segment differs from the other five operating segments, together forming the Retail and Industry sector of Migros Group. Whilst for the Financial Services segment internal reporting focuses on total assets and total liabilities, the other segments only show net amounts under assets and liabilities, containing only certain asset and liability items. These net amounts for the segment assets (Net Operating Assets) include inventories, investment property, fixed assets, intangible assets as well as trade receivables and trade payables. The net amount for segment debt (net borrowing) is the difference between interest-bearing liabilities and financial assets realizable at short notice.

The definition of segment investments applies to all business segments and shows in each case the investments in long-term assets, including investment property, fixed assets as well as intangible assets.

In the reporting year, as in the previous year, other expenditure and income not affecting liquidity includes, in particular, provisions created or written back not affecting liquidity.

Information by operating segment

2016 CHF million	Cooperative Retailing	Commerce	Industry & Wholesaling	Financial Services	Travel	Others	Total segments	Reconciliation[1]	Total Migros Group
Income									
↳ from third parties	16'257	7'541	1'785	825	1'291	38	27'738	–	27'738
↳ from other segments	542	61	4'132	2	0	81	4'818	–4'818	–
Total income	**16'799**	**7'602**	**5'918**	**827**	**1'292**	**119**	**32'556**	**–4'818**	**27'738**
Operating profit	**542**	**–87**	**154**	**270**	**–12**	**51**	**918**	**–7**	**911**
Segment assets	10'364	2'103	2'352	42'718	29	576	58'142	5'395	63'537
Segment liabilities[2]	6	1'173	256	39'174	–13	394	40'989	5'093	46'082
Other information									
Investments	1'156	225	206	23	5	49	1'663	–	1'663
Depreciation, amortisation	751	211	205	30	35	34	1'266	–	1'266
Impairment[3]	1	87	20	25	–	–	133	–	133
Reversal of impairment[3]	–0	–0	–9	–10	–	–	–18	–	–18
Other expenditure (income) not affecting liquidity	30	24	6	–	1	1	61	–2	59

2015 CHF million	Cooperative Retailing	Commerce	Industry & Wholesaling	Financial Services	Travel	Others	Total segments	Reconciliation[1]	Total Migros Group
Income									
↳ from third parties	16'134	7'303	1'750	862	1'314	44	27'406	–	27'406
↳ from other segments	513	51	4'129	2	0	84	4'779	–4'779	–
Total income	**16'646**	**7'354**	**5'879**	**864**	**1'314**	**128**	**32'186**	**–4'779**	**27'406**
Operating profit	**534**	**–31**	**154**	**284**	**–15**	**57**	**982**	**–1**	**982**
Segment assets	9'768	2'192	2'388	42'140	24	684	57'196	4'942	62'138
Segment liabilities[2]	22	1'035	270	38'783	–24	510	40'596	4'740	45'336
Other information									
Investments	897	196	195	17	5	46	1'356	–	1'356
Depreciation, amortisation	759	211	209	30	30	39	1'279	–	1'279
Impairment[3]	26	31	7	13	–	–	77	–	77
Reversal of impairment[3]	–0	–0	–1	–18	–	–	–20	–	–20
Other expenditure (income) not affecting liquidity	18	17	10	–	0	0	47	–	47

[1] The reconciliation includes the elimination of connections between segments. The reconciliation only contains further items (see below overview) under segment assets and segment liabilities.
[2] In the segments of the Retail and Industry sector, segment liabilities represent a net value between the interest-bearing loan capital and other financial assets realisable at short notice. A negative value of this net amount means that the other financial assets realisable at short notice exceed the interest-bearing loan capital.
[3] Incl. impairments and reversals of impairments on receivables and other financial assets of the Financial Services segment.

Reconciliation from segment to group statement

Reconciliation of profit

CHF million	2016	2015
Operating profit Total segments	918	982
Eliminations	–7	–1
Operating profit Migros Group	**911**	**982**
Financial profit	–21	–35
Profit before income tax Migros Group	**890**	**947**

Reconciliation of assets

CHF million	2016	2015
Total segment assets	58'142	57'196
Trade payables	1'692	1'634
Non-operative assets	11'055	11'236
Eliminations	–7'352	–7'927
Total assets Migros Group	**63'537**	**62'138**

Reconciliation of liabilities

CHF million	2016	2015
Total segment liabilities	40'989	40'596
Other financial assets realisable at short notice	3'362	3'680
Non-interest-bearing liabilities	4'779	4'674
Eliminations	–3'048	–3'615
Total liabilities Migros Group	**46'082**	**45'336**

6.3 Information by region

Migros Group operates mainly in Switzerland and in some countries abroad. Income and assets are allocated to the regions of Switzerland and Other countries depending on the location of the sites producing the goods and rendering the services. The region Switzerland consequently contains all activities of the Swiss Migros companies, including their export business to other countries. The region Other countries contains all activities of the foreign companies of Migros Group. These consist mainly of companies in Germany, the UK, France, Italy and North America. The shown long-term assets include investment property, fixed assets as well as intangible assets held at the respective balance sheet date.

Information by region

			2016			2015
CHF million	Switzerland	Other countries	Total	Switzerland	Other countries	Total
Total income from third parties	24'915	2'823	27'738	24'806	2'601	27'406
Long-term assets	13'271	739	14'009	13'028	703	13'730

Explanations to the income statement

7. Net income from the financial services business

CHF million	2016	2015
Interest income		
Cash and cash equivalents	2	2
Receivables due from banks	2	2
Mortgages and other customer receivables	667	704
Fixed asset securities	7	9
Total interest income	**677**	**717**
Interest expense		
Payables due to banks	–51	–65
Customer deposits and liabilities	–55	–82
Issued debt instruments	–111	–116
Total interest expense	**–217**	**–264**
Impairments on credit business[1]		
Receivables due from banks	–	–
Mortgage receivables	–5	–3
Other customer receivables	–20	–11
Total Impairments on credit business	**–25**	**–13**
Reversals of impairments on credit business[1]		
Receivables due from banks	–	–
Mortgage receivables	2	4
Other customer receivables	8	15
Total reversal of impairments on credit business	**10**	**18**
Net interest income	**445**	**458**
Commission income		
Mortgages and other customer receivables	5	6
Securities and investment business	58	58
Income from other services	40	37
Total commission income	**103**	**101**
Commission expense	–14	–14
Net commission income	**89**	**88**
Income from other financial assets		
Profit (loss) on current asset securities	1	–2
Profit (loss) on fixed asset securities	–	–
Impairment on fixed asset securities	–	–
Reversal of impairments on fixed asset securities	–	–
Dividend income on fixed asset securities	3	3
Currency translation differences, net	32	41
Income from other financial assets	**37**	**42**
Total profit from the financial services business	**571**	**588**
Disclosed in the financial statements of the Migros Group under:		
Income of financial services business	817	861
Expenses of financial services business	–246	–272
Total profit from financial services business	**571**	**588**

[1] Of mortgages and other customer receivables and receivables due from banks.

Despite the higher balance sheet total, the continuing fall in interest rates led to lower net interest income. Impairments and reversals of impairments fall within a long-term variation range.

8. Other operating income

CHF million	2016	2015
Income from advertising services	44	47
Internally generated assets (fixed and intangible)	29	21
Revenue from the disposal of		
↳ Investment property	6	4
↳ Fixed assets	20	6
↳ Intangible assets	–	3
↳ Investments	0	1
Other operating income	274	264
Total other operating income	**374**	**345**

Other operating income includes income from regular sidelines. This income includes government grants amounting to CHF 4 million (2015: CHF 5 million). Other forms of government grants directly benefiting Migros Group amount to CHF 1 million (2015: CHF 1 million). No outstanding conditions and other income uncertainties in connection with government grants shown in the accounts existed at the respective balance sheet date.

Other operating income also includes badwill of CHF 6 million, resulting from acquisitions made in 2016 (cf. Note 39).

9. Cost of goods and services sold

CHF million	2016	2015
Cost of goods and services sold	15'717	15'681
Inventory change	45	–7
Total cost of goods and services sold	**15'762**	**15'674**

Cost of goods and services sold include government grants in favour of Migros Industry (mainly in the form of customs duty refunds and milk refunds) totalling CHF 8 million (2015: CHF 9 million) shown as a reduction of costs. No other forms of government grants directly benefiting Migros Group existed at the respective balance sheet date. No outstanding conditions and other income uncertainties in connection with government grants shown in the accounts existed at the respective balance sheet date.

10. Personnel expenses

CHF million	Notes	2016	2015
Wages and salaries		4'520	4'397
Pension costs	33	456	436
Social insurance and other social security benefits		549	531
Other personnel expenses		248	245
Total personnel expenses		**5'774**	**5'609**

In agreement with the social partners, Migros companies granted salary increases – individually and performance-related – of between 0 % and 0.5 % in 2016. Furthermore, the increase in wages and salaries compared to the previous year is due to expansion at a number of different companies. Adjusted for acquisitions, the number of full-time positions increased (31 December 2016: 74'161; 31 December 2015: 71'658).

Included among other personnel expenses are expenses for long-service awards and further training of employees.

Personnel expenses include government grants totalling CHF 0.2 million (2015: CHF 0.1 million) shown as a reduction of costs.

11. Depreciation and amortisation

CHF million	Notes	2016	2015
Investment property	25		
↳ Ongoing depreciation & amortisation		7	7
↳ Impairments		0	–
↳ Reversal of impairments		–	–
Total depreciation & amortisation investment property		7	7
Fixed assets	26		
↳ Ongoing depreciation & amortisation		1'092	1'115
↳ Impairments		22	49
↳ Reversal of impairments		–0	–0
Total depreciation & amortisation fixed assets		1'114	1'164
Intangible assets	27		
↳ Ongoing depreciation & amortisation		168	157
↳ Impairments		81	5
↳ Reversal of impairments		–	–
Total depreciation & amortisation intangible assets		248	162
Other Assets			
↳ Ongoing depreciation & amortisation		–	–
↳ Impairments		0	–0
↳ Reversal of impairments		–	–
Total depreciation & amortisation other assets		0	–0
Total depreciation & amortisation			
↳ Ongoing depreciation & amortisation		1'266	1'279
↳ Impairments		103	53
↳ Reversal of impairments		–0	–0
Total depreciation & amortisation		**1'370**	**1'332**

12. Other operating expenses

CHF million	2016	2015
Rental and building-lease cost	832	816
Losses from the disposal of		
↳ Investment property	0	0
↳ Fixed assets	2	6
↳ Intangible assets	0	–
↳ Investments	6	–0
Maintenance	430	416
Energy and consumables	479	490
Advertising	647	616
Administration	369	401
Other operating expenses	909	793
Total other operating expenses	**3'675**	**3'537**

Other operating expenses include costs of services relating to IT, logistics and transportation, as well as levies, fees, property and capital taxes.

13. Finance income and cost

CHF million	2016	2015
Finance income		
Interest income		
Cash and cash equivalents	2	2
Receivables due from banks	0	1
Fixed asset securities	5	7
Loans	3	2
Other interest income	1	1
Total interest income	**10**	**14**
Profit from other financial assets		
Profit / (loss) on current asset securities	7	29
Profit / (loss) on fixed asset securities	0	19
Dividend income on fixed asset securities	1	2
Currency translation differences, net	1	–26
Total profit from other financial assets	**9**	**25**
Reversal of impairments on fixed asset securities and receivables due from banks		
fixed asset securities	–	12
Loans	0	0
Receivables due from banks	–	–
Total reversal of impairments on fixed asset securities and receivables due from banks	**0**	**12**
Impairments on fixed asset securities and receivables due from banks		
Fixed asset securities	–1	–23
Loans	–1	–0
Receivables due from banks	–	–
Debt waiver of receivables	–2	–0
Total impairments on fixed asset securities and receivables due from banks	**–4**	**–24**
Total finance income	**16**	**28**
Finance costs		
Interest expense		
Payables due to banks	–3	–4
Issued debt instruments	–3	–3
Other financial liabilities	–0	–0
Finance leasing	–7	–8
Provisions: present value adjustments	–0	–0
Other interest expense	–19	–38
Total interest expense	**–32**	**–54**
Other finance costs	–7	–7
Total finance costs	**–40**	**–61**

14. Income tax expense

CHF million	2016	2015
Current income tax expense	211	221
Current income tax expense of previous years	6	–1
Total current income taxes	**217**	**220**
Deferred income tax expense / (income)	–5	–59
Changes to income tax rates	14	–5
Total deferred income taxes	**10**	**–64**
Total income tax expense	**227**	**155**

Reconciliation of expected and effective income tax expense

CHF million	2016	2015
Profit before income tax	890	947
Weighted average tax rate in	20.3 %	20.2 %
Expected income tax expense	**181**	**191**
Reasons for increase / decrease		
↳ Non-tax-deductible expenses	8	7
↳ Tax-exempted income (incl. income from investments)	–24	–76
↳ Use of non-capitalized tax loss carry forwards	–4	–1
↳ Non-capitalization of deferred income tax assets on period losses	35	35
↳ Non-deductible depreciation / impairments of goodwill	12	12
↳ Tax on gains from disposal of properties (Zurich model)	–	0
↳ Changes to tax rates	14	–5
↳ Income tax expense of previous years	6	–1
↳ Other effects	–1	–7
Total effective income tax expense	**227**	**155**
Effective income tax rate	25.5 %	16.4 %

In 2016, the expected income tax expense deviated by CHF – 46 million (previous year: CHF + 36 million) from the effective income tax expense. The increase in the weighted Group tax rate from 20.2 % to 20.3 % is in line with normal fluctuations. The tax-exempted income in 2015 included a reversal of impairments on deferred tax assets.

Development of the deferred tax liabilities (net)

CHF million	2016	2015
As per 1 January	**1'353**	**1'379**
Changes to the scope of consolidation	7	36
Recorded through profit and loss	10	–64
Currency translation differences	–1	3
As per 31 December (net)	**1'369**	**1'353**

The deferred tax liabilities/assets shown in the Group balance sheet are made up of the following items:

	Deferred income tax assets		Deferred income tax liabilities	
CHF million	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Reasons for deferred income tax				
Cash and cash equivalents	–	–	–	–
Receivables	1	1	13	23
Inventories	0	0	124	116
Fixed assets	8	4	733	691
Intangible assets	4	4	73	90
Other financial assets	1	1	54	42
Tax losses carry forwards	196	169	–	–
Other assets	0	0	119	109
Liabilities from employee benefits	1	1	1	1
Financial liabilities	24	24	–	–
Other liabilities	7	6	378	378
Total	**242**	**209**	**1'494**	**1'450**
Valuation allowance	–118	–113		
Netting	–55	–47	–55	–47
Total deferred income tax in balance sheet	**70**	**49**	**1'440**	**1'402**

The deferred income tax liabilities on other liabilities mainly derive from the different treatment of the flat-rate allowances in the financial services business under banking legislation and Swiss GAAP FER.

Deferred income tax assets and liabilities are offset against each other, provided it is permitted to offset current tax refunds against due income tax liabilities and where the income tax refers to the same tax subject.

Deferred income tax liabilities related to undistributed profit of group companies are not taken into consideration, as dividend payments, originating mainly from Swiss companies, are subject to participation deduction.

List of unused tax loss carry forwards for which no deferred income tax assets have been recognised:

CHF million	31.12.2016	31.12.2015
Maturity in 1 year	22	15
Maturity in 2 years	19	22
Maturity in 3 years	68	18
Maturity in 4 years	31	61
Maturity in 5 years	31	38
Maturity after 6 years	220	138
No maturity	167	221
Total of unused tax loss carry forwards	**557**	**512**

Income tax effects on tax losses carried forward can only be taken into consideration if adequate taxable results can be produced in future against which the tax loss carry forwards can be offset. The evaluation of whether tax effects can be capitalised depends on the expected development of the business and the existence of tax savings options. The increase in unused tax loss carry forwards, on which no deferred income tax assets were applied, was due to additional tax loss carry forwards of companies for restructuring as well as the reassessment of recognised tax loss carry forwards. The ability to use these loss carry forwards must be assessed every year.

15. Expenditure for cultural, social and economic policy purposes

Funding provided by Migros Culture Percentage is a voluntary commitment by Migros in the areas of culture, society, education, leisure and the economy. With its institutions, projects and activities, Migros makes culture and education broadly accessible to the population. The following funding is provided for the different areas:

CHF million	2016	2015
Culture	32	29
Education / training	60	61
Social	7	9
Leisure and sport	11	9
Economic policy	3	3
Administration	7	8
Special expenditure	–	–
Total expenditure for cultural, social and economic policy purposes	**120**	**120**

The financing of this item of expenditure is specified in the statutes and rules of the Cooperatives (incl. the FMC). The Cooperatives have undertaken to spend at least 0.5 % (FMC 0.33 %) of their retail sales – over a four-year average – on cultural, social and economic policy purposes. Some of the funds are, for instance, used to support the Club Schools. This expenditure is included in the operating costs. According to Swiss GAAP FER, shortfalls within the four-year period do not qualify as obligations and excess expenditure does not qualify as an asset.

Provisions are thus only made for performance obligations towards third parties existing at the balance sheet date. Compliance with the stipulations of the statutes and rules is thus verified by the calculation of the so-called “Culture Percentage reserve”. The calculation highlights any shortfalls in Culture Percentage expenditure that has to be made up over the coming years.

Culture Percentage reserve

CHF million	2016	2015
Minimum expenditure required	112	112
Incurred expenditure	120	120
Excess / (shortfall) in expenditure for the financial year	**8**	**8**
Excess / (shortfall) in expenditure for 4-year period	32	36
Culture Percentage reserve as per 31 December	**–**	**–**

In the 2016 financial year, Migros Group's expenditure relating to the Culture Percentage exceeded the minimum specified in the charter by CHF 8 million. No Culture Percentage reserve was set up in 2016.

The Culture Percentage reserve is part of retained earnings.

16. Discontinuing operations

CHF million	31.12.2016	31.12.2015
Parameters for discontinued operations (business areas) during the reporting period		
Net revenue from goods and services sold	–	–
Earnings before interest and taxes (EBIT)	–	–
Cash flow from operating activity	–	–

No operations were discontinued as at 31.12.2016 and 31.12.2015.

Explanations to the balance sheet

17. Cash and cash equivalents

CHF million	31.12.2016	31.12.2015
Petty cash / postal accounts / bank accounts	6'369	5'826
Fixed-term deposits with an original maximum maturity of 90 days	121	103
Total cash and cash equivalents	**6'490**	**5'929**

18. Mortgages and other customer receivables

CHF million	31.12.2016	31.12.2015
By type of engagement		
Mortgages		
↳ Residential property	31'533	30'041
↳ Office and commercial property	1'051	1'220
↳ Manufacturing and industry property	1'530	1'463
↳ Other mortgages	118	868
Other customer receivables	2'319	2'518
Total mortgages and other customer receivables (gross)	**36'550**	**36'110**
Provision for impairment	–66	–63
Total mortgages and other customer receivables	**36'484**	**36'048**
By type of collateral		
Mortgages	34'353	33'718
Securities	8	10
Sureties or other collateral	111	120
Unsecured	2'078	2'263
Total mortgages and other customer receivables (gross)	**36'550**	**36'110**
Provision for impairment	–66	–63
Total mortgages and other customer receivables	**36'484**	**36'048**

The sustained demand for real estate loans resulted in an increase in mortgages and customer receivables by CHF 0.4 billion.

Changes to the provision for impairment

	2016			2015		
CHF million	Mortgages	Customer receivables	Total	Mortgages	Customer receivables	Total
As per 1 January	**13**	**50**	**63**	**17**	**66**	**82**
Changes to the scope of consolidation	–	–	–	–	–	–
Impairments	5	20	25	3	11	13
Reversals of impairments	–2	–8	–10	–4	–15	–18
Disposals	–2	–10	–12	–3	–12	–15
Currency translation differences	–	–	–	–	–	–
As per 31 December	**13**	**52**	**66**	**13**	**50**	**63**

The mortgage business of the financial services business is mainly secured and in the Swiss real estate market. Mortgages are based on conservative lending margins.

Impairments and reversals of impairments in the credit business are subject to greater fluctuations from one year to the next. As a long-term average, impairments and reversals of impairments are in line with what is normal in the sector.

CHF million	31.12.2016	31.12.2015
Mortgages pledged to mortgage bond bank	7'481	7'128
Loans from mortgage bond bank	5'118	5'151

19. Trade receivables and other receivables

CHF million	31.12.2016	31.12.2015
Receivables of goods and services sold	774	727
Other receivables	187	162
Total receivables of goods and services sold and other receivables (gross)	**961**	**889**
Provision for impairment	–27	–27
Total receivables of goods and services sold and other receivables	**933**	**862**

Other receivables include VAT refund claims, tax credits, receivables from credit card companies and security deposits.

Changes to the provision for impairment

CHF million	2016	2015
As per 1 January	**–27**	**–27**
Changes to the scope of consolidation	–0	–1
Impairments	–5	–7
Reversals of impairments	4	3
Disposals	1	3
Currency translation differences	0	1
As per 31 December	**–27**	**–27**
Pledged receivables	–	–

The formation and release through profit and loss of impairments of trade receivables and other receivables are recognised and reported in other operating expenses.

20. Inventories

CHF million	31.12.2016	31.12.2015
Raw materials and consumables	461	469
Work in process	70	63
Finished products	312	325
Goods for resale	1'944	1'916
Compulsory stocks	26	23
Total inventories (gross)	**2'812**	**2'796**
Provision for impairment	–249	–277
Total inventories	**2'563**	**2'519**
Pledged inventories	–	–

The level of inventories is stable. Impairments have decreased slightly in relation to the gross value.

21. Other financial assets

CHF million	Derivative financial instruments for trading portfolio	Current asset securities	Fixed asset securities	Loans	Total
Notes	*24*	*22*	*23*		
As per 1 January 2016	**5**	**138**	**1'084**	**133**	**1'359**
Changes to the scope of consolidation	–	0	0	6	6
Additions	2	49	79	114	244
Fair value gains / (losses) through profit and loss	36	6	14	–0	56
Reclassifications	–	–	–	–	–
Disposals	–27	–84	–162	–75	–349
Currency translation differences	–0	–0	–0	–0	–0
As per 31 December 2016	**16**	**108**	**1'014**	**178**	**1'316**
Accumulated provision for impairment					
As per 1 January 2016			**–1**	**–3**	**–5**
Changes to the scope of consolidation			–	2	2
Impairments			–1	–1	–2
Reversals of impairments			–	0	0
Reclassifications			–	–	–
Disposals			0	0	0
Currency translation differences			–	0	0
As per 31 December 2016			**–2**	**–2**	**–4**
Balance sheet value					
1 January 2016	**5**	**138**	**1'082**	**129**	**1'354**
31 December 2016	**16**	**108**	**1'012**	**176**	**1'312**
Additional information about financial instruments					
Pledged financial assets	–	–	–	–	–

Further details on the amounts of the other financial assets disclosed can be found in Notes 22 to 24. Further details on the other financial assets' effects on net income are included in Note 7 Net income from financial services business and Note 13 Finance income and cost.

CHF million	Derivative financial instruments for trading portfolio	Current asset securities	Fixed asset securities	Loans	Total
Notes	*24*	*22*	*23*		
As per 1 January 2015	**2**	**111**	**1'240**	**110**	**1'463**
Changes to the scope of consolidation	–	0	1	1	2
Additions	–	22	96	264	382
Fair value gains / (losses) through profit and loss	38	5	–0	–1	42
Reclassifications	–	31	–71	–	–40
Disposals	–35	–32	–182	–242	–491
Currency translation differences	–0	–	–0	–1	–1
As per 31 December 20145	**5**	**138**	**1'084**	**133**	**1'359**
Accumulated provision for impairment					
As per 1 January 2015			**–42**	**–4**	**–46**
Changes to the scope of consolidation			0	–	0
Impairments			–23	–0	–24
Reversals of impairments			12	0	12
Reclassifications			40	–	40
Disposals			13	0	13
Currency translation differences			–	0	0
As per 31 December 2014			**–1**	**–3**	**–5**
Balance sheet value					
As per 1 January 2015	**2**	**111**	**1'198**	**107**	**1'417**
31 December 2014	**5**	**138**	**1'082**	**129**	**1'354**
Additional information about financial instruments					
Pledged financial assets	–	–	–	–	–

22. Current asset securities

CHF million	31.12.2016	31.12.2015
Debt instruments		
Listed on stock exchanges	–	–0
Not listed	0	0
Total debt instruments	**0**	**0**
Equity instruments		
Listed on stock exchanges	104	134
Not listed	4	3
Total equity instruments	**108**	**137**
Total current asset securities	**108**	**138**

Due to the increased capital market risks, the portfolio of listed equity instruments in current assets was reduced.

23. Fixed asset securities

CHF million	31.12.2016	31.12.2015
Debt instruments		
Listed on stock exchanges	814	952
Not listed	86	49
Total debt instruments	**901**	**1'001**
Equity instruments		
Listed on stock exchanges	11	6
Not listed	103	77
Total equity instruments	**114**	**83**
Total fixed asset securities (gross)	**1'014**	**1'084**
Provision for impairment	–2	–1
Total fixed asset securities	**1'012**	**1'082**

Due to the increased capital market risks, debt instruments falling into the fixed asset securities category were reduced further both through sales and the decision not to reinvest in maturing securities. The increase in unlisted equity instruments can be attributed primarily to the participation of Migros Bank in the capital increase by the mortgage bond bank in the sum of CHF 14 million.

24. Derivative financial instruments

	31.12.2016			31.12.2015		
	Replacement values		Contract volume	Replacement values		Contract volume
CHF million	positive	negative		positive	negative	
Derivative financial instruments recognised						
Trading portfolio						
Interest instruments	–	0	80	–	1	80
Foreign currency instruments	16	1	1'612	5	5	1'105
Commodity hedging	0	–	1	–	–	–
Equity instruments	–	–	–	–	–	–
Total derivative financial instruments recognised	**16**	**2**	**1'693**	**5**	**6**	**1'185**
Derivative financial instruments not recognised						
Held for cash flow hedge						
Interest instruments	–	–	–	–	–	–
Foreign currency instruments	21	7	1'220	24	8	1'206
Commodity hedging	0	–	9	–	1	10
Held for Fair Value Hedge						
Interest instruments	0	31	4'001	–	86	7'750
Derivative financial instruments concluded in connection with related parties						
Foreign currency instruments - related counterparty[1]	167	51	9'553	96	38	8'494
Foreign currency instruments - third party counterparty[1]	51	167	9'553	38	96	8'494
Total derivative financial instruments not recognised	**240**	**256**	**24'336**	**157**	**228**	**25'953**
Total derivative financial instruments	**256**	**258**	**26'029**	**162**	**234**	**27'138**

[1] Foreign currency hedge contracts concluded between the Federation of Migros Cooperatives and the Migros Pension Fund with full risk tranfer to a third party.

The derivative financial instruments purchased by Migros Group as part of the hedging strategy, and which meet the hedge accounting criteria, are not reported in the balance sheet but instead only recognised upon maturity. Only fair value hedges and hedging instruments that do not meet or no longer meet the hedge accounting criteria are reported in the balance sheet.

The volume of foreign currency hedges recognised in the balance sheet (fair value hedges) was increased as a result of the rise in balance sheet items in foreign currencies for hedging.

With regard to company acquisitions, Migros Group has the option to acquire further shares. At the same time, the counterparties are given the right to sell. The prices of these buying and selling rights usually correspond to the fair value at the time they are executed. They are therefore not reported in the balance sheet.

25. Investment property

CHF million	2016	2015
Acquisition costs		
As per 1 January	**519**	**536**
Changes to the scope of consolidation	–0	3
Additions from		
↳ acquisitions	12	18
↳ capitalised costs	–	–
Reclassifications from / to fixed assets	8	2
Disposals	–12	–39
Currency translation differences	–0	–0
As per 31 December	**528**	**519**
Accumulated depreciation and impairment provision		
As per 1 January	**–157**	**–156**
Changes to the scope of consolidation	0	–0
Depreciation	–7	–7
Impairments	–0	–
Reversal of impairments	–	–
Reclassifications	1	–1
Disposals	6	6
Currency translation differences	0	0
As per 31 December	**–157**	**–157**
Balance sheet value		
1 January	**363**	**380**
31 December	**371**	**363**
Additional information about investment property		
Undeveloped plots of land recognised as investment property		
↳ Acquisition costs	96	84
↳ Accumulated impairment provision	–7	–7
Investment property - finance lease	–	–
Rental income from investment property	21	19
Maintenance and operating costs for investment properties generating rental income during the period	8	8
Maintenance and operating costs for investment properties not generating rental income during the period	3	1
Existence and extent of restrictions with regard to sale	4	5
Contractual obligations to purchase, construct and maintain investment property	–	–

26. Fixed assets

CHF million	Undeveloped land	Land & buildings	Plant, machinery & equipment	Other fixed assets	Assets under construction	Total
Acquisition costs						
As per 1 January 2016	**82**	**12'211**	**12'381**	**1'939**	**485**	**27'099**
Changes to the scope of consolidation	–	73	64	4	0	142
Additions from						
↳ acquisitions	–	414	666	144	370	1'595
↳ capitalized costs	–	–	1	–	9	10
Reclassifications						
↳ within fixed assets	1	87	105	81	–274	–
↳ from / to investment property	–	–8	–0	–	–	–8
Disposals	–2	–195	–383	–113	–36	–729
Currency translation differences	–0	–6	–8	–2	–0	–17
As per 31 December 2016	**80**	**12'576**	**12'826**	**2'054**	**554**	**28'090**
Accumulated depreciation and impairment provision						
As per 1 January 2016	**–6**	**–5'290**	**–8'071**	**–1'321**	**–1**	**–14'688**
Changes to the scope of consolidation	–	–9	–55	–3	–	–67
Depreciation	–	–285	–660	–146	–1	–1'092
Impairments	–	–16	–4	–2	–	–22
Reversal of impairments	–	–	0	0	–	0
Reclassifications						
↳ within fixed assets	–	–1	35	–35	–0	–
↳ from / to investment property	–	–1	–0	–	–	–1
Disposals	–	116	376	108	0	600
Currency translation differences	–	2	4	1	0	7
As per 31 December 2016	**–6**	**–5'484**	**–8'374**	**–1'397**	**–2**	**–15'262**
Balance sheet value						
1 January 2016	**77**	**6'921**	**4'311**	**618**	**484**	**12'410**
31 December 2016	**75**	**7'092**	**4'452**	**657**	**552**	**12'828**
Additional information about fixed assets						
Fixed assets – finance leasing	–	77	0	1	–	78
Pledged or restricted title of fixed assets	–	649	8	0	2	658
Contractual obligation to purchase, construct and maintain fixed assets	–	48	5	1	143	197
Reimbursements / compensation received from third parties	–	–	–	–	–	–

Impairments carried out in 2016 mainly affect the Industry & Wholesaling segment, which has made impairments on assets following a failure to meet anticipated earnings.

In 2016, Migros Group received government grants for fixed assets of CHF 1 million (2015: CHF 1 million), which were deducted directly from the acquisition costs of the assets concerned.

CHF million	Undeveloped land	Land & buildings	Plant, machinery & equipment	Other fixed assets	Assets under construction	Total
Acquisition costs						
As per 1 January 2015	**82**	**11'968**	**11'951**	**1'851**	**387**	**26'239**
Changes to the scope of consolidation	–	50	34	43	1	127
Additions from						
↳ acquisitions	0	195	557	116	413	1'281
↳ capitalized costs	–	0	1	–	7	8
Reclassifications						
↳ within fixed assets	–	118	161	21	–301	–
↳ from / to investment property	–	–2	–0	–	–	–2
Disposals	–	–76	–294	–82	–21	–473
Currency translation differences	–0	–42	–28	–10	–2	–82
As per 31 December 2015	**82**	**12'211**	**12'381**	**1'939**	**485**	**27'099**
Accumulated depreciation and impairment provision						
As per 1 January 2015	**–6**	**–5'058**	**–7'642**	**–1'232**	**–1**	**–13'939**
Changes to the scope of consolidation	–	–4	–21	–23	–	–47
Depreciation	–	–310	–668	–138	1	–1'115
Impairments	–	–0	–39	–10	–	–49
Reversal of impairments	–	–	0	0	–	0
Reclassifications						
↳ within fixed assets	–	–0	–0	0	–	–
↳ from / to investment property	–	1	0	0	–	1
Disposals	–	68	289	79	0	435
Currency translation differences	–	14	10	4	–1	27
As per 31 December 2015	**–6**	**–5'290**	**–8'071**	**–1'321**	**–1**	**–14'688**
Balance sheet value						
1 January 2015	**76**	**6'910**	**4'309**	**619**	**386**	**12'300**
31 December 2015	**77**	**6'921**	**4'311**	**618**	**484**	**12'410**
Additional information about fixed assets						
Fixed assets – finance leasing	–	77	0	2	–	78
Pledged or restricted title of fixed assets	–	688	8	0	0	697
Contractual obligation to purchase, construct and maintain fixed assets	–	30	12	2	147	190
Reimbursements / compensation received from third parties	–	–	–	–	–	–

Impairments carried out in 2015 mainly affect the segments Cooperative Retailing and Commerce, which have made impairments on branches and assets following a failure to meet anticipated earnings.

In 2015, Migros Group received government grants for fixed assets of CHF 1 million (2014: CHF 1 million), which were deducted directly from the acquisition costs of the assets concerned.

27. Intangible assets

CHF million	Goodwill	Software	Trademarks, licences, patents, publishing rights	Development costs	Intangible assets in development	Total
Acquisition costs						
As per 1 January 2016	**764**	**344**	**777**	**233**	**21**	**2'138**
Changes to the scope of consolidation	34	2	23	–	–	59
Additions from						
↳ acquisitions	–	19	5	1	21	46
↳ capitalized costs	–	0	–	–	–	0
Reclassifications	–	–5	9	11	–16	–
Disposals	–1	–20	–3	–3	–	–26
Currency translation differences	–17	–1	–11	–0	–	–30
As per 31 December 2016	**780**	**339**	**800**	**243**	**26**	**2'188**
Accumulated depreciation and impairment provision						
As per 1 January 2016	**–374**	**–238**	**–362**	**–206**	**–1**	**–1'181**
Changes to the scope of consolidation	9	–1	–0	–	–	8
Depreciation	–56	–30	–68	–14	–0	–168
Impairments	–51	–1	–29	–	–	–81
Reversal of impairments	–	–	–	–	–	–
Reclassifications	–	–0	0	–	–	–
Disposals	1	20	3	3	–	26
Currency translation differences	12	0	6	0	–	19
As per 31 December 2016	**–459**	**–250**	**–450**	**–217**	**–1**	**–1'377**
Balance sheet value						
1 January 2016	**390**	**106**	**415**	**27**	**20**	**958**
31 December 2016	**321**	**89**	**351**	**26**	**25**	**811**
Additional information about intangible assets						
Pledged or restricted title	–	–	–	–	–	–
Obligations to purchase intangible assets						–

Capitalised development costs mainly comprise the costs of EDP solutions developed in-house (applications, customisation of standard solutions).

Additions from the changes to the scope of consolidation are due to company acquisitions. Details can be found in Note 39.

Additions from acquisitions are mainly investments in goods management and logistics systems as well as in systems for online trading.

CHF million	Goodwill	Software	Trademarks, licences, patents, publishing rights	Development costs	Intangible assets in development	Total
Acquisition costs						
As per 1 January 2015	**675**	**336**	**676**	**229**	**16**	**1'932**
Changes to the scope of consolidation	92	5	114	–	–	211
Additions from						
↳ acquisitions	–	25	8	1	15	49
↳ capitalized costs	–	0	–	–	–	0
Reclassifications	–	3	0	7	–10	–
Disposals	–	–23	–4	–5	–0	–32
Currency translation differences	–3	–3	–16	0	–	–22
As per 31 December 2015	**764**	**344**	**777**	**233**	**21**	**2'138**
Accumulated depreciation and impairment provision						
as per 1 January 2015	**–317**	**–224**	**–315**	**–199**	**–0**	**–1'055**
Changes to the scope of consolidation	–	–4	–0	–	–	–4
Depreciation	–57	–31	–56	–13	–0	–157
Impairments	–3	–1	–0	–	–	–5
Reversal of impairments	–	–	–	–	–	–
Reclassifications	–	–1	–	1	–	–
Disposals	–	22	4	5	–	30
Currency translation differences	3	2	6	0	–	10
As per 31 December 2015	**–374**	**–238**	**–362**	**–206**	**–1**	**–1'181**
Balance sheet value						
1 January 2015	**357**	**112**	**360**	**31**	**16**	**877**
31 December 2015	**390**	**106**	**415**	**27**	**20**	**957**
Additional information about intangible assets						
Pledged or restricted title	–	–	–	–	–	–
Obligations to purchase intangible assets						–

28. Other assets

CHF million	31.12.2016	31.12.2015
Prepayments	98	92
Real estate from collateral loans[1]	2	3
Accrued interest income	13	13
Other accured income	139	129
Total other assets	**252**	**237**

[1] From financial services segment.

29. Other financial liabilities

CHF million	Notes	31.12.2016	31.12.2015
Liabilities from finance leases		116	118
Derivative financial instruments	*24*	2	6
Staff accounts		0	0
Staff investment accounts		1'399	1'708
Other financial liabilities		345	22
Total other financial liabilities		**1'862**	**1'855**

The staff investment accounts earn interest at a preferential rate. M-Community employees can pay funds into the staff investment accounts, which pay a preferential interest rate, up to a maximum limit of CHF 150'000. This figure is CHF 50'000 for retired M-Community employees. The funds deposited are subject to withdrawal at three months' notice for withdrawals over CHF 25'000.

Liabilities from finance leases

	31.12.2016			31.12.2015		
CHF million	Nominal	Discount[1]	Present value[2]	Nominal	Discount[1]	Present value[2]
Remaining contract terms						
Up to one year	12	7	5	11	7	4
More than one and up to five years	44	26	18	58	34	24
More than five years	161	67	93	157	67	90
Total liabilities from finance leases	**216**	**100**	**116**	**226**	**108**	**118**

[1] Future financing costs.
[2] Carrying amounts in the balance sheet.

Additional information about finance leases

CHF million	31.12.2016	31.12.2015
Contingent lease payments recorded in the income statement	5	5
Expected future minimum lease payments from sub-lease contracts	–	–

Finance leases mainly comprise long-term rental agreements for real estate. Apart from finance leases, Migros Group also operates rental and lease agreements, which due to their economic content have been classified as operating leasing agreements. See also Note 36.

30. Trade payables and other liabilities

CHF million	31.12.2016	31.12.2015
Trade payables	1'692	1'634
Other liabilities	560	847
Accrued expenses		
↳ Course fees of Club Schools	58	58
↳ Rent	10	6
↳ Interest	60	67
↳ Other accrued expenses	282	259
Total trade payables and other liabilities	**2'662**	**2'870**

Other accrued expenses include obligations from customer loyalty programmes, such as M-Cumulus.

31. Provisions

CHF million	Guarantees	Restructuring	Onerous contracts	Legal cases	Insured claims	Others	Total
As per 1 January 2015	**16**	**3**	**23**	**22**	**11**	**49**	**124**
Changes to scope of consolidation	0	–	0	–	–	0	1
Addition	16	10	7	2	5	20	60
Usage	–18	–1	–5	–20	–5	–9	–59
Release	–0	–1	–0	–1	–3	–9	–15
Unwinding of discounts	–	–	0	–	–	0	0
Reclassification	–	–	–	–	–	–	–
Currency translation differences	–0	–	–0	–0	–	–1	–1
As per 31 December 2015	**14**	**11**	**25**	**3**	**8**	**50**	**111**
Of which current	10	5	4	2	4	14	40
As per 1 January 2016	**14**	**11**	**25**	**3**	**8**	**50**	**111**
Changes to scope of consolidation	–	–	–	0	–	0	0
Addition	15	2	13	5	6	26	67
Usage	–18	–7	–6	–1	–4	–19	–54
Release	–0	–1	–2	–1	–1	–3	–8
Unwinding of discounts	–	–	0	–	–	0	0
Reclassification	–	–	–	–	–	–	–
Currency translation differences	–0	–	–0	–0	–	–1	–1
As per 31 December 2016	**11**	**5**	**31**	**5**	**10**	**54**	**116**
Of which current	8	5	4	2	4	9	32

Overall, provisions as at 31 December 2016 are slightly higher than as at 31 December 2015.

Provisions for restructuring decreased in the 2016 financial year due to their use, especially in the case of Magazine zum Globus.

Provisions from onerous contracts mainly refer to rented property of the Cooperatives.

Insured claims include liabilities for which an insurance exists (such as liability claims and transport claims).

Provisions for legal cases are slightly greater than those of the previous year.

The other provisions are of various kinds.

32. Issued debt instruments

CHF million	31.12.2016	31.12.2015
Long-term bonds issued	150	150
Mortgage backed loans[1]	5'118	5'151
Medium-term bonds[1]	764	869
Private placements	–	–
Total issued debt instruments	**6'032**	**6'170**
Of which subordinated	–	–

[1] From financial services segment.

No payment defaults or contract infringements occurred in issued debt instruments either during the reporting year or the previous year.

Detailed overview of long-term bonds issued

CHF million	Securities number	Year of issue	Interest rate nominal	Interest rate effective	Currency	Maturity	Nominal amount
Federation of Migros Cooperatives	11'760'647	2011	2.00 %	2.08 %	CHF	03.05.2017	150
Total long-term bonds issued							**150**

No new long-term bonds were issued or repaid during the reporting year.

33. Assets and liabilities from employee benefits

A number of different pension plans are available for Migros Group employees. The majority of Migros Group employees are insured under a defined benefit Swiss pension fund. Under the Swiss Federal Law on Occupational Old Age, Survivors' and Disability Pension Plans (BVG), employees insured in Switzerland are insured against the risks of old age, death and disability in various legally independent pension funds. The largest pension funds are the Migros Pension Fund, the VORSORGE in globo M foundation (previously the Globus Group Pension Fund), the Denner Pension Fund and the Employee Pension Foundation Travel.

These pension funds are foundations which are legally separate from Migros Group and whose executive bodies are made up equally of employer and employee representatives. The executive bodies determine, among other things, the amount of pension benefits as well as the investment strategy for pension plan assets, based on an asset liability study carried out at regular intervals. The asset liability studies are based on the pension obligations calculated in accordance with statutory pension provisions, since the former are authoritative for cash flows. The regulations drawn up by the executive bodies as part of the statutory investment provisions also form the basis for the way in which the assets of the pension plans are invested. Responsibility for their implementation lies with the investment committees of the executive bodies concerned. The management board of each pension fund is entrusted with the investment of the assets.

The benefits provided by the pension plans are significantly higher than the minimum level prescribed by law. If an insured party leaves either Migros Group or the corresponding pension plan before reaching retirement age, the vested benefits acquired on the basis of statutory pension provisions are transferred to the insured party's new pension provision solution. In addition to the funds brought into the pension plan by the insured party, the vested benefits also include employee and employer contributions as well as a mandatory premium. Upon reaching retirement age, the insured party can choose whether to draw their benefits in the form of an annuity or as a lump sum. Within the context of the financial options available to a pension plan, and in accordance with statutory pension provisions, pensions must be adapted in line with inflation.

Assets from employee benefits

CHF million	31.12.2016	31.12.2015
Short-term benefits	20	38
Post-employment benefits	0	0
Employer contribution reserves	610	560
Economic benefit from pension funds	–	–
Total assets from employee benefits	**630**	**598**

Employer contribution reserve

CHF million	Pension funds	patronage funds / patronage pension institutions	Total
Nominal Value			
As per 1 January 2016	**560**	**–**	**560**
Accumulation of employer contribution reserves	54	–	54
Use of employer contribution reserves	–4	–	–4
Interest income	0	–	0
As per 31 December 2016	**610**	**–**	**610**
Granted renounced use			
As per 1 January 2016	**–**	**–**	**–**
Granted renounced use in the reporting period	–	–	–
Reversed renounced use in the reporting period	–	–	–
As per 31 December 2016	**–**	**–**	**–**
Total employer contribution reserves 31 December 2016	**610**	**–**	**610**
Nominal Value			
As per 1 January 2015	**492**	**–**	**492**
Accumulation of employer contribution reserves	77	–	77
Use of employer contribution reserves	–9	–	–9
Interest income	0	–	0
As per 31 December 2015	**560**	**–**	**560**
Granted renounced use			
As per 1 January 2015	**–**	**–**	**–**
Granted renounced use in the reporting period	–	–	–
Reversed renounced use in the reporting period	–	–	–
As per 31 December 2015	**–**	**–**	**–**
Total employer contribution reserves 31 December 2015	**560**	**–**	**560**

The employer contribution reserve is formed from pension contributions paid by the employer in advance. The employer can derive an economic benefit from the reserve in the form of reduced future contributions, provided that the employer has not granted any conditional waiver of use.

Liabilities from employee benefits

CHF million	31.12.2016	31.12.2015
Short-term benefits	247	256
Termination benefits	6	8
Post employment benefits	130	138
Other long-term benefits	435	429
Economic obligation from pension funds	–	–
Total liabilities from employee benefits	**819**	**831**

Economic benefit / Economic obligation from pension funds

	Surplus / Deficit	Economical part of Migros Group		Change resulting in profit compared to previous periode resp. recognised in the reporting period	Contributions concerning current period	Pension benefit expenses current period	
CHF million	31.12.2016	31.12.2016	31.12.2015	2016	2016	2016	2015
Patronage funds / patronage pension institutions	–	–	–	–	–	–	–
Pension institutions without surplus / deficit	–	–	–	–	17	17	16
Pension institutions with surplus	47	–	–	–	426	426	407
Pension institutions with deficit	–	–	–	–	–	–	–
Pension institutions without own assets	–	–	–	–	14	14	13
Total	**47**	**–**	**–**	**–**	**456**	**456**	**436**

Migros Group pension funds posted a surplus.
The surplus is of no economic benefit to the employer.

			2016	2015
CHF million	Switzerland	Abroad	Total	Total
Employer contribution				
Contributions concerning current periode	438	12	450	427
Employer contributions accumulated by the employer contribution reserve	4	–	4	9
Total employer contribution	**442**	**12**	**454**	**436**
Change in employer contribution reserve by asset development, provision for impairment etc.	0	–	0	0
Employer contribution and change in employer contribution reserve	**442**	**12**	**455**	**436**
Change in economic part due to surplus / deficit	–	–	–	–
Change in obligation pension institutions without own assets	–	2	2	0
Pension benefit expenses current period	**442**	**14**	**456**	**436**

34. Cooperative capital

Cooperative share certificates	Share certificate 10.--	Share certificate 20.--/30.--/40.--	Total share certificates
1 January 2015	**2'155'438**	**152**	**2'155'590**
Change in share certificates	10'806	–12	10'794
31 December 2015	**2'166'244**	**140**	**2'166'384**
Change in share certificates	16'019	–11	16'008
31 December 2016	**2'182'263**	**129**	**2'182'392**

Change in Cooperative capital CHF thousand			
1 January 2015	**21'554**	**3**	**21'557**
Change in Cooperative capital	108	0	108
31 December 2015	**21'662**	**3**	**21'665**
Change in Cooperative capital	160	0	160
31 December 2016	**21'822**	**3**	**21'825**

Cooperative capital – Statutory provisions

Share certificates: Each Cooperative issues its own registered share certificates.

Liability: The assets of a Cooperative are exclusively liable for the commitments of that Cooperative. Any personal liability on the part of Cooperative members is excluded.

Further explanations

35. Balance sheet maturities

The balance sheet structure of Migros Group is based on liquidity. The table below offers an overview of maturities (short-term; long-term) of assets and liabilities.

			31.12.2016			31.12.2015
CHF million	Current assets	non-current assets	Total	Current assets	non-current assets	Total
ASSETS						
Cash and cash equivalents	6'490	–	6'490	5'929	–	5'929
Receivables due from banks	660	–	660	487	200	687
Mortgages and other customer receivables	8'863	27'621	36'484	9'243	26'805	36'048
Trade receivables	749	–	749	702	–	702
Other receivables	184	0	185	159	1	160
Inventories	2'563	–	2'563	2'519	–	2'519
Other financial assets	238	1'074	1'312	345	1'009	1'354
Investment in associates and joint ventures	–	92	92	–	88	88
Investment property	–	371	371	–	363	363
Fixed assets	–	12'828	12'828	–	12'410	12'410
Intangible assets	–	811	811	–	957	957
Assets from employee benefits	20	610	630	38	560	598
Current income tax receivables	41	–	41	37	–	37
Deferred income tax assets	–	70	70	–	49	49
Other assets	252	–	252	237	–	237
TOTAL ASSETS	**20'059**	**43'478**	**63'537**	**19'696**	**42'442**	**62'138**

CHF million	Current liabilities	Non-current liabilities	Total	Current liabilities	Non-current liabilities	Total
LIABILITIES						
Payables due to banks	288	91	378	130	122	252
Customer deposits and liabilities	32'646	–	32'646	31'690	–	31'690
Other financial liabilities	1'402	459	1'862	1'714	141	1'855
Trade payables	1'692	–	1'692	1'634	–	1'634
Other liabilities	970	–	970	1'236	–	1'236
Provisions	32	84	116	40	71	111
Issued debt instruments	595	5'437	6'032	488	5'682	6'170
Lliabilities from employee benefits	252	566	819	260	572	831
Current income tax payables	128	–	128	155	–	155
Deferred income tax liabilities	–	1'440	1'440	–	1'402	1'402
TOTAL LIABILITIES	**38'005**	**8'077**	**46'082**	**37'347**	**7'989**	**45'336**

36. Operating leasing

Migros Group as lessee

At the balance sheet date, Migros Group had open obligations from irrevocable operating leases, maturing as follows:

CHF million	31.12.2016	31.12.2015
Remaining contract terms		
Up to one year	790	765
More than one and up to five years	2'492	2'447
More than five years	2'671	2'654
Total future liabilities from operating leases	**5'953**	**5'866**
Minimum lease payments	820	803
Contingent lease payments	13	15
Income from sub-lease relationships	–58	–60
Net payments from operating leases and sub-lease contracts affecting net income	**775**	**757**
Expected future payments from sub-lease contracts	271	222

Payments for operating leases relate mainly to rent for real property. Payments from sub-lettings equate to lease payments received by Migros Group from sub-lettings under operating leases.

Migros Group as lessor

At the balance sheet date, Migros Group had contractually agreed the following irrevocable minimum lease payments:

CHF million	31.12.2016	31.12.2015
Remaining contract terms		
Up to one year	229	227
More than one and up to five years	571	600
More than five years	210	210
Total future receivables from operating leases	**1'010**	**1'037**
Contingent lease payments received	6	8

Future receivables from operating leases include payments that Migros Group will receive in future as income from renting out its properties to third parties. The variable indexed part of the rental income realised in the period will be shown as contingent lease payments received.

37. Off-balance-sheet transactions

Migros Group and its subsidiaries continually face legal disputes, claims and actions that usually originate from normal business activity. No major liabilities are expected in this connection which are not already taken into account by corresponding provisions (see Note 31). The Board of Directors is not aware of any new facts since the last balance sheet date that could significantly influence the 2016 annual financial statements. Most of the contingent liabilities originate from the operational banking business of Migros Bank.

Contingent liabilities

CHF million	31.12.2016	31.12.2015
Contingent liabilities from the financial services business		
Guarantees for loans and similar instruments	1	1
Performance guarantees and similar instruments	68	74
Unutilized irrevocable loan commitments	618	753
Capital commitments	58	51
Total contingent liabilities from the financial services business	**745**	**879**
Other contingent liabilities		
Guarantees	48	58
Sureties	0	1
Others	54	53
Total other contingent liabilities	**101**	**112**

Contingent liabilities from the financial services business are part of the normal course of customer business and are lower than in the previous year. Other contingent liabilities mainly include guarantees issued by the Hotelplan Group for the travel business and remain at the same level as the previous year.

The FMC has issued a letter of comfort, unlimited in amount, for the benefit of Ferrovia Monte Generoso SA, Capolago.

Contingent assets

CHF million	31.12.2016	31.12.2015
Total contingent assets	**–**	**–**

There were no contingent assets as at 31 December 2016.

Fiduciary placements

CHF million	31.12.2016	31.12.2015
Fiduciary placements with third party banks for account of the customers	**2**	**9**

Fiduciary placements are funds Migros Bank places with third-party banks for account of customers. Migros Bank is neither responsible for any defaults by the third-party bank nor are creditors able to access placed assets.

38. Information about relationships with related parties

31.12.2016 CHF million	Associates	Joint ventures	Key mananage-ment personnel[1]	Pension funds	Other related parties[2]	Total
Balance sheet						
Cash and cash equivalents	–	–	–	–	1	1
Mortgages and other customer receivables	36	–	9	–	–	45
Trade receivables	1	0	–	–	0	1
Other receivables	0	–	–	0	2	2
Other financial assets	12	2	–	–	95	109
Provision for impairment	–	–	–	–	–	–
Other assets	–	–	–	2	–	2
Customer deposits and liabilities	–3	–	–	–20	–0	–23
Other financial liabilities	–	–	–	–1	–2	–4
Trade payables	–1	–	–	–	–0	–1
Other liabilities	–	–	–	–328	–12	–340
Provisions	–1	–	–	–	–	–1
Income statement						
Net revenue from goods and services sold	15	0	0	3	1	19
Other operating income	0	0	–	1	5	5
Result from financial services	0	–	0	–	–	1
Expenses of financial services	–0	–	–	–0	–0	–0
Cost of goods and services sold	–3	–2	–2	–6	–2	–15
Other operating expenses	–1	–0	–	–15	–13	–29
Recognized impairment expenses	–	–	–	–	–	–
Finance income	1	0	–	376	1	377
Finance cost	–1	–	–	–453	–0	–454
Off-balance-sheet transactions						
Issued guarantees	–	–	–	–	–	–
Irrevocable loan commitments	–	–	–	–	–	–
Entered future liabilities for the purchase of						
↳ inventories	–	–	–	–	–	–
↳ other financial assets	–	–	–	–	–	–
↳ non-current assets[3]	–	–	–	–	–	–
Entered future liabilities for the supply of						
↳ inventories	–	–	–	–	–	–
Future liabilities arising from operating lease-commitments	–3	–	–	–408	–13	–425
Future receivables arising from operating lease-commitments	–	–	–	–	–	–

[1] Key management personnel includes the Board of Directors of the Federation of Migros Cooperatives, the Managing Directors of the Cooperatives and the Executive Board of the Federation of Migros Cooperatives. Transactions between Migros Group and the key management personnel are, in case of external members of the Board, carried out at market conditions and, in case of staff being engaged as key management personnel, at standard employee conditions.
[2] Other related entities include foundations such as Eurocentres and the "Im Grünen" foundations.
[3] Non-current assets include investment property, fixed assets and intangible assets.

The sharp decrease in customer deposits in pension schemes can be attributed to the reduction in the investment of funds with Migros-Bank, as the latter now calculates negative interest too.

The other liabilities with pension funds are, as in previous years, surplus liquidity positions of the pension funds, made available by the latter to the Federation of Migros Cooperatives at short notice.

The gains achieved from foreign currency derivatives concluded in connection with pension funds are included in finance income and expense. These gains are squared by offsetting third-party transactions (see derivatives not entered in the balance sheet in connection with related parties Note 24).

31.12.2015

CHF million	Associates	Joint ventures	Key mananage-ment personnel[1]	Pension funds	Other related parties[2]	Total
Balance sheet						
Cash and cash equivalents	–	–	–	–	10	10
Mortgages and other customer receivables	37	–	9	0	0	46
Trade receivables	1	–	–	0	0	1
Other receivables	–	–	–	–	2	2
Other financial assets	13	2	–	–	41	56
Provision for impairment	–	–	–	–	–	–
Other assets	–	–	–	8	0	8
Customer deposits and liabilities	–1	–	–	–203	–0	–204
Other financial liabilities	–	–	–	–	1	1
Trade payables	–1	–	–	–	–0	–1
Other liabilities	–	–	–	–288	–9	–297
Provisions	–2	–	–	–	–	–2
Income statement						
Net revenue from goods and services sold	15	–	0	–	1	16
Other operating income	0	0	–	0	5	5
Result from financial services	1	–	0	0	0	1
Expenses of financial services	–0	–	–	–0	–0	–0
Cost of goods and services sold	–0	–4	–	–0	–0	–4
Other operating expenses	–1	–	–	–25	–13	–39
Recognized impairment expenses	–	–	–	–	–	–
Finance income	1	0	–	464	–2	463
Finance cost	–0	–	–	–725	2	–724
Off-balance-sheet transactions						
Issued guarantees	–	–	–	–	–	–
Irrevocable loan commitments	–	–	–	–	–	–
Entered future liabilities for the purchase of						
↳ inventories	–	–	2	–	–	2
↳ other financial assets	–	–	–	–	–	–
↳ non-current assets[3]	–	–	–	–	–	–
Entered future liabilities for the supply of						
↳ inventories	–	–	–	–	–	–
Future liabilities arising from operating lease-commitments	–1	–	–	–357	–10	–368
Future receivables arising from operating lease-commitments	–	–	–	–	–	–

[1] Key management personnel includes the Board of Directors of the Federation of Migros Cooperatives, the Managing Directors of the Cooperatives and the Executive Board of the Federation of Migros Cooperatives. Transactions between Migros Group and the key management personnel are, in case of external members of the Board, carried out at market conditions and, in case of staff being engaged as key management personnel, at standard employee conditions.

[2] Other related entities include foundations such as Eurocentres and the "Im Grünen" foundations.

[3] Non-current assets include investment property, fixed assets and intangible assets.

Personnel expenses of key management personnel

CHF million	2016	2015
Short-term benefits	13	13
Post-employment benefits	2	2
Other long-term benefits	0	0
Termination benefits	–	–
Total personnel expenses of key management personnel	**15**	**15**

39. Acquisition and disposal of subsidiaries and business operations

Business combinations in 2016

Fair Value[1] CHF million	Note	Segment Cooperative Retailing	Segment Industry & Wholesaling	Segment Travel	Total
Cash and cash equivalents		3	3	14	20
Receivables		2	9	0	11
Inventories		0	6	0	6
Other financial assets		9	0	–	9
Fixed assets and investment property		53	18	5	76
Intangible assets (w / o goodwill)		1	1	21	24
Deferred income tax assets		0	4	–	4
Other assets		0	1	5	6
Financial liabilities		–21	–11	–	–32
Trade payables		–0	–6	–3	–10
Provisions		–0	–0	–	–0
Deferred income tax liabilities		–6	–0	–5	–11
Other liabilities		–13	–8	–17	–38
Addition net assets		**28**	**17**	**21**	**66**
Minority interests					–2
Badwill					–6
Goodwill	*27*				43
Cost of acquisition					**101**
Of which attributable to capital investment					–
Of which interests held before acquisition date					–4
Acquired cash and cash equivalents[2]					–20
Future obligations					–
Net outflow of funds					**77**

[1] Fair value according to Purchase Accounting. Fair value analyses were made for all balance sheet categories; where essential a valuation adjustment was carried out.
[2] For capital invested, only the liquid funds before capital investment are regarded as acquired from a Group perspective.

In the segment Cooperative Retailing, Migros Group acquired companies and business operations in 2016 in the area of fitness / fitness consulting (TC Trainingscenter Thun, fitness centres in Sion, Inline Group) as well as the real estate company JSL Real Estate, with a new sales location in Granges-Paccot. In the segment Industry & Wholesaling, the scope of consolidation was expanded by companies in the fields of body care (Ondal France), meat processing (Gabriel Fleury) and sauce production (Idhéa). In the segment Travel, those companies already acquired in the 2015 financial year, but which had yet to be consolidated due to a lack of information relating to their financial statements – namely the soft adventure provider Explore Worldwide and the diving specialist Regaldive – were included for the first time in the scope of consolidation.

The Explore Group and Regaldive, which were acquired on 1 December 2015 but not included in the scope of consolidation until 1 January 2016, have since contributed sales of CHF 58 million. The contribution made by Inline Group, which was likewise added on 1 January 2016, was CHF 11 million. Ondal France and Idhéa, which were included in the scope of consolidation on 31 July 2016 and 27 September 2016 respectively, have increased the sales of Migros Group by CHF 30 million since their acquisition. The contribution to Migros Group sales made by other companies since their acquisition amounted to CHF 3 million. If the companies had already been acquired as at 1 January 2016, the sales of Migros Group would have been greater by CHF 33 million in total.

As far as the following transactions are concerned, the information relating to financial statements was either unavailable at the time of the Migros Group financial statements being released or not all of the contractual conditions had been met. Consequently, the initial recognition of the business combination was not possible. Full-year inclusion in Migros Group will only be shown in 2017:
– Acquisition of Checkup Center Zürich AG by Medbase AG on 31 October 2016, thereby strengthening the preventive health care sector
– Acquisition of the travel agency Beo AG in Thun by Hotelplan on 31 October 2016
– Acquisition of a majority shareholding in Sushi Mania SA, a company providing Japanese cuisine and Asian specialities and based in Vuadens in the canton of Fribourg, together with 110 employees by Bischofszell Nahrungsmittel AG on 13 December 2016

Business combinations in 2015

Fair Value[1] CHF million	Note	Segment Cooperative Retailing	Segment Industry & Wholesaling	Segment Commerce	Total
Cash and cash equivalents		8	15	16	39
Receivables		20	28	46	94
Inventories		3	13	59	75
Other financial assets		1	2	0	2
Fixed assets and investment property		27	46	9	82
Intangible assets (w / o goodwill)		4	4	107	115
Deferred income tax assets		0	–	0	1
Other assets		1	3	1	5
Financial liabilities		–33	–13	–47	–93
Trade payables		–3	–22	–25	–50
Provisions		–1	–0	–0	–1
Deferred income tax liabilities		–1	–7	–28	–36
Other liabilities		–8	–7	–8	–23
Addition net assets		**18**	**62**	**132**	**211**
Minority interests					–45
Goodwill	*27*				92
Cost of acquisition					**259**
Of which attributable to capital investment					–
Of which interests held before acquisition date					–61
Acquired cash and cash equivalents[2]					–39
Future obligations					–1
Net outflow of funds					**157**

[1] Fair value according to Purchase Accounting. Fair value analyses were made for all balance sheet categories; where essential a valuation adjustment was carried out.
[2] For capital invested, only the liquid funds before capital investment are regarded as acquired from a Group perspective.

In 2015, a number of acquisitions were made in the Cooperative Retailing segment, including in the areas of golf (Golf Limpachtal) and health (santémed Gesundheitszentren AG), and several fitness centres were purchased. In the Industry & Wholesaling segment, the main acquisitions were the Lüchinger + Schmid Group as well as several companies in the body care and meat processing sectors. Finally, in the Commerce segment, Migros Group obtained a majority interest in the Galaxus Group, previously held as an associate, and also acquired a majority shareholding in Swisstherm AG.

Since their acquisition on 1 April 2015 and 1 January 2015 respectively, Digitec Galaxus and the Lüchinger + Schmid Group have contributed sales of CHF 499 million and CHF 184 million. Since being purchased, the other companies and business operations have generated sales of CHF 114 million. Had these acquisitions taken place at the beginning of the financial year, they would have generated sales of around CHF 1 billion for Migros Group.

A lack of information relating to the financial statements of the soft adventure provider Explore Worldwide and the diving specialist Regaldive means that the acquisition made by Hotelplan Group on 1 December 2015 could not be included until 2016.

Disposal of subsidiaries and business operations in 2016

CHF million	Carrying amount
Cash and cash equivalents	3
Receivables	5
Inventories	0
Other financial assets	1
Fixed assets	1
Intangible assets	0
Other assets	3
Financial liabilities	–
Trade payables	–5
Provisions	–0
Deferred income tax liabilities	–
Other liabilities	–5
Currency translation differences	6
Disposal of net assets	**8**
Retained share of net assets from associated companies	–5
Sales price	**4**
Of which claim waiver seller	–
Of which claim waiver buyer	–
Disposed of cash and cash equivalents	–3
Deferred sales price payments	–4
Net inflow of funds / (Outflow of funds)	**–3**

Migros Group disposed of its Italian business (Hotelplan Italia) in the segment Travel in the financial year. The sales contribution made by this company amounted to CHF 63 million at the time of disposal on 31 October 2016.

In 2015, Migros Group did not dispose of any subsidiaries or business operations.

40. Foreign exchange rates

The following key exchange rates were used for converting the accounts of foreign subsidiaries into Swiss francs (reporting currency):

	Year-end rates		Average rates for the year	
	31.12.2016	31.12.2015	2016	2015
1 EUR	1.07	1.09	1.09	1.06
1 GBP	1.26	1.48	1.33	1.47
1 USD	1.02	1.00	0.99	0.96

41. Events after the balance sheet date

No significant events took place after the balance sheet date and up to the release of the publication of the annual accounts by the Board of the Federation of Migros Cooperatives.

42. Scope of consolidation

Segment / Company	Domicile	Accounting method[1]	Switzerland / Other countries	Currency	Registered capital in 1000	Equity interest in % [2]
Cooperative Retailing						
Migros Cooperative Aare	Moosseedorf	F	Switzerland	CHF	5'052.2	P
BEEF2go AG	Berne	E	Switzerland	CHF	100.0	50.0
BOOTCAMPER.CH AG	Moosseedorf	F	Switzerland	CHF	500.0	100.0
cha chà AG	Moosseedorf	F	Switzerland	CHF	1'000.0	100.0
Culinart Gastro AG	Moosseedorf	F	Switzerland	CHF	4'000.0	100.0
FlowerPower Fitness und Wellness AG	Moosseedorf	F	Switzerland	CHF	1'000.0	100.0
Golf Limpachtal Betriebs- und Verwaltungs AG	Buchegg	F	Switzerland	CHF	100.0	100.0
LFS AG	Moosseedorf	F	Switzerland	CHF	200.0	100.0
Public Golf Bucheggberg AG	Buchegg	F	Switzerland	CHF	4'004.0	54.4
Shopping-Center Brünnen AG	Berne	F	Switzerland	CHF	918.0	100.0
Shoppyland, Shoppy AG	Moosseedorf	F	Switzerland	CHF	100.0	100.0
TC Training Center Thun AG	Thun	F	Switzerland	CHF	100.0	100.0
Time-Out AG	Moosseedorf	F	Switzerland	CHF	100.0	100.0
VOI AG	Moosseedorf	F	Switzerland	CHF	100.0	100.0
Migros Cooperative Basel	Basel	F	Switzerland	CHF	1'690.5	P
Migros Deutschland GmbH	DE-Lörrach	F	Other countries	EUR	100.0	100.0
Semiba AG	Münchenstein	F	Switzerland	CHF	100.0	100.0
Mifu GmbH	Basel	F	Switzerland	CHF	120.0	100.0
Migros Cooperative Geneva	Carouge	F	Switzerland	CHF	1'325.7	P
Bagros SA	FR-Strasbourg	E	Other countries	EUR	13'051.0	46.0
Bamica SA	Carouge	F	Switzerland	CHF	300.0	100.0
Centre Balexert SA	Vernier	F	Switzerland	CHF	500.0	100.0
GRANDS PRES DEVELOPPEMENT (GPD) SA[3]	Collonge-Bellerive	E	Switzerland	CHF	100.0	50.0
Migros France SAS	FR-Gaillard	F	Other countries	EUR	3'500.0	100.0
M-Loisirs	FR-Neydens	F	Other countries	EUR	750.0	100.0
NEYDDEVELOPPEMENT SASU	FR-Neydens	F	Other countries	EUR	1.0	100.0
S.A. Migros en France (SAMEF)	Carouge	F	Switzerland	CHF	8'985.0	100.0
SCI des Voirons	FR-Cranves-Sales	F	Other countries	EUR	990.9	100.0
SCI M-Etrembières	FR-Gaillard	F	Other countries	EUR	1.0	100.0
SCI M-Thoiry	FR-Gaillard	F	Other countries	EUR	1.0	100.0
SCI Neydloisirs	FR-Neydens	F	Other countries	EUR	1.0	100.0
Société immobilière du Marché de gros de l'alimentation (SIMGA)	Carouge	E	Switzerland	CHF	2'625.0	42.4
S.R.M. (Société des restaurants Migros S.à.r.l.)	FR-Etrembières	F	Other countries	EUR	600.0	100.0
Migros Cooperative Lucerne	Dierikon	F	Switzerland	CHF	1'885.9	P
ONE Training Center AG	Sursee	F	Switzerland	CHF	420.0	100.0
Parkwirtin «Einfache Gesellschaft»	Lucerne	F	Switzerland	CHF	585.1	84.6
Migros Cooperative Neuchâtel-Fribourg	La Tène	F	Switzerland	CHF	1'229.7	P
Au Léopold SA	La Tène	F	Switzerland	CHF	100.0	100.0
AVRY CENTRE SA	Avry	F	Switzerland	CHF	2'000.0	100.0
JSL Real Estate SA	Avry	F	Switzerland	CHF	100.0	100.0
Marin Centre SA	La Tène	F	Switzerland	CHF	17'300.0	100.0
Strega SA	La Tène	F	Switzerland	CHF	100.0	100.0
Migros Cooperative Eastern Switzerland	Gossau SG	F	Switzerland	CHF	4'103.2	P
Migros Vita AG	Gossau SG	F	Switzerland	CHF	7'620.0	100.0
Medbase AG	Winterthur	F	Switzerland	CHF	2'670.1	100.0
Medbase Romandie SA	Lancy	F	Switzerland	CHF	980.0	64.0
santémed Gesundheitszentren AG	Winterthur	F	Switzerland	CHF	2'500.0	70.0
Parking Wattwil AG	Wattwil	F	Switzerland	CHF	3'550.0	65.5
Randenburg-Immobilien AG	Schaffhausen	F	Switzerland	CHF	400.0	78.7
Società Cooperativa fra produttori e consumatori Migros-Ticino	Sant'Antonino	F	Switzerland	CHF	958.0	P

Segment / Company	Domicile	Accounting method[1]	Switzerland / Other countries	Currency	Registered capital in 1000	Equity interest in % [2]
ACTIV FITNESS TICINO SA	Sant'Antonino	F	Switzerland	CHF	100.0	100.0
Migros Cooperative Valais	Martigny	F	Switzerland	CHF	794.5	P
Migros Cooperative Vaud	Ecublens	F	Switzerland	CHF	1'521.9	P
Kornhof Sàrl	Ecublens	F	Switzerland	CHF	2'000.0	100.0
Parking des Remparts SA	La Tour-de-Peilz	E	Switzerland	CHF	3'600.0	33.3
Parking Pully Centre SA	Pully	E	Switzerland	CHF	4'409.0	28.0
Migros Cooperative Zurich	Zurich	F	Switzerland	CHF	3'263.7	P
ACTIV FITNESS AG	Stäfa	F	Switzerland	CHF	650.0	100.0
Ospena Group Ltd	Zurich	F	Switzerland	CHF	2'500.0	100.0
Marinello AG in Liquidation	Zurich	F	Switzerland	CHF	500.0	100.0
GMZ Deutschland Holding GmbH	DE-Munich	F	Other countries	EUR	20'000.0	100.0
KAIMUG GmbH	DE-Munich	E	Other countries	EUR	32.2	35.0
Migros Freizeit Deutschland GmbH	DE-Munich	F	Other countries	EUR	1'000.0	100.0
INLINE Unternehmensberatung für Fitness- und Wellnessanlagen GmbH	DE-Dorsten	F	Other countries	EUR	25.6	100.0
INLINE private Akademie für berufliche Bildung GmbH	DE-Dorsten	F	Other countries	EUR	26.0	100.0
INJOY quality cooperation GmbH	DE-Dorsten	F	Other countries	EUR	25.6	100.0
VitamIN M GmbH	DE-Dorsten	F	Other countries	EUR	25.0	100.0
WINstitut für Berufs- und Weiterbildung GmbH	DE-Dorsten	F	Other countries	EUR	25.0	51.0
tegut… gute Lebensmittel GmbH & Co. KG	DE-Fulda	F	Other countries	EUR	1'000.0	100.0
tegut… Holding GmbH	DE-Munich	F	Other countries	EUR	20'000.0	100.0
tegut… Immobilien GmbH	DE-Fulda	F	Other countries	EUR	1'636.2	100.0
tegut… Logistik GmbH & Co. KG	DE-Fulda	F	Other countries	EUR	1'005.5	100.0
tegut… Vertriebs GmbH & Co. Handels KG	DE-Fulda	F	Other countries	EUR	100.0	100.0
tegut… Verwaltungs GmbH	DE-Munich	F	Other countries	EUR	100.0	100.0
Federation of Migros Cooperatives Owned by the regional Migros Cooperatives	Zurich	F	Switzerland	CHF	15'000.0	100.0
Cremesso AG	Zurich	F	Switzerland	CHF	100.0	100.0
Migros Beteiligungen AG	Rüschlikon	F	Switzerland	CHF	1'000.0	100.0
Migros (Hong Kong) Ltd.	HK-Kowloon	F	Other countries	HKD	100.0	100.0
Migros Consulting Services (Shenzhen) Co. Ltd.	CN-Shenzhen	F	Other countries	CNY	626.0	100.0
Migros Liegenschaften GmbH	DE-Lörrach	F	Other countries	EUR	5'120.0	100.0
Migros-Verteilbetrieb Neuendorf AG	Neuendorf	F	Switzerland	CHF	4'500.0	100.0
Migros Verteilzentrum Suhr AG	Suhr	F	Switzerland	CHF	35'000.0	100.0
Ryffel Running AG	Berne	F	Switzerland	CHF	60.0	100.0
Sportxx AG	Zurich	F	Switzerland	CHF	100.0	100.0
SSP-Informatik AG	Zurich	F	Switzerland	CHF	100.0	100.0

Commerce

Denner AG	Zurich	F	Switzerland	CHF	15'000.0	100.0
DEPOT CH AG	Winterthur	F	Switzerland	CHF	1'000.0	100.0
EG Dritte Kraft AG	Zug	F	Switzerland	CHF	600.0	100.0
Ex Libris AG	Dietikon	F	Switzerland	CHF	3'000.0	100.0
Gries Deco Holding GmbH	DE-Niedernberg	F	Other countries	EUR	63.0	90.0
Gries Deco Company GmbH	DE-Niedernberg	F	Other countries	EUR	51.0	90.0
DEPOT Handels GmbH	AT-Vienna	F	Other countries	EUR	35.0	90.0
Gries Deco Buying HK Ltd.	CN-Hongkong	F	Other countries	HKD	25.0	90.0
digitec AG	Zurich	F	Switzerland	CHF	100.0	70.0
Digitec Galaxus AG	Zurich	F	Switzerland	CHF	240.0	70.0
Digitec Galaxus d.o.o. Beograd-Stari Grad	SRB-Belgrad-Stari Grad	F	Other countries	RSD	0.1	70.0

Segment / Company	Domicile	Accounting method[1]	Switzerland / Other countries	Currency	Registered capital in 1000	Equity interest in % [2]
Galaxus AG	Wohlen AG	E	Switzerland	CHF	360.0	70.0
Dolphin France SAS (Probikeshop)	FR-Saint Etienne	F	Other countries	EUR	226.0	51.0
E-PROCALL SASU	FR-Saint Etienne	F	Other countries	EUR	50.0	51.0
E-PROLOG SASU	FR-Saint Priest	F	Other countries	EUR	100.0	51.0
Interio AG	Dietikon	F	Switzerland	CHF	1'000.0	100.0
Le Shop S.A.	Ecublens	F	Switzerland	CHF	4'500.0	96.2
Magazine zum Globus AG	Spreitenbach	F	Switzerland	CHF	33'000.0	97.7
m-way ag	Opfikon	F	Switzerland	CHF	1'000.0	100.0
moso GmbH	AT-Innsbruck	E	Other countries	EUR	35.0	49.0
Sharoo AG	Opfikon	F	Switzerland	CHF	1'633.2	59.2
Migrol AG	Zurich	F	Switzerland	CHF	52'000.0	100.0
Swisstherm AG	Rupperswil	F	Switzerland	CHF	400.0	90.0
Widmer AG Brenn- und Treibstoffe	Oftringen	F	Switzerland	CHF	200.0	100.0
migrolino AG	Suhr	F	Switzerland	CHF	6'000.0	100.0
cevastore GmbH	Suhr	F	Switzerland	CHF	50.0	100.0
OWiba AG	Bolligen	F	Switzerland	CHF	100.0	100.0
Iba AG	Bolligen	F	Switzerland	CHF	1'000.0	100.0
Office World AG	Zurich	F	Switzerland	CHF	1'000.0	100.0
Tramondi Büro AG	Hägendorf	F	Switzerland	CHF	100.0	100.0

Industry & Wholesaling

Segment / Company	Domicile	Accounting method[1]	Switzerland / Other countries	Currency	Registered capital in 1000	Equity interest in % [2]
Aproz Sources Minérales SA	Nendaz	F	Switzerland	CHF	850.0	97.5
Atlante S.r.l.	IT-Casalecchio di Reno	E	Other countries	EUR	1'000.0	20.0
Bischofszell Nahrungsmittel AG	Bischofszell	F	Switzerland	CHF	6'000.0	100.0
gastina GmbH	AT-Frastanz	F	Other countries	EUR	2'236.3	100.0
Chocolat Frey AG	Buchs AG	F	Switzerland	CHF	4'000.0	100.0
Chocolat Frey Canada Ltd	CA-Vancouver	F	Other countries	CAD	8'748.9	100.0
Oak Leaf Confections Co	CA-Halifax	F	Other countries	CAD	356.1	100.0
Chocolat Frey USA Ltd	US-Delaware	F	Other countries	USD	10'988.8	100.0
Chocolat Frey US Real Estate LLC	US-Buffalo	F	Other countries	USD	–	100.0
SweetWorks Confections LLC	US-Delaware	F	Other countries	USD	–	100.0
Swiss Industries GmbH	Birsfelden	F	Switzerland	CHF	20.0	100.0
Delica AG	Birsfelden	F	Switzerland	CHF	1'000.0	100.0
Total Capsule Solutions S.A	Stabio	F	Switzerland	CHF	100.0	83.0
Delica Spain S.L.	ES-Barcelona		Other countries	EUR	100.0	100.0
Estavayer Lait SA	Estavayer-le-Lac	F	Switzerland	CHF	3'500.0	100.0
Financière du Solimont SAS	FR-Hochfelden	F	Other countries	EUR	600.8	72.1
Idhéa SAS	FR-Hochfelden	F	Other countries	EUR	2'500.0	72.1
Schwyzer Milchhuus AG	Ingenbohl	E	Switzerland	CHF	4'500.0	34.0
Jowa AG incl. production plants	Volketswil	F	Switzerland	CHF	10'000.0	100.0
Hug Bäckerei AG	Lucerne	E	Switzerland	CHF	1'000.0	25.0
Jowa France S.A.R.L.	FR-Thoiry	F	Other countries	EUR	750.0	100.0
Mibelle AG	Buchs AG	F	Switzerland	CHF	2'000.0	100.0
Mibelle Future Consumer Products AG	Buchs AG	E	Switzerland	CHF	200.0	50.0
Mibelle Ltd.	UK-Bradford	F	Other countries	GBP	1'000.1	100.0
QBC Group Holdings Ltd.	GB-Wokingham	F	Other countries	GBP	0.2	51.0
QBC Holdings Ltd.	GB-Wokingham	F	Other countries	GBP	1.0	51.0
The Quantum Beauty Company Ltd.	GB-Wokingham	F	Other countries	GBP	0.3	51.0
Absolute Beauty Solutions Ltd.	GB-Wokingham	F	Other countries	GBP	0.2	51.0
Ondal France S.à.r.l	FR-Sarreguemines	F	Other countries	EUR	1'000.0	100.0

Segment / Company	Domicile	Accounting method[1]	Switzerland / Other countries	Currency	Registered capital in 1000	Equity interest in % [2]
Micarna SA incl. Micarna AG, Bazenheid branch	Courtepin	F	Switzerland	CHF	10'000.0	100.0
Centravo Holding AG	Zurich	E	Switzerland	CHF	2'040.0	29.2
Favorit Geflügel AG	Lyss	F	Switzerland	CHF	500.0	100.0
Gabriel Fleury SA	Sierre	F	Switzerland	CHF	1'000.0	100.0
KM Seafood GmbH	DE-Schirgiswald-Kirschau	F	Other countries	EUR	25.0	50.0
Mérat & Cie. AG	Berne	F	Switzerland	CHF	50.0	100.0
Rudolf Schär AG	Thal	F	Switzerland	CHF	960.0	100.0
Schlachtbetrieb St. Gallen AG	Gossau SG	E	Switzerland	CHF	9'000.0	46.2
Stauss Geflügel GmbH	DE-Ertingen	F	Other countries	EUR	125.0	80.0
Swiss Value Food GmbH	DE-Meersburg	F	Other countries	EUR	25.0	100.0
TMF Extraktionswerk AG	Kirchberg SG	E	Switzerland	CHF	1'200.0	15.0
Midor AG	Meilen	F	Switzerland	CHF	2'000.0	100.0
Mifa AG Frenkendorf	Frenkendorf	F	Switzerland	CHF	2'000.0	100.0
Mifroma SA	Ursy	F	Switzerland	CHF	3'000.0	100.0
Bergsenn AG	Ennnetbürgen	F	Switzerland	CHF	500.0	100.0
Dörig Käsehandel AG	Urnäsch	F	Switzerland	CHF	200.0	100.0
Mifroma France SA	FR-Chalamont	F	Other countries	EUR	1'105.0	100.0
M Industry Canada Inc.	CA-Saint John NB	F	Other countries	CAD	300.0	100.0
M-Industry China LLC	CN-Shanghai	F	Other countries	CNY	908.8	100.0
M-Industrie Deutschland GmbH	DE-Bensheim	F	Other countries	EUR	225.0	100.0
M Industry Japan K.K.	JP-Tokyo	F	Other countries	YEN	74'000.0	100.0
M-Industry Netherlands B.V.	NL-Rotterdam	F	Other countries	EUR	100.0	100.0
M Industry USA Inc.	US-Delaware	F	Other countries	USD	700.0	100.0
Riseria Taverne SA	Torricella-Taverne	F	Switzerland	CHF	100.0	100.0
Saviva AG	Regensdorf	F	Switzerland	CHF	8'000.0	80.0
L+S Holding AG	Appenzell	F	Switzerland	CHF	800.0	100.0
Lüchinger + Schmid AG, Eier und Eierprodukte	Kloten	F	Switzerland	CHF	5'600.0	100.0
Eier Hungerbühler AG	Flawil	F	Switzerland	CHF	200.0	100.0
EGW Liegenschaften AG	Flawil	F	Switzerland	CHF	50.0	100.0
Farmco AG	Köniz	F	Switzerland	CHF	1'036.0	70.0
Orofrais S.A.	Echallens	F	Switzerland	CHF	200.0	100.0
Proei AG	Landquart	F	Switzerland	CHF	500.0	100.0
LABEYE SA	Etagnières	F	Switzerland	CHF	100.0	100.0
SCG Swiss Consumer Goods GmbH	DE-Bensheim	F	Other countries	EUR	25.0	100.0
Financial Services						
Migros Bank AG	Zurich	F	Switzerland	CHF	700'000.0	100.0
Swisslease AG	Wallisellen	F	Switzerland	CHF	100.0	100.0
Travel						
Hotelplan Holding AG	Opfikon	F	Switzerland	CHF	10'000.0	100.0
incl. subsidiaries:						
Adventure Travel Experience Inc.	US-New Castle	E	Other countries	USD	–	48.0
bedfinder AG	Opfikon	F	Switzerland	CHF	100.0	100.0
bta first travel ag	Steinhausen	F	Switzerland	CHF	100.0	100.0
Chalet Service AG	Lauterbrunnen	F	Switzerland	CHF	100.0	100.0
Enigma Holidays Ltd.	GB-Godalming	F	Other countries	GBP	3'200.0	100.0

Segment / Company	Domicile	Accounting method[1]	Switzerland / Other countries	Currency	Registered capital in 1000	Equity interest in % [2]
Enigma Travel Group Ltd.	GB-Godalming	F	Other countries	GBP	147.0	100.0
Espirit Holidays Ltd.	GB-Godalming	F	Other countries	GBP	50.0	100.0
Explore Aviation Ltd.	GB-Farnborough	F	Other countries	GBP	2.0	100.0
Explore Worldwide Ltd.	GB-Farnborough	F	Other countries	GBP	100.0	100.0
Explore Worldwide Adventures Ltd.	CA-Vancouver	F	Other countries	CAD	0.0	100.0
Gattinoni Travel Network s.r.l.	IT-Lecco	E	Other countries	EUR	1'000.0	34.0
Horizonte Club España sl	ES-Barcelona	F	Other countries	EUR	274.0	100.0
Horizontes Club Holidays Ltd.	GR-Athens	F	Other countries	EUR	17.6	100.0
Hotelplan CC Services GmbH	DE-Berlin	F	Other countries	EUR	307.6	100.0
Hotelplan (Transport) Ltd.	GB-Godalming	F	Other countries	GBP	2.0	100.0
Hotelplan (UK Group) Ltd.	GB-Godalming	F	Other countries	GBP	1'025.0	100.0
Hotelplan Inghams Sàrl	FR-Chamonix	F	Other countries	EUR	7.6	100.0
Hotelplan Intern. Reiseorganisation GmbH	AT-Innsbruck	F	Other countries	EUR	36.3	100.0
Hotelplan Ltd.	GB-Godalming	F	Other countries	GBP	1'000.0	100.0
Hotelplan Management AG	Opfikon	F	Switzerland	CHF	500.0	100.0
Hotelplan Travel s.r.l.	IT-Torino	F	Other countries	EUR	10.0	100.0
IHOM Sp z oo	PL-Warsaw	F	Other countries	PLN	1'000.5	96.8
Inghams Canada Ltd.	CA-Banff	F	Other countries	CAD	0.1	100.0
Inntravel Ltd.	GB-York	F	Other countries	GBP	500.0	100.0
Inter Chalet Ferienhaus AG	Opfikon	F	Switzerland	CHF	100.0	100.0
Inter Chalet Ferienhaus GmbH	DE-Freiburg i.B.	F	Other countries	EUR	25.6	100.0
Inter Chalet j.d.o.o.	HR-Rijeka	F	Other countries	HRK	0.0	100.0
Interhome AB	SE-Stockholm	F	Other countries	SEK	100.0	100.0
Interhome AG	Opfikon	F	Switzerland	CHF	4'500.0	100.0
Interhome Vakantie B.V.	NL-Rijswijk	F	Other countries	EUR	350.0	100.0
Interhome GesmbH	AT-Innsbruck	F	Other countries	EUR	80.0	100.0
Interhome GmbH	DE-Düren	F	Other countries	EUR	31.0	100.0
Interhome Ltd.	GB-London	F	Other countries	GBP	50.0	100.0
Interhome OOO	RU-Moscow	F	Other countries	RUB	10.0	80.0
Interhome Oy	FI-Helsinki	NC	Other countries	EUR	16.8	20.0
Interhome SA	BE-Diegem	F	Other countries	EUR	126.0	100.0
Interhome Sàrl	FR-Paris	F	Other countries	EUR	130.8	100.0
Interhome Sp z oo	PL-Warsaw	F	Other countries	PLN	200.5	100.0
Interhome S.r.l.	IT-Milan	F	Other countries	EUR	30.0	100.0
Interhome S.L.	ES-Barcelona	F	Other countries	EUR	70.0	100.0
Interhome s.r.o.	CZ-Prague	F	Other countries	CZK	4'000.0	100.0
Itinerary Ltd.	GB-York	F	Other countries	GBP	40.0	100.0
Mount Lavinia Hotels & Ressorts Ltd.[3]	MV-Male	E	Other countries	MVR	87'380.0	50.0
MTCH AG	Opfikon	F	Switzerland	CHF	2'400.0	100.0
Norddeich Ferienwohnungen Maus GmbH	DE-Norden-Norddeich	F	Other countries	EUR	25.0	100.0
Regal Diving and Tours Ltd.	GB-Ely	F	Other countries	GBP	125.0	100.0

Others

Ferrovia Monte Generoso SA	Mendrisio	NC	Switzerland	CHF	3'500.0	100.0
Liegenschaften-Betrieb AG	Wallisellen	F	Switzerland	CHF	18'000.0	100.0
Betriebsgesellschaft Zentrum Glatt AG	Wallisellen	F	Switzerland	CHF	200.0	100.0
Löwenbräu-Kunst AG	Zurich	E	Switzerland	CHF	27'000.0	33.3

1 Accounting method: F = fully consolidated / E = accounted for under the equity method / NC = not consolidated
2 Interest: P = parent company
3 Joint ventures

Report of the statutory auditor

Report of the statutory auditor
to the Board of Directors
of Federation of Migros Co-operatives
Zurich

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the Migros Group (the Group), which comprise the consolidated balance sheet as at 31 December 2016 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (pages 28 to 108).

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

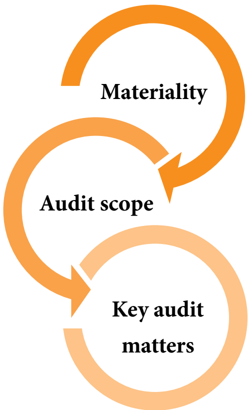
Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements” section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall materiality: CHF 100 million, which represents approx. 0.4 % of revenue (total income).

- We concluded full scope audit work at 17 reporting units in four countries.
- Our audit scope addressed over 72 % of the Group's revenue and 79 % of the assets.
- In addition, specified procedures were performed on a further four reporting units in two countries.

As key audit matters, the following areas of focus have been identified:
Recoverability of intangible assets
Recoverability of tangible fixed assets
Recoverability of mortgages and other customer receivables of Migros Bank AG

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	CHF 100 million
How we determined it	0.4 % of revenue (total income)
Rationale for the materiality benchmark applied	We chose the revenue of the Migros Group as the benchmark because the Migros Group is not primarily capital-market oriented. The owners of Migros (i.e. the cooperative members) do not provide risk capital and Migros has no obligation to pay a dividend to members. Furthermore, it is a generally accepted benchmark.

We agreed with the Audit Committee that we would report to them misstatements above CHF 2 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report on key audit matters based on the Circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the period under review. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of intangible assets

Key audit matter	How our audit addressed the key audit matter
Intangible assets on the balance sheet amount to CHF 811 million. Besides software, this item comprises primarily acquired goodwill (CHF 321 million) as well as brands, licences, patents and contractual rights (CHF 351 million) stemming from acquisitions of business units by the Migros Group. If there are indications of impairment, they are subject to impairment tests. We consider the recoverability of intangible assets to be a key audit matter because the nature of such assets means that significant judgement is required in assessing whether there are indications of impairment and in deriving the values in use relevant for the impairment tests. We identified the following key factors that could lead to the incorrect valuation of the intangible assets: – Cash flows, derived from internal budgets and financial plans, used to calculate the value in use – Discount rate used for the particular business segments – Underlying data sources and derivation when using multiples Please refer to pages 62 and 63 (Critical accounting estimates and judgements) and pages 86 and 87 (Notes to the financial statements).	We performed the following procedures: – Evaluated the Group's internal processes and controls relating to the identification of indications of impairment and the performance of impairment tests. – Compared the assumptions used to calculate the value in use based on the approved budgets and financial plans/strategic plans of the business units concerned with economic and industry information as well as with the developments in previous financial years. Assessed by means of sensitivity analyses the impact of the assumptions on the value drivers of the valuation model. – Assessed, with the support of valuation experts, the derivation of the applied discount rates taking into account the industry- and country-specific circumstances compared with external data. – Tested the mathematical accuracy of the calculation in the valuation models used. – Compared the multiples for the business units for which this valuation method is applied with the appropriate external data sources. – Tested that the costs relating to impairment were correctly accounted for and disclosed in the consolidated financial statements. Overall, based on our own analyses, we consider the principles and the assumptions applied by Management to test for the impairment of intangible assets to be acceptable.

Recoverability of tangible fixed assets

Key audit matter	How our audit addressed the key audit matter
Tangible fixed assets are recognised at the historical or acquisition cost less the accumulated depreciation or, for certain assets, at market value, when higher. At a recognised value of CHF 12.8 million, they represent a significant portion of the balance sheet total. In the year under review, impairment of CHF 22 billion has been booked against tangible fixed assets. We consider the recoverability of tangible fixed assets to be a key audit matter because the assessment of impairment indicators and of recoverable amounts of the assets requires Management to apply significant judgement. In particular, this concerns the Group's business units that are start-ups or turnaround entities and whose future development is subject to a high degree of uncertainty. We identified the following key factors that could lead to the incorrect valuation of the tangible fixed assets: – Cash flows, derived from internal budgets and financial plans, used to calculate the value in use – Discount rate of the particular business segments – Underlying data source and derivation of the recoverable amounts and the assumptions used Please refer to pages 62 and 63 (Critical accounting estimates and judgements) and pages 84 and 85 (Notes to the financial statements).	We performed the following procedures: – Evaluated the Group's internal processes and controls relating to the identification of indications of impairment and the performance of impairment tests. – Compared the assumptions used to calculate the value in use based on the approved budgets and financial plans / strategic plans of the business units concerned with economic and industry information as well as with the developments in previous financial years. Assessed by means of sensitivity analyses the impact of the assumptions on the value drivers of the valuation model. – Assessed, with the support of valuation experts, the derivation of the applied discount rates taking into account the industry- and country-specific circumstances compared with external data. – Tested the mathematical accuracy of the calculation in the valuation models used. – Tested the derivation and calculation of the market valuation of objects for which this valuation basis was used. – Tested that the costs relating to impairment (depreciation, provisions for onerous rental agreements with third parties) were correctly accounted for and disclosed in the consolidated financial statements. Overall, based on our own analyses, we consider the principles and the assumptions applied by Management to test for the impairment of tangible fixed assets to be acceptable.

Recoverability of mortgages and other customer receivables of Migros Bank AG

Key audit matter	How our audit addressed the key audit matter
The core business of Migros Bank AG is the provision of private and corporate loans. Mortgages and other customer receivables are disclosed in the amount of CHF 36.5 billion on the balance sheet. Migros Bank primarily issues mortgage-based loans for residential and business properties as well as unsecured loans as financing for commercial purposes. Further, the bank provides consumer credits to private individuals. We consider the recoverability of this item to be a key audit matter, not only because it represents a significant share of the balance sheet (57 %), but also for the following reasons. Changes in market conditions, especially in the property market, and the economic situation can affect the value of the loan portfolio or of individual loans. Further, numerous factors can put at risk the repayment of individual loans. Please refer to pages 56 to 58 (credit risks) and pages 76 and 77 (Notes to the financial statements).	Our audit approach consisted principally of the audit of the effectiveness of the processes and controls implemented by the bank. We tested compliance with the rules and processes as well as the effectiveness of these controls by using risk-based samples. We also performed substantive audit procedures. We performed the following procedures: – Tested selected key controls of the bank relating to the approval, processing and monitoring of loans. – On a sample basis, tested credit items (incl. a valuation check of the collateral) for indications of impairment ("impairment triggers") and tested already impaired loans. – On a sample basis, checked the assessment of the recoverability of loans (credit review). Overall, based on our audits, we consider the principles and the assumptions applied by Management to test for the impairment of mortgages and other customer receivables to be acceptable.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Swiss GAAP FER and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the period under review and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

IIn accordance with art. 906 CO in conjunction with art. 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Rodolfo Gerber
Audit expert
Auditor in charge

Aysegül Eyiz Zala
Audit expert

Zurich, 16 March 2017

Legal information

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