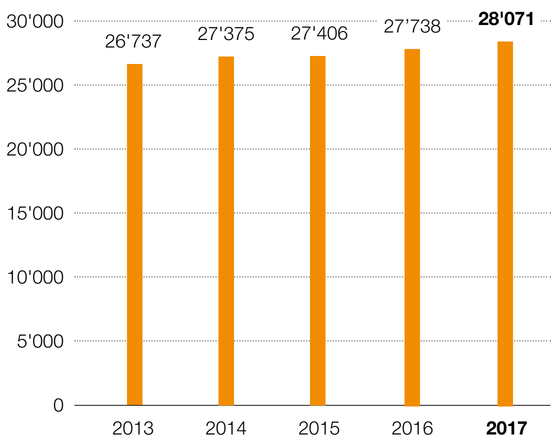
Financial reporting 2017

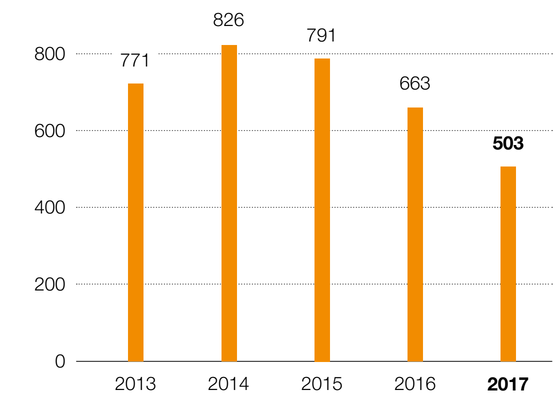
MIGROS GROUP

Development of Group results

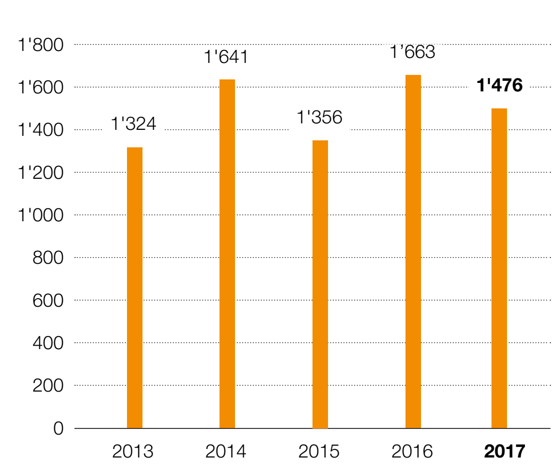
Income
[in million CHF]



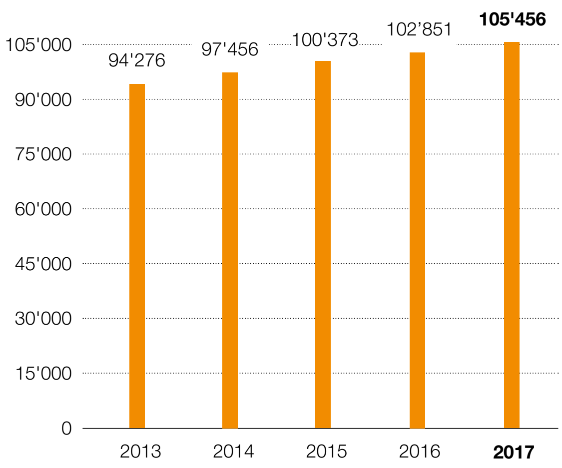
Profit [1]
[in million CHF]



Investments
[in million CHF]



Workforce
[Number of persons]



[1] 2013 IFRS, before effect from pension plans

Key figures and ratios

CHF million, except where indicated		2013	2014	2015	2016	2017	Change from previous year in %
Income		**26'737**	**27'375**	**27'406**	**27'738**	**28'071**	**+1.2**
↳ of which income before income from financial services business		25'846	26'502	26'546	26'921	27'292	+1.4
↳ of which Migros retail sales		22'867	23'052	22'996	23'269	23'490	+1.0
↳ of which income of the Cooperatives		15'844	15'910	15'613	15'634	15'557	–0.5
Total Migros distribution sites	number	639	648	659	685	701	+2.3
Total Migros sales area	m²	1'348'664	1'362'083	1'377'633	1'397'454	1'402'169	+0.3
EBITDA (earnings before interest, taxes, depreciation and amortisation)		**2'266**	**2'392**	**2'314**	**2'281**	**2'103**	**–7.8**
as % of income	%	8.5	8.7	8.4	8.2	7.5	
↳ of which EBITDA of the Retail and Industry sector		1'986	2'076	2'000	1'981	1'795	–9.4
EBIT (earnings before interest and taxes)		**1'044**	**1'126**	**982**	**911**	**603**	**–33.8**
as % of income	%	3.9	4.1	3.6	3.3	2.1	
Profit[1]		**771**	**826**	**791**	**663**	**503**	**–24.2**
as % of income	%	2.9	3.0	2.9	2.4	1.8	
Cash flow from operating activity		**1'225**	**2'362**	**2'696**	**2'503**	**1'170**	**–53.2**
as % of income	%	4.6	8.6	9.8	9.0	4.2	
↳ of which cash flow of the Retail and Industry sector		688	1'703	2'047	1'658	1'619	–2.4
Investments		**1'324**	**1'641**	**1'356**	**1'663**	**1'476**	**–11.2**
Equity		**15'969**	**15'970**	**16'802**	**17'455**	**17'913**	**+2.6**
as % of balance sheet total	%	27.2	26.4	27.0	27.5	27.7	
↳ of which equity of the Retail and Industry sector		13'663	13'548	14'181	14'646	14'931	+1.9
as % of balance sheet total	%	65.1	65.4	66.5	67.5	67.3	
Balance sheet total		**58'809**	**60'585**	**62'138**	**63'537**	**64'581**	**+1.6**
↳ of which balance sheet total of the Retail and Industry sector		20'984	20'709	21'323	21'703	22'176	+2.2
Expenditure for cultural, social and economic policy purposes		**120**	**122**	**120**	**120**	**122**	**+1.8**
Workforce / Migros Cooperatives							
Workforce (number of persons – annual average)	number	94'276	97'456	100'373	102'851	105'456	+2.5
Migros Cooperatives (number of members)	number	2'136'959	2'155'331	2'166'145	2'182'171	2'187'818	+0.3

[1] 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	**2017**	2016
Earnings before interest and taxes	603	911
Profit	503	663
Cash flow (from operating activity)	1'170	2'503
↳ of which cash flow of the Retail and Industry sector[1]	1'619	1'658
Investments	1'476	1'663
Equity	17'913	17'455
↳ of which equity of the retail and industry sector[1]	14'931	14'646
Balance sheet total	64'581	63'537
↳ of which balance sheet total of the retail and industry sector[1]	22'176	21'703

[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	**2017**	2016	**2017**	2016	**2017**	2016
Net revenue from goods and services sold	26'835	26'547	26'840	26'550	3	3
Other operating income	457	374	465	373	2	6
Income before financial services business	**27'292**	**26'921**	**27'305**	**26'923**	**4**	**10**
Income from financial services business	779	817	–	–	779	817
Total income	**28'071**	**27'738**	**27'305**	**26'923**	**783**	**827**
Cost of goods and services sold	15'927	15'762	15'930	15'764	–	–
Expenses of financial services business	191	246	–	–	191	246
Personnel expenses	5'947	5'774	5'774	5'600	172	174
Depreciation	1'500	1'370	1'470	1'339	30	30
Other operating expenses	3'903	3'675	3'805	3'578	110	107
Earnings before interest and taxes	**603**	**911**	**325**	**642**	**280**	**270**

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

A.3. Balance sheet

CHF million	Migros Group 2017	Migros Group 2016	Retail and Industry sector[1] 2017	Retail and Industry sector[1] 2016	Financial Services sector[1] 2017	Financial Services sector[1] 2016
ASSETS						
Cash and cash equivalents	6'327	6'490	2'100	1'708	4'333	4'894
Receivables due from banks	318	660	3	303	317	358
Mortgages and other customer receivables	37'456	36'484	–	–	37'478	36'516
Other receivables	1'106	933	1'112	937	–	–
Inventories	2'734	2'563	2'734	2'563	–	–
Other financial assets	1'586	1'312	613	552	972	760
Investments in associated companies and joint ventures	87	92	824	830	0	0
Investment property	362	371	339	347	24	24
Fixed assets	12'776	12'828	12'674	12'720	103	108
Intangible assets	773	811	745	775	26	34
Other assets	1'056	994	1'031	969	25	25
BALANCE SHEET TOTAL	**64'581**	**63'537**	**22'176**	**21'703**	**43'277**	**42'718**
LIABILITIES AND EQUITY						
Payables due to banks	521	378	493	334	51	77
Customer deposits and liabilities	33'210	32'646	–	–	33'317	32'759
Other financial liabilities	1'964	1'862	1'964	1'861	0	0
Other liabilities	2'814	2'662	2'745	2'588	75	78
Provisions	163	116	156	116	7	0
Issued debt instruments	5'740	6'032	–	150	5'740	5'882
Liabilities from employee benefits	792	819	772	799	20	20
Current income tax payables	70	128	36	86	34	42
Deferred income tax liabilities	1'395	1'440	1'078	1'124	317	316
Total liabilities	**46'668**	**46'082**	**7'245**	**7'057**	**39'560**	**39'174**
Total equity including minority interests	**17'913**	**17'455**	**14'931**	**14'646**	**3'717**	**3'545**
BALANCE SHEET TOTAL	**64'581**	**63'537**	**22'176**	**21'703**	**43'277**	**42'718**

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

A.4. Cash flow statement

CHF million	Migros Group 2017	Migros Group 2016	Retail and Industry sector[1] 2017	Retail and Industry sector[1] 2016	Financial Services sector[1] 2017	Financial Services sector[1] 2016
Cash flow from operating activity	1'170	2'503	1'619	1'658	–391	487
Cash flow from investing activity	–1'290	–1'542	–1'315	–1'595	26	53
Cash flow from financing activity	–77	–388	56	–278	–196	–165
Changes in cash and cash equivalents	**–196**	**574**	**360**	**–214**	**–561**	**375**
Cash and cash equivalents, at beginning of year	6'490	5'929	1'708	1'935	4'894	4'519
Influence of foreign currency translation	33	–13	33	–13	–	–
Cash and cash equivalents, at end of year	**6'327**	**6'490**	**2'100**	**1'708**	**4'333**	**4'894**

[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 and sold various companies.Transactions carried out in the **2017 financial year** included the following:

On 1 January 2017, Medbase AG acquired a 100 % stake in Fit im Job AG in Winterthur, thereby further increasing its involvement in the health sector. Checkup Center Zürich AG, which was acquired on 31 October 2016 but was not consolidated in the Group financial statements due to a lack of information relating to financial statements, was merged with Medbase AG during the financial year.

On 1 May 2017, Activ Fitness AG, which is part of the Migros Cooperative Zurich, acquired all 22 fitness centres owned by Silhouette Wellness SA and consequently consolidated its market position in the Zurich and Geneva regions. With retroactive effect from 1 January 2017, the Migros Cooperative Zurich also acquired Hitzberger AG, which offers high quality, healthy fast-food dishes at six outlets. tegut… Holding GmbH, which is also owned by the Migros Cooperative Zurich, acquired 100 % of the shares in Herzberger Bäckerei GmbH based in Fulda (Germany) on 1 April 2017. It was previously part of the Tegut Group and remained with its owners when the company was sold. Together with Tegut, Herzberger Bäckerei GmbH also supplies regional retailers with organic bread and baked goods.

Mérat & Cie. SA acquired Tipesca SA, which is based in Ticino and specialises in fish products, along with all its employees on 1 January 2017 and, in doing so, enhanced its logistics expertise in southern Switzerland.

On 1 January 2017, Jowa AG increased its minority shareholding in Hug Bäckerei AG from 25 % to 70 %. Estavayer Lait SA (ELSA) increased its stake in Schwyzer Milchhuus AG from 34 % to 60 % with retroactive effect from 1 January 2017. As a result, these two companies were consolidated in full for the first time in the 2017 financial year.

TW AG (formerly Reisebüro Beo AG), which is part of the Hotelplan Group, acquired all of the shares in Jo-Jo Reisen GmbH on 1 January 2017 and subsequently merged the company with TW AG.

As far as the following transactions are concerned, the information relating to financial statements was unavailable at the time of the Migros Group financial statements being released. Consequently, the initial recognition of the business combination was not possible. Full-year inclusion in Migros Group will only be shown in 2018:

– Acquisition of the major PHZ Permanence practice at Zurich central railway station by Medbase AG on 9 November 2017, thereby increasing the range of services available in the areas of general practice and emergency medicine.

On 30 November 2017, Saviva AG sold the Cash + Carry Angehrn (CCA) business division. The nine CCA sites in German-speaking Switzerland were acquired by the western Swiss company Demaurex & Cie S.A. (known by its market identity Aligro), which will also retain all CCA staff.

On 1 December 2017, Migros divested itself of Office World Group (OWiba) and ensured the continued employment of all staff through the sale to Austria's MTH Retail Group (MTH). The close alliance between OWiba and MTH creates ideal preconditions for a long-term successful future for both companies.

Migros also sold its 51 % shareholding in Dolphin France SAS (Probikeshop) to Internetstores GmbH on 17 May 2017 and reduced its majority shareholding in Sharoo AG from 59.1 % to 19.9 % on 3 July 2017.

Please see Note 39 for further details.

The following companies were acquired during the **2016 financial year**:

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 2016 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 was not shown until 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.

D. Income trend (sales trend) of Migros Group

In 2017, Migros Group generated total sales of CHF 28.1 billion and achieved growth of CHF 333 million (+ 1.2 %).

In the Retail and Industry sector, income increased by CHF 381 million to CHF 27.3 billion (+ 1.4 %). In the core retailing business, sales in Switzerland and abroad totalled CHF 23.5 billion (CHF + 221 million or + 1.0 %). 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 decreased by CHF 2 million to CHF 1.8 billion (– 0.1 %, including the sale of Probike).

In the Financial Services sector, income fell by a total of CHF 44 million to CHF 783 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 2017	Total income 2016	Change from previous year in %
Cooperative Retailing	16'896	16'799	0.6
Commerce	7'938	7'602	4.4
Industry & Wholesaling	5'994	5'918	1.3
Travel	1'221	1'292	–5.5
Others	115	119	–3.2
Eliminations (within Retail and Industry sector)	–4'860	–4'806	
Total Retail and Industry sector	**27'305**	**26'923**	**1.4**

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**.

Stable sales trend in Cooperative Retailing amid continuing shopping tourism

At CHF 14.3 billion, domestic sales of the ten regional Cooperatives fell slightly compared to the previous year (CHF – 108 million, or – 0.8 %). Sales of CHF 1.2 billion (CHF + 31 million, or + 2.6 %) were generated abroad. Total sales fell by CHF 77 million to CHF 15.6 billion (– 0.5 %). The domestic market share was 15.0 % (previous year: 15.0 %, new basis in accordance with BAK Basel).

In local currency terms, Migros France suffered a decline in sales of 8.6 % year-on-year, to EUR 109 million. Tegut generated sales of EUR 1'008 million (+ 1.2 %).

Migros supermarkets and hypermarkets generated domestic sales of CHF 11.6 billion (– 0.8 %, or CHF – 98 million). Allowing for average negative inflation of – 0.2 %, this corresponds to a change in real terms of – 0.6 % compared to the previous year.

The specialist markets Micasa, SportXX, Melectronics, Do it + Garden and OBI posted sales of 1'617 million (CHF + 15 million, or + 0.9 %) in 2017. Adjusted for negative inflation of – 2.7 %, the five specialist markets together recorded growth of 3.6 % in real terms. The sales trend in the online shops of the specialist markets remains positive, increasing by + 25.0 % to CHF 65 million.

PickMup, Migros' practical, free collection and returns network for online orders, attracted large numbers of new partners during the past year. Purchases from 14 different online shops can be collected and returned at over 746 PickMup/store locations in Switzerland.

Regional and sustainable products remain popular: demand for regional and sustainable products continued to grow in 2017. The “Aus der Region. Für die Region.” (From the region. For the region.) range continues to be very popular, posting a sales volume of CHF 960 million (+ 2.0 %). Sales of products with ecological and social added value totalled CHF 2'964 million (CHF + 110 million, or + 3.8 %), with particular highlights including the Migros organic range and the TerraSuisse sustainability programme. Together they account for more than half of sales. At a total of CHF 4'011 million, sales of products carrying sustainability and regional labels and the health label “aha!” (CHF 87 million) were up by 3.3 % on the previous year.

As part of Migros' **sustainability strategy**, a total of 67 commitments have been made to **Generation M** (“Generation von morgen” or “The generation of tomorrow”) since 2012 in the areas of consumption, the environment, employees, society and health. The attainment of targets is monitored on a continuous basis. 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 domestic **sales outlets** increased by 16 in total to 701 sites at the end of 2017. The sales area for supermarkets, hypermarkets, specialist markets and catering services grew by a total of 4'715 m² (+0.3%). The productivity per area in supermarkets and hypermarkets in Switzerland totalled CHF 12'593 / m² (– 2.0 %), while the corresponding figure in specialist markets was CHF 3'818 / m² (+ 0.0 %).

At CHF 676 million, sales in **catering** were down by 0.9 % overall on the previous year. The new business formats, such as Chickeria (+ 69.4 %) and community catering (+ 3.0 %), continued to perform well. With the acquisition of the take-away chain Hitzberger, Migros is positioning itself as an innovative provider in the healthy fast food segment.

In the **health sector**, Migros was able to consolidate its leading position in the Swiss fitness market with its acquisition of the Silhouette fitness chain. The comprehensive medical and therapeutic range of Medbase saw total sales increase by 6.0 % to CHF 139 million. The digital platform Impuls provided the public with a whole range of tips and support for leading a healthy lifestyle.

Commerce facing great change

The **strategic business unit Commerce** mainly includes the retail companies Denner, Migrol, Magazine zum Globus, Ex Libris, Interio, Depot (Gries Deco Group), migrolino, Le Shop and Digitec Galaxus.

During the reporting year, **Office World Group (OWiba)** and **Dolphin France SAS (Probikeshop)** were sold and the majority shareholding in **Sharoo** was relinquished. Their share of sales in 2017 totalled CHF 153 million (– 39.5 %).

As a local discounter, **Denner**, which celebrated its 50th birthday in 2017, posted sales of CHF 3'050 million (+ 3.1 %), thereby increasing its market share further in the highly competitive retailing business. An increase in customers of 5.9 % was recorded in its own stores in 2017. At the end of 2017, Denner had 811 stores (previous year: 809). Across the country, Denner began modernising its satellite stores in the reporting year. This will see the design of the outlets adapted to match that of Denner's own stores, and the name will also be changed to Denner Partner.

Rising fuel prices meant that **Migrol** recorded sales of CHF 1'410 million in 2017 (+ 9.3 %).

For **Magazine zum Globus**, 2017 was a challenging year marked by upheaval. The first effects of the structural adjustment and the acceleration of the digital transformation introduced with the one-brand strategy (Globus as the premium umbrella brand) are being felt. Total sales of CHF 857 million (– 2.5 %, adjusted by sales area – 2.0 %) were generated. Globus department stores recorded sales of CHF 643 million (– 2.2 %, adjusted by sales area – 1.6 %), while the corresponding figures for Herren Globus and Schild were CHF 68 million (– 0.8 %, adjusted by sales area – 2.8 %) and CHF 146 million (– 4.5 %, adjusted by sales area – 3.0 %) respectively.

The change in the structure of **Ex Libris** is also reflected in the 2017 result. Online sales rose by 8.0 % and reached a new record figure. However, falls in in-store business reduced overall sales by CHF 3 million to CHF 109 million (– 3.0 %). Ex Libris will restructure its branch business this year and focus on digitalisation.

Interio generated sales of CHF 154 million (– 8.1 %) in 2017.

The retail chain **Depot** (Gries Deco Company abroad and in Switzerland) posted sales of EUR 484 million (+ 5.2 %) or CHF 540 million (+ 7.7 %).

migrolino continues to grow and generated sales of CHF 480 million (+11.3 %). At the end of 2017, migrolino had a total of 311 shops (+ 4).

Le Shop generated sales of CHF 181 million (– 0.5 %) in 2017. This decline is due to the closure of the two DRIVE locations (pilot collection stations) (adjusted growth + 3.0 %).

In the 2017 calendar year, Switzerland's biggest online retailer **Digitec Galaxus** generated sales of CHF 834 million (+ 18.5 %). The electronics specialist digitec remains the stronger brand, although the online store Galaxus is catching up quickly.

In the **e-commerce business**, Migros further cemented its position as the undisputed market leader. Online sales, including Digitec Galaxus, totalled CHF 1'946 million (+ 5.1 %).

M-Industry posts solid growth thanks to international business

Sales in the **strategic business unit Industry & Wholesaling** grew by CHF 132 million (+2.1 %) to CHF 6'520 million. The international business achieved growth of CHF 112 million (+ 14.1 %) to CHF 901 million. In the Swiss market, M-Industry optimised its portfolio and sold the Cash+Carry Angehrn (CCA) business. On the other hand, acquisitions (Tipesca SA) and the obtaining of the majority shareholding in Hug Bäckerei AG and Schwyzer Milchhuus AG strengthened the market position and generated total sales of CHF 5'619 million (+ 0.4 %). At CHF 4'526 million, business with Migros Group remained at the previous year's level. Sales in the wholesale business were increased by 2.2 % to CHF 1'093 million.

Geopolitical events impact negatively on travel business

The **strategic business unit Travel** recorded a year-on-year increase in net sales of 1.2 % on a comparable basis. However, net sales declined by 5.6 % to CHF 1'212 million (total income CHF 1'221 million / – 5.5 %) as a result of the sale of Hotelplan Italia and the noticeably weaker British pound. Overall, the Travel business unit achieved posted sales of CHF 1'379 million, a fall of 3.9 %. Whereas sales at Hotelplan Suisse remained constant, Hotelplan UK posted an increase of 3.2 % in local currency terms, and Holiday Home Division recorded growth of 3 %. In its first full year, bedfinder recorded very impressive growth, and the potential for further growth is huge.

D.2. Income trend in the Financial Services sector

Total income in the Financial Services sector amounted to CHF 783 million in the reporting year, with interest revenue of CHF 628 million or 80.2 % constituting the main share of total income. The fall in income of CHF 44 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 603 million, CHF 308 million or 33.8% below the previous year's figure.

In the Retail and Industry sector, the result decreased by CHF 317 million to CHF 325 million (– 49.4 %).

In the Financial Services sector, the operating result increased by CHF 10 million to CHF 280 million (+ 3.7 %).

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

CHF million	Earnings before interest and taxes 2017	2016	Change from previous year in %
Cooperative Retailing	306	542	–43.7
Commerce	–83	–87	5.3
Industry & Wholesaling	56	154	–63.9
Travel	5	–12	142.9
Others	43	51	–16.9
Eliminations (within Retail and Industry sector)	–1	–6	
Total Retail and Industry sector	**325**	**642**	**–49.4**

The operating result for the Retail and Industry sector deteriorated significantly in 2017 compared to the previous year. Within the individual strategic business units, the trend varies. The online trade and the omni-channel presence are growing in importance, while in-store business is on the decline. Disruptive trends and digitalisation are influencing the course of business. In order to be able to overcome future challenges, a range of measures – including realignments and restructuring – were decided upon in the reporting year and several companies were sold. Value adjustments had to be made in individual companies.

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. A whole host of **optimisation measures** were initiated, continued and completed during the past financial year.

Thanks to the **Mobile Store Processes project**, the solution for **goods management** in stores is being updated. In addition to the latest touchscreen computers and mobile printers, in-store staff have access to 21 apps providing the necessary functionalities.

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. More than 350 supermarket outlets are now working with the new system, which will provide them with a higher-quality order proposal thanks to improved algorithms and factors influencing individual demand. Stores' inventories have been improved demonstrably, while food waste and stock shortages have both been reduced.

On 23 March 2017, the green light was given to the design phase for the **ONE Smart Solution project**, in which business scenarios and end-to-end processes (e.g. from the cocoa bean to production and then to the store shelf for sale) are defined for M-Industry and the benefits of digitalisation are exploited.

As part of the **centralisation** process, the migration of the **data centre** to its new site was completed successfully and without interruption to operations. From here it will serve all national Migros applications. The transfer of the hardware needed in order to operate applications comprised around 3'700 servers.

The roll-out of the **M-Workplace** as a further measure to standardise and optimise processes covered a total of 1'500 workstations at Aproz, Migros Vaud and ELSA-Mifroma in 2017. The new workplace environment is now used at twenty companies within the orange M. At Jowa, Chocolat Frey and Mibelle, good progress has been made with the preliminary work, thus enabling the migration of an additional 3'000 M-Workplaces in 2018.

The **Avanta** project involves the development of an innovative point-of-purchase solution that is aligned with all sales channels by the end of 2020. This will replace the current VisualStore point-of-sale solution in supermarkets / hypermarkets, in the specialist markets and in the catering activities of the segment Cooperative Retailing. The first pilot branch, at Migros Lucerne, began operating with the new Avanta POS system in April 2017. The development of further functionalities and the gradual roll-out of the system are set to follow.

Migros Verteilzentrum Suhr AG ensures efficient and cost-effective delivery of food products to Migros stores, as well as handling the logistics for migrolino AG. In 2017, the first full year of operation for migrolino AG's automated order-picking facility for small-quantity logistics, productivity continued to improve and the logistics service prices for MVS customers, BU Food and migrolino AG were reduced further. Over the course of the year, a third storage level was added to the high-bay racking warehouse incoming goods zone, which increased incoming goods capacity by approximately + 30 % and provided a sustainable improvement to process reliability and quality during the seasonal peaks of Easter and Christmas.

The construction of the new frozen store facility 4 **at Migros-Verteilbetrieb Neuendorf AG (MVN)** was completed on schedule halfway through the year and successfully started operations. Since this date, Denner's deep-freeze logistics have also been developed in the production halls and the high-bay racking warehouse, resulting in some 300 articles being distributed nationally to all 800 branches from the Neuendorf site since 1 October. On 1 May, MVN acquired Interio Möbellogistik (including its online shop) with 61 employees, which it operates from the distribution centre in Nebikon.
As part of the MVN Logistics 4.0 project, work is currently ongoing on a detailed specification for the systems (automation of the supermarket and hypermarket ranges) and the extension (MVN West). Once all permits have been issued (construction and layout plan), construction is expected to start in July 2018. Operations are planned to begin in 2021.

Procurement management as a key corporate function designed to safeguard price and performance management: For the procurement functions, 2017 was dominated by intensive negotiations with suppliers to keep the effects of the sharp rise in the euro exchange rate and the increase in the prices of many commodities as low as possible. On international procurement markets, salmon, especially farmed salmon, also proved to be a talking point in 2017, having already been an issue in 2016, as prices continued to rise in response to limited availability. The bad harvest affecting vanilla pods from Madagascar had an adverse effect on prices for the range of ice-cream and confectionery products. Milk prices, which were still at record lows in 2016 in Europe, rose sharply in 2017, leading among other things to higher cost prices for Italian hard cheese, baby food and other imported milk product ranges. Subsequently, milk prices in Switzerland (guide price for A milk) were increased from CHF 0.65 to CHF 0.68 per litre in October 2017. The additional butter shortage made price rises unavoidable. Bird flu at the beginning of 2017 and the fipronil scandal, which started in the summer, led to supply bottlenecks and massive price rises in the industrial eggs and egg products segment.

Unfortunately, the non-food sector did not escape unscathed either. Cellulose prices have risen by approximately 20-30 % since the start of 2017. Thanks to its purchasing cooperative, Migros was able to minimise the unavoidable price adjustments for the relevant products to 10% on average. Petroleum-based commodity prices rose sharply compared with 2016 – the situation is also likely to remain strained in the current year.

In Switzerland, the sharp frost in spring impaired the flowering season of many crops, which had a negative impact on the harvest and prices of apples and grapes, for instance, and their secondary products, apple / grape juice.

The abolition of production and export quotas for EU sugar had a positive impact. This led to a record harvest for French beet growers and subsequently to pricing pressures on the Swiss market.

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

Logistics and transport: Despite a lot of poor weather, operations remained stable in 2017. New services were introduced in the form of small-quantities logistics for Denner's frozen products as well as the entire supply chain management and IT solution for M-Industry's expansion into the Chinese market. In terms of shaping the future / innovation management, various projects were worked on and/or launched. These included Cargo sous terrain, an innovation partnership with Empa (aimed at complying with the Paris Agreement on climate change), the digitalisation of the multi-modal global supply chain and market places, as well as blockchain. Work was also carried out on the concept design and the search for solutions for last-mile distribution (delivering goods to the customer's doorstep).

Sharp decline in operating results in a challenging market environment

Thanks to rigorous procurement management and process optimisation measures, **gross profit** increased by CHF 216 million to CHF 11'375 million (+1.9%). In addition to salary rises of between 0.3% and 0.7%, the increase in **personnel expenses** by CHF 175 million to CHF 5'774 million (+3.1%) is mainly due to the change in the scope of consolidation and the expansion of a number of companies. The increase of CHF 131 million in **depreciation and amortisation** to CHF 1'470 million (+9.8%) is due to normal investment activities. The increase in **other operating expenses** by CHF 227 million to CHF 3'805 million (+6.4%) is due mainly to higher rental costs as well as higher expenses in terms of energy materials and consumables, advertising and IT.

Overall, the **operating result for the Retail and Industry sector** decreased by CHF 317 million to CHF 325 million (–49.4%). Impairments weighed heavily upon the strategic business units Cooperative Retailing 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 779 million with costs of CHF 191 million. Net income from financial services business increased from CHF 571 million to CHF 588 million, due to higher income in the commission business (see Note 7 of Migros Group financial statements).

Whereas income from financial services business decreased by CHF 39 million, expenses and impairment losses in the financial services business fell by CHF 55 million. In terms of income, lower interest income was partially offset by higher commission income.

Personnel expenses decreased slightly, by CHF 2 million to CHF 172 million. While depreciation and amortisation remained on a par with the figure recorded for the previous year (CHF 30 million), other operating expenses increased by CHF 3 million to CHF 110 million.

Overall, the fall in income was outweighed by the improvements in terms of expenses, with the operating result increasing by CHF 10 million to CHF 280 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 1.0 billion to CHF 64.6 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 2017 amounted to 51.4% (previous year: 51.4%).

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

The balance sheet total for the Retail and Industry sector increased by 2.2% to CHF 22.2 billion as at 31 December 2017.

The carrying amount of fixed assets decreased by CHF 46 million on the previous year to CHF 12'674 million, due among other things to a lower level of investment as well as the sale of companies. During the past financial year, companies in the Retail and Industry sector invested a total of CHF 1'460 million (previous year: CHF 1'640 million), mainly in renewing the branch network and plants in Switzerland. Investments totalling CHF 98 million (previous year: CHF 85 million) were made outside of Switzerland.

Intangible assets amounted to CHF 745 million as at 31 December 2017 (previous year: CHF 775 million). The change can largely be attributed to company disposals and currency translation differences.

The balance sheet structure of the Retail and Industry sector remains very healthy. Net financial assets stood at CHF 30 million on 31 December 2017 (previous year: net financial debt of CHF 289 million). EBITDA was CHF 1'795 million (previous year: CHF 1'981 million). Equity increased by CHF 285 million to CHF 14'931 million and corresponds to 67.3% (previous year: 67.5%) 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 1.0 billion on the previous year to CHF 37.5 billion (+2.6%).

On the liabilities and equity side, customer deposits and liabilities increased by CHF 0.6 billion or 1.7%. Customer deposits totalled CHF 33.3 billion at the end of 2017. 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 2017, the bank's equity amounted to CHF 3.7 billion, significantly above the coverage required under Swiss banking law.

G. Cash flow statement of Migros Group

Cash flow from operating activity of CHF 1.2 billion

The cash and cash equivalents of Migros Group stood at CHF 6'327 million as at 31 December 2017 and decreased on a currency-adjusted basis by CHF 163 million (31 December 2016: CHF 6’490 million).

Cash flow from business activities stood at CHF 1'170 million (previous year: CHF 2'503 million). In the past year, investments in fixed and intangible assets totalled CHF 1'476 million (previous year: CHF 1'663 million), while acquisitions of subsidiaries and other associated companies amounted to an overall figure of CHF 38 million (previous year: CHF 84 million). Funds of CHF 72 million were received from the sale of subsidiaries and business operations.

Debt was once again repaid, which resulted in a cash outflow from financing activity of CHF 77 million (previous year: CHF 388 million).

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

At the end of 2017, cash and cash equivalents of the Retail and Industry sector came in at CHF 2'100 million, representing an increase of CHF 392 million compared with CHF 1'708 million at the end of 2016.

In 2017, cash inflows from operating activity amounted to CHF 1'619 million (previous year: CHF 1'658 million). The reduction in operating cash flow compared to the previous year is the result of a lower pre-tax profit, the build-up of inventories and a lower commitment in terms of cash and cash equivalents for time deposits.

The cash outflow from investing activity came to CHF 1'315 million in the reporting period (previous year: CHF 1'595 million) and is characterised primarily by investments in both fixed and intangible assets of CHF 1'460 million. The highest investment volumes were in the segments Cooperative Retailing (CHF 945 million), Commerce (CHF 223 million) and Industry & Wholesaling (CHF 216 million).

Financing activity resulted in a cash inflow of CHF 56 million in the reporting year (previous year: cash outflow of CHF 278 million). This includes the repayment of the CHF 150 million long-term bond of the Federation of Migros Cooperatives.

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

At the end of 2017, cash and cash equivalents of the Financial Services sector amounted to CHF 4'333 million. This represents a decrease of CHF 561 million on the previous year (CHF 4'894 million).

Cash outflows from operating activity totalled CHF 391 million in 2017 (previous year: cash inflow of CHF 487 million). This is due mainly to the cash outflow for mortgage and other customer lending and the increase in current asset securities, which are greater than the cash inflow from customer deposits.

CHF 17 million was invested in extending the bank's infrastructure. Furthermore, fixed asset securities totalling CHF 42 million were sold in the reporting year. Overall, a cash inflow of CHF 26 million resulted from the investment activities in the reporting year (previous year: CHF 53 million).

Financing activity resulted in a cash outflow of CHF 196 million during 2017 (previous year: CHF 165 million). Of this figure, CHF 142 million has been used for the repayment of medium-term bonds and mortgage-backed loans. A dividend of CHF 54 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 risk management system and the internal control system, and to provide measures for improving the effectiveness and efficiency of the 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 segments Cooperative Retailing, Commerce, Industry & Wholesaling and Travel. 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, where necessary, 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, machinery) the FMC operates an internal insurance scheme, whereby it bears 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, epidemics, cyber, 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

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

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.

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. Risk management includes the detection, assessment, monitoring and controlling of all risks arising from operating activities.

The Risk Management and Finance departments headed up by the Chief Risk Officer are responsible for monitoring the provisions of the risk policy. The Chief Risk Officer is a member of the management team of the bank. Every month, the Risk Management department produces a comprehensive risk report for all of the relevant 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 exposure 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.

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

I.2.2. Financial risk management

Financial risks primarily cover the negative changes to credit, liquidity and financial market risks on our own positions. To this end, the bank has always pursued a restrained and somewhat conservative risk policy. Security and the assessment of risks are of utmost importance for its activities and serve as the principle for all decisions relating to risk strategy, risk culture and risk processes. Risks are always in appropriate proportion to generated income. Risks are limited with the aid of risk policy guidelines and limit structures in order to protect the bank against unexpected losses.

Credit risks are losses which may arise if payments that are due from borrowers are not made or are only partially made. Credit risks are created as a result of loans, payment undertakings or trading activities. Detailed rules determine the competences graded by credit types and levels of authority.

Credit commitments are represented using a 10-level rating model. It takes qualitative and quantitative elements into consideration for customers who are required to keep accounts and their business-specific collateral. The credit rating that is calculated is an essential element in decisions as to whether to grant credit. 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 allows the credit commitment to be managed commensurate to the risk involved.

Credit transactions are generally secured, with most loans being secured by charges on land or by private finance for housing construction. Credit allocation is based on cautious lending margins and on current valuations of the properties to be mortgaged. The corresponding collateral is well diversified throughout Switzerland. For residential mortgages, sustained affordability is assessed on the basis of a cautious, imputed rate of interest corresponding to a long-term average interest rate.

Liquidity risks are losses that may arise as a result of insolvency on the part of the bank caused under stress conditions that are specific to the bank or the market. Refinancing risks contain losses that may arise if the bank is unable to procure sufficient resources for the ongoing financing of lending business on reasonable terms. 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-term and long-term liquidity risks are monitored and controlled during monthly meetings of the Risk Council.

Market risks are losses that may arise on own securities and derivatives due to adverse changes, such as in share prices, interest rates, levels of volatility or exchange rates. A special software is used for systematic measuring, control and monitoring of market risks in the trading ledger. Corresponding market risk limits restrict the trading ledger volume, which is assessed using the mark-to-market method. Scenario analyses are produced periodically and earnings with profit and loss figures are recorded daily and communicated to the responsible competence parties.

In mortgage and deposit-taking operations recorded on the balance sheet, interest rate changes can have a significant impact on earnings. Special software is used for the central and systematic measuring, control and monitoring of these balance sheet structure risks. In addition, effects on the balance sheet structure, value and income are tracked and compared on a monthly basis. The financial services business mainly uses interest rate swaps to control the risks of interest rate changes.

I.2.3. Management of legal and compliance risks

Legal and compliance risks include breaches of laws, regulations, provisions, agreements, prescribed practices or ethical standards which can subsequently lead to legal or regulatory sanctions or restrictions, the cancellation of contracts as well as to fines and financial losses for the bank.

All of the bank's units and executive officers are subject to legal and compliance risks in connection with their work. In order to ensure ongoing compliance with relevant legal and regulatory provisions, the bank has an appropriate system of directives in place. 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 department therefore also include the legal assessment of new products and contracts. The priority of the Legal Services department is to defend the interests of the company against those of third parties in the event of legal disputes. It conducts and assists with legal proceedings, represents the bank in court and before authorities and third parties, supports bank projects with regard to legal matters, and examines, drafts or negotiates contracts with third parties. Legal Services also looks after and maintains contracts with customers and coordinates contact with external lawyers and specialists that are consulted.

The Compliance function supports all of the bank's units in complying with the legal standards, regulations and ethics that apply to it. This support generally consists of identification, assessment, advice, monitoring and reporting with regard to legal, reputation and loss risks resulting from an infringement of regulatory and legal provisions and ethics. It also provides support in issuing corresponding directives and internal guidelines on compliance with relevant legal and regulatory provisions. Compliance implements decisions, monitors compliance and reports major infringements. 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 Compliance function.

The Legal Services and Compliance functions submit 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) comply with the respective regulatory provisions of the circular 2017/1 “Corporate governance - banks” published by the Swiss Financial Market Supervisory Authority (FINMA).

Migros Bank defines internal control as all of the control structures and processes that form the basis for achieving the set goals, protecting the credit rating and reputation, complying with legal norms and ethics and ensuring the reliability of financial reporting at all levels of the bank. 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.

Operational risks are potential damages that may arise as a result of the inappropriateness or failure of persons, systems and procedures or due to external events. Specific guidelines for minimising operational risks are contained in general instructions issued by the bank, in control instructions and in codes of conduct, and are also made available to respective staff and management personnel on the Intranet. Responsibility for managing and, in particular, identifying and preventing operational risks lies primarily with each executive officer himself/herself in his/her area of responsibility and activity. These persons must guarantee that operational risks in their area of responsibility are identified, assessed, managed and controlled. At the level of the bank as a whole, the focus is on continuing processes that are business-critical. To this end, relevant bodies have been set up, most notably a crisis unit, and precautions regarding the organisation's structure and procedures (including business continuity planning) have been put in place. At a process level, operational risks need to be limited as far as possible by application-based and technical measures or by the issuing of ICS instructions. 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 dated, initialled and contain control notes to become valid and thus traceable. ICS officers are appointed in the regional organisational units and are required to report each quarter that the material and formal implementation of the controls have taken place.

The Operational Risk Management function manages a loss database. Operational losses above a certain amount must be recorded in a structured way in a central loss database by the parties assuming the risk.

Operational Risk Management evaluates the management of operational risks within the bank in an independent and objective fashion. It also supports those parties assuming the risk in ensuring that all operational risks are understood and accounted for and that such risks are managed commensurate to the bank's willingness to incur risk. It ensures that periodic tests and exercises are performed to guarantee that precautionary measures for maintaining the operation of the bank are both in working order and up-to-date, and it also ensures that members of the crisis unit are given regular training. Any major loopholes that are identified during the course of internal controls and the ongoing risk assessment process must be recorded in the operational risks inventory and submitted on a quarterly basis to the Risk Council together with the quantifiable operational risks, and to the Board of Directors in a risk report. The Risk Council ensures that corrective measures are taken and implemented.

J. Statement of value added

		Retail and Industry sector[1]		
CHF million		**2017**		2016
ALLOCATION				
to employees		5'774		5'600
to culture / social (culture percentage)		122		120
to lenders		39		41
to public sector		928		1'046
↳ taxes	44		172	
↳ value-added taxes	190		188	
↳ customs duties / fees / fiscal charges	694		686	
to the company (self-financing)		331		476
Net value added		**7'195**		**7'283**

[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, secure jobs and guarantee public-sector contributions.

Personnel costs account for the lion's share of value added, at 80.3 %. They increased by 3.1 % in comparison to the previous year, due among other things to the expansions at Denner, Digitec Galaxus and the Depot retail chain, the change in the scope of consolidation as well as to the wage increase of 0.3 % to 0.7 % in Migros Group. The Retail and Industry sector has 103'977 employees (previous year: 101'344).

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 0.5 % 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 12.9 % (previous year: 14.4 %) in taxes, customs duties and fees. The public sector has therefore received lower contributions than in the previous year, due in particular to lower taxes. In addition to the decline in earnings, the use of non-capitalised loss carry forwards and the consideration of the decision that has already been taken to reduce the profit tax rate in the canton of Vaud as part of the Corporate Tax Reform III also influenced the tax expense.

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

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Income statement of Migros Group

CHF million	Notes	2017	2016
Net revenue from goods and services sold		26'835	26'547
Other operating income	8	457	374
Income before financial services business		**27'292**	**26'921**
Income from financial services business	7	779	817
Total income	6	**28'071**	**27'738**
Cost of goods and services sold	9	15'927	15'762
Expenses of financial services business	7	191	246
Personnel expenses	10	5'947	5'774
Depreciation and amortisation	11	1'500	1'370
Other operating expenses	12	3'903	3'675
Earnings before interests and taxes		**603**	**911**
Finance income	13	32	16
Finance cost	13	–37	–40
Share of (loss) / profit from associates and joint ventures		1	3
Profit before income tax		**600**	**890**
Income tax expense	14	97	227
Profit Migros Group		**503**	**663**

Attribution of profit of Migros group		
Profit attributable to members of the Cooperatives	516	683
Profit / (loss) attributable to minority interests	–13	–20
Profit Migros Group	**503**	**663**

Balance sheet of Migros Group

CHF million	Notes	31.12.2017	31.12.2016
ASSETS			
Cash and cash equivalents	*17*	6'327	6'490
Receivables due from banks		318	660
Mortgages and other customer receivables	*18*	37'456	36'484
Trade receivables	*19*	826	749
Other receivables	*19*	280	185
Inventories	*20*	2'734	2'563
Other financial assets	*21–24*	1'586	1'312
Investments in associates and joint ventures		87	92
Investment property	*25*	362	371
Fixed assets	*26*	12'776	12'828
Intangible assets	*27*	773	811
Assets from employee benefits	*33*	671	630
Current income tax receivables		57	41
Deferred income tax assets	*14*	79	70
Other assets	*28*	248	252
TOTAL ASSETS		**64'581**	**63'537**
LIABILITIES AND EQUITY			
Payables due to banks		521	378
Customer deposits and liabilities		33'210	32'646
Other financial liabilities	*29*	1'964	1'862
Trade payables	*30*	1'728	1'692
Other liabilities	*30*	1'086	970
Provisions	*31*	163	116
Issued debt instruments	*32*	5'740	6'032
Liabilities from employee benefits	*33*	792	819
Current income tax payables		70	128
Deferred income tax liabilities	*14*	1'395	1'440
Total liabilities		**46'668**	**46'082**
Cooperative capital	*34*	22	22
Retained earnings		17'922	17'420
Currency translation differences		–46	–36
Equity attributable to members of Cooperatives		**17'899**	**17'406**
Minority interests		14	49
Total equity		**17'913**	**17'455**
TOTAL LIABILITIES AND EQUITY		**64'581**	**63'537**

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 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 %).

		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 2017		**22**	**17'420**	**–36**	**17'406**	**49**	**17'455**
Profit Migros group		–	516	–	516	–13	503
Change in Cooperative capital	*34*	0	–	–	0	–	0
Currency translation difference		–	–	–10	–10	–1	–11
Dividends paid to minorities		–	–	–	–	–0	–0
Changes in scope of consolidation / equity interest[2]		–	–14	–	–14	–21	–34
Equity as per 31 December 2017		**22**	**17'922**	**–46**	**17'899**	**14**	**17'913**

[1] In retained earnings there is no amount reserved for the Culture percentage. Also see note 15.
[2] Changes primarily due to company disposals such as Probike group and OWiba group as well as due to changes in shareholding interest especially in Saviva AG.

Cash flow statement of Migros Group

CHF million	Notes	2017	2016
Profit before income tax		**600**	**890**
Depreciation, amortisation and impairment (net)	*11*	1'500	1'370
Impairment of other financial assets (net)		3	4
(Profit) / loss from sale of non current assets		–55	–25
(Profit) / loss from sale of fixed asset securities		–6	–7
Profit from associates and joint ventures		–1	–2
Increase / (decrease) provisions		51	5
Change to operating assets and liabilities			
↳ (Increase) / decrease receivables due from banks		342	26
↳ (Increase) / decrease mortgages and other customer receivables		–972	–436
↳ (Increase) / decrease inventories		–219	–43
↳ (Increase) / decrease other financial assets		–235	14
↳ (Increase) / decrease other assets		–144	–114
↳ Increase / (decrease) payables due to banks		–26	20
↳ Increase / (decrease) customer deposits and liabilities		564	956
↳ Increase / (decrease) other liabilities		–3	93
Paid income tax expense		–228	–248
Cash flows from operating activity		**1'170**	**2'503**
Acquisition of fixed assets and investment property		–1'371	–1'616
Proceeds from sale of fixed assets and investment property		148	159
Acquisition of intangible assets		–106	–48
Proceeds from sale of intangible assets		27	2
Acquisition of fixed asset securities and loans		–197	–193
Proceeds from sale of fixed asset securities and loans		175	241
Acquisition of subsidiaries and business activities, net of cash acquired		–37	–77
Proceeds from sale of subsidiaries and business activities, net of cash disposed		72	–3
Acquisition of associates and joint ventures		–1	–7
Proceeds from sale of associates and joint ventures		–0	0
Cash flows from investing activity		**–1'290**	**–1'542**

CHF million	Notes	2017	2016
Proceeds from issuance of long-term bonds		–	–
Repayment and redemption of long-term bonds		–150	–
Proceeds from issuance of medium-term bonds and mortgage backed loans		–	–
Repayment of medium-term bonds and mortgage backed loans		–142	–138
Increase (decrease) of short-term payables due to banks		152	106
Increase (decrease) of long-term payables due to banks		–12	–26
Proceeds (repayment) from issuance of other short-term financial liabilities		145	16
Proceeds (repayment) from issuance of other long-term financial liabilities		–35	–324
Dividends paid to minorities		–0	–0
Increase in Cooperative capital		1	0
Reduction in Cooperative capital		–1	–0
Change in equity interests of controlling interests		–34	–22
Cash flows from financing activity		**–77**	**–388**
Changes in cash and cash equivalents		**–196**	**574**
Cash and cash equivalents, at beginning of year		6'490	5'929
Foreign exchange impact		33	–13
Cash and cash equivalents, at end of year		**6'327**	**6'490**

Cash and cash equivalents include:			
Petty cash / postal accounts / bank accounts		6'272	6'369
Fixed-term deposits with an original maximum maturity of 90 days		54	121
Total cash and cash equivalents	*17*	**6'327**	**6'490**

Cash flows from operating activities include:			
Interest received		638	687
Interest paid		–190	–243
Dividends received		8	6

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 15 March 2018. 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 Foundation for 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 judgements

Preparation of the annual financial statements of Migros Group in conformity with Swiss GAAP FER necessitates the use of accounting estimates and judgements 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 judgements 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 2017, 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 2017

Swiss GAAP FER 14 “Consolidated financial statements of insurance companies” is currently being revised. One of the focal points of the revision is the estimation of capital assets and the determination of technical provisions. The exact date on which the revised standard will come into force has not yet been established. Since Migros Group is not active in the insurance sector, the revised standard does not have any impact on its accounting.

In summer 2017, a review process for the existing Swiss GAAP FER 30 “Consolidated financial statements” was begun. The Commission is expected to decide in June 2018 whether a revision of Swiss GAAP FER 30 “Consolidated financial statements” should be initiated.

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 Note 7 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 loss as the difference between cost and current fair value is recognised in 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 assets 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 segments Cooperative Retailing, Commerce, Industry & Wholesaling and Travel.

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

31.12.2017

million	CHF	EUR	USD	GBP	Other	Total
Financial assets						
Cash and cash equivalents	1'895	106	13	63	24	2'100
Receivables due from banks	3	–	0	–	–	3
Trade receivables	602	183	10	25	12	832
Other receivables	238	32	1	7	2	280
Other financial assets	550	59	5	–	0	613
Total financial assets	**3'287**	**380**	**28**	**95**	**38**	**3'828**
Financial liabilities						
Payables due to banks	–128	–165	–	–47	–152	–493
Other financial liabilities	–1'961	–3	–	–1	–0	–1'964
Trade payables	–1'300	–371	–41	–11	–5	–1'728
Other liabilities	–865	–79	–1	–69	–2	–1'017
Issued debt instruments	–	–	–	–	–	–
Total financial liabilities	**–4'253**	**–618**	**–42**	**–129**	**–160**	**–5'202**
Foreign currency net exposure before hedging	**–966**	**–238**	**–14**	**–34**	**–122**	**–1'374**
Foreign currency derivatives		–10	–	–	–	
Foreign currency net exposure after hedging		**–248**	**–14**	**–34**	**–122**	

31.12.2016

million	CHF	EUR	USD	GBP	Other	Total
Total financial assets	3'033	301	33	93	39	3'500
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**	

Results of the sensitivity analysis
If EUR had been 5 % stronger against CHF on 31 December 2017, the pre-tax earnings would have been CHF 13 million lower (31.12.2016: CHF 9 million). 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 2017, the pre-tax earnings would have been CHF 1 million lower (31.12.2016: CHF 4 million). 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 2017, the pre-tax earnings would have been CHF 2 million lower (31.12.2016: CHF 2 million). 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 - 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

31.12.2017

CHF million	Interest rate adjustment within					
	0 – 3 months	3 – 12 months	1 – 5 years	> 5 years	no-interest bearing	Total
Financial assets						
Cash and cash equivalents	1'872	–	–	–	229	2'100
Receivables due from banks	3	–	–	–	–	3
Trade receivables	57	–	–	–	775	832
Other receivables	11	4	–	0	264	280
Other financial assets	67	63	216	116	152	613
Total financial assets	**2'009**	**67**	**216**	**117**	**1'419**	**3'828**
Financial liabilities						
Payables due to banks	–265	–152	–73	–2	–	–493
Other financial liabilities	–1'694	–134	–39	–93	–4	–1'964
Trade payables	–42	–0	–	–	–1'686	–1'728
Other liabilities	–45	–3	–	–	–969	–1'017
Issued debt instruments	–	–	–	–	–	–
Total financial liabilities	**–2'046**	**–289**	**–113**	**–95**	**–2'659**	**–5'202**
Interest rate repricing net exposure before hedging	**–37**	**–222**	**104**	**21**	**–1'239**	**–1'374**
Interest derivatives	–	–	–	–	–	–
Interest rate repricing net exposure after hedging	**–37**	**–222**	**104**	**21**	**–1'239**	**–1'374**

31.12.2016

CHF million	Interest rate adjustment within					
	0 – 3 months	3 – 12 months	1 – 5 years	> 5 years	no-interest bearing	Total
Total financial assets	1'617	345	189	117	1'231	3'500
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**

Results of the sensitivity analysis

If market interest rates had been 0.25 % (25 basis points) higher on 31 December 2017, the pre-tax earnings would have been CHF 0.1 million higher (31.12.2016: CHF 0.1 million). If market interest rates had been 0.25 % lower on 31 December 2017, the pre-tax earnings would have been CHF 0.1 million lower (31.12.2016: CHF 0.1 million).

(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:

	2017		2016	
CHF million	Index change	Change in result	Index change	Change in result
MSCI World	1.46 %	2	1.86 %	2

If the equity markets had finished higher by the assumed change to the index on 31 December 2017, the pre-tax earnings would have been CHF 1.8 million higher (31.12.2016: CHF 2.0 million). If the index had been lower by the same amount, the effect on the pre-tax earnings would have been the reverse.

Lower index volatility led to a lower degree of income sensitivity as a result of changes in market values in 2017.

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 most of 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)

31.12.2017 CHF million	Maturing within 0 – 3 months	3 – 12 months	1 – 5 years	> 5 years	Total
Financial assets					
Cash and cash equivalents	2'100	–	–	–	2'100
Receivables due from banks	3	–	0	–	3
Trade receivables	829	2	1	–	832
Other receivables	274	14	0	0	289
Other financial assets					
Net cash flow from interest rate swaps	–	–	–	0	0
Forward exchange contract gross cash inflow	173	32	18	–	223
Forward exchange contract gross cash outflow	–171	–32	–18	–	–221
Debt instruments	52	24	170	51	297
Others	157	29	82	95	363
Total other financial assets	**211**	**54**	**252**	**146**	**662**
Total financial assets and other financial assets	**3'417**	**69**	**253**	**147**	**3'886**
Financial liabilities					
Payables due to banks	–282	–138	–65	–7	–493
Other financial liabilities					
Gross liabilities from finance leasing	–3	–9	–45	–150	–207
Commitments for purchasing financial assets	–	–	–	–	–
Net cash flow from interest rate swaps	–	–	–	–	–
Forward exchange contract gross cash inflow	357	588	–	–	945
Forward exchange contract gross cash outflow	–353	–580	–	–	–933
Others	–1'709	–115	–11	–7	–1'841
Total other financial liabilities	**–1'707**	**–116**	**–56**	**–157**	**–2'035**
Trade payables	–1'699	–29	–1	–	–1'728
Other liabilities	–878	–121	–18	–1	–1'017
Issued debt instruments	–	–	–	–	–
Financial guarantees	–55	–	–0	–	–55
Irrevocable loan commitments	–1	–	–	–	–1
Total financial liabilities	**–4'621**	**–404**	**–140**	**–164**	**–5'329**

31.12.2016 CHF million	Maturing within 0 – 3 months	3 – 12 months	1 – 5 years	> 5 years	Total
Total financial assets and other financial assets	**2'807**	**368**	**242**	**153**	**3'571**
Total financial liabilities	**–4'383**	**–388**	**–148**	**–163**	**–5'082**

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	**31.12.2017**	31.12.2016
Liabilities due to banks	493	334
Other financial liabilities (interest bearing)	2'003	1'891
Issued debt instruments	–	150
Total financial liabilities	**2'495**	**2'375**
Cash and cash equivalents	2'100	1'708
Other financial assets	425	378
Total cash and cash equivalents and other financial assets	**2'525**	**2'086**
Net financial liabilities	**–30**	**289**
Total equity (without non-controlling interests)	**14'916**	**14'597**
Ratio of net financial liabilities to equity	**–0.2 %**	**2.0 %**
Balance sheet total	**22'176**	**21'703**
Ratio of equity to balance sheet total	**67.3 %**	**67.3 %**

In particular, the sharp rise in cash and cash equivalents by CHF 392 million compared to the previous year resulted in net financial assets of CHF 30 million as at 31 December 2017 (previous year: net financial liabilities of CHF 289 million). The ratio to equity has therefore improved by 2.2 %, whereas the equity ratio has remained unchanged from the previous year.

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	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016
1	2.2	2.1	3.8	3.4	2.2	2.2
2	16.6	16.3	6.5	6.9	16.1	15.8
3	46.9	45.3	33.9	29.5	46.3	44.4
4	14.9	15.7	25.4	28.9	15.4	16.4
5	18.7	19.6	22.3	23.6	18.9	19.8
6	0.5	0.6	5.4	2.2	0.7	0.7
7	0.1	0.1	0.7	2.4	0.1	0.2
8	0.1	0.2	1.0	2.1	0.2	0.3
9	–	0.1	0.3	0.3	–	0.1
10	–	–	0.7	0.7	0.1	0.1
Total in %	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Total in CHF million	**35'464**	**34'218**	**2'015**	**2'298**	**37'478**	**36'516**

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. 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.

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.

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 107 million lower (31.12.2016: CHF 95 million). With a 1 % fall in interest rates, the pre-tax earnings would have been CHF 107 million higher (31.12.2016: CHF 95 million). Earnings reacted more sensitively to market interest rate changes in 2017 than 2016 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 2017, earnings would have been CHF 0.03 million higher (31.12.2016: CHF 0.3 million). If share prices had been 10 % lower on 31 December 2017, pre-tax earnings would have been CHF 0.03 million lower (31.12.2016: CHF 0.3 million).

Due to the reduced share portfolio, a change in share prices in 2017 had little impact on income, as was also the case in 2016.

(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

31.12.2017

million	CHF	EUR	USD	GBP	Other	Total
Financial assets						
Cash and cash equivalents	4'072	120	43	16	82	4'333
Receivables due from banks	–	234	83	–	–	317
Mortgages and other customer receivables	37'397	48	33	0	0	37'478
Other receivables	–	–	–	–	–	–
Other financial assets	510	411	51	–	1	972
Total financial assets	**41'979**	**813**	**209**	**16**	**82**	**43'101**
Financial liabilities						
Payables due to banks	–15	–12	–1	–0	–23	–51
Customer deposits and liabilities	–31'941	–978	–287	–22	–89	–33'317
Other financial liabilities	–0	–	–	–	–	–0
Other liabilities	–75	–	–	–	–	–75
Issued debt instruments	–5'740	–	–	–	–	–5'740
Total financial liabilities	**–37'771**	**–990**	**–287**	**–23**	**–111**	**–39'183**
Foreign currency net exposure before hedging	**4'208**	**–177**	**–78**	**–6**	**–29**	**3'918**
Foreign currency derivatives		141	–1	1	0	
Foreign currency net exposure after hedging		**–35**	**–79**	**–6**	**–29**	

31.12.2016

million	CHF	EUR	USD	GBP	Other	Total
Total financial assets	41'313	884	231	14	85	42'528
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**	

Results of the sensitivity analysis
If EUR had been 5 % stronger against CHF on 31 December 2017, the pre-tax earnings would have been CHF 1.8 million lower (31.12.2016: CHF 0.4 million). 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 2017, the pre-tax earnings would have been CHF 4.0 million lower (31.12.2016: CHF 0.6 million). If it had weakened by the same amount against CHF, the effect on the pre-tax earnings would have been the reverse.

Earnings in 2017 reacted more sensitively to the change in prices than in 2016 because foreign currency exposure increased.

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	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016
Creditable liquidity	4'096	4'284	4'144	4'525
Required liquidity	210	210	2'774	2'507
Excess liquidity	3'886	4'074	1'370	2'018
Degree of compliance	1'950.5 %	2'040.0 %	149.4 %	180.5 %

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	**31.12.2017**	31.12.2016
Capital resources required and creditable as per the banking legislation		
Credit risks	1'348	1'305
Market risks	47	7
Risks not related to counterparties	57	64
Operating risks	89	90
Total capital resources required	**1'542**	**1'465**
Equity as per Swiss GAAP FER	3'717	3'545
Corrections due to banking legislation[1]	–86	–32
Creditable capital resources as per the banking legislation	**3'632**	**3'512**
Excess creditable capital resources	**2'090**	**2'048**
Excess in % of required resources	**135.6**	**139.8**

[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 as well as expected distribution of profits.

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 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 the 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 segment Financial Services differs from the other five operating segments, which together form the Retail and Industry sector of Migros Group. Whereas for the segment Financial Services the 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 realisable 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

2017 CHF million	Cooperative Retailing	Commerce	Industry & Wholesaling	Financial Services	Travel	Others	Total segments	Reconciliation[1]	Total Migros Group
Income									
↳ from third parties	16'293	7'864	1'876	781	1'220	37	28'071	–	28'071
↳ from other segments	603	74	4'118	2	0	78	4'876	–4'876	–
Total income	**16'896**	**7'938**	**5'994**	**783**	**1'221**	**115**	**32'947**	**–4'876**	**28'071**
Operating profit	**306**	**–83**	**56**	**280**	**5**	**43**	**606**	**–2**	**603**
Segment assets	10'570	2'072	2'289	43'277	13	596	58'818	5'763	64'581
Segment liabilities[2]	–168	1'283	353	39'560	–30	421	41'419	5'249	46'668
Other information									
Investments	945	223	216	17	7	69	1'476	–	1'476
Depreciation, amortisation	870	229	207	30	26	39	1'401	–	1'401
Impairment[3]	46	5	57	25	–	–	133	–	133
Reversal of impairment[3]	–0	–0	–10	–13	–	–	–24	–	–24
Other expenditure (income) not affecting liquidity	32	56	7	6	–1	0	100	–	100

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

[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	2017	2016
Operating profit Total segments	606	918
Eliminations	–2	–7
Operating profit Migros Group	**603**	**911**
Financial profit	–4	–21
Profit before income tax Migros Group	**600**	**890**

Reconciliation of assets

CHF million	2017	2016
Total segment assets	58'818	58'142
Trade payables	1'728	1'692
Non-operative assets	11'544	11'055
Eliminations	–7'509	–7'352
Total assets Migros Group	**64'581**	**63'537**

Reconciliation of liabilities

CHF million	2017	2016
Total segment liabilities	41'419	40'989
Other financial assets realisable at short notice	3'633	3'362
Non-interest-bearing liabilities	4'841	4'779
Eliminations	–3'224	–3'048
Total liabilities Migros Group	**46'668**	**46'082**

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, England, France 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

			2017			2016
CHF million	Switzerland	Other countries	Total	Switzerland	Other countries	Total
Total income from third parties	25'246	2'825	28'071	24'915	2'823	27'738
Long-term assets	13'130	782	13'912	13'271	739	14'009

Explanations to the income statement

7. Net income from the financial services business

CHF million	2017	2016
Interest income		
Cash and cash equivalents	0	2
Receivables due from banks	2	2
Mortgages and other customer receivables	621	667
Fixed asset securities	5	7
Total interest income	**628**	**677**
Interest expense		
Payables due to banks	–21	–51
Customer deposits and liabilities	–41	–55
Issued debt instruments	–103	–111
Total interest expense	**–165**	**–217**
Impairments on credit business[1]		
Receivables due from banks	–	–
Mortgage receivables	–5	–5
Other customer receivables	–20	–20
Total Impairments on credit business	**–25**	**–25**
Reversals of impairments on credit business[1]		
Receivables due from banks	–	–
Mortgage receivables	3	2
Other customer receivables	11	8
Total reversal of impairments on credit business	**13**	**10**
Net interest income	**451**	**445**
Commission income		
Mortgages and other customer receivables	5	5
Securities and investment business	65	58
Income from other services	42	40
Total commission income	**112**	**103**
Commission expense	–14	–14
Net commission income	**98**	**89**
Income from other financial assets		
Profit (loss) on current asset securities	0	1
Profit (loss) on fixed asset securities	–	–
Impairment on fixed asset securities	–	–
Reversal of impairments on fixed asset securities	–	–
Dividend income on fixed asset securities	5	3
Currency translation differences, net	33	32
Income from other financial assets	**39**	**37**
Total profit from the financial services business	**588**	**571**
Disclosed in the financial statements of the Migros Group under:		
Income of financial services business	779	817
Expenses of financial services business	–191	–246
Total profit from financial services business	**588**	**571**

[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 interest income. The sharp fall in interest expense in the reporting year resulted in a slight improvement in net interest income compared to the previous year. Impairments and reversals of impairments fall within a long-term variation range.

8. Other operating income

CHF million	2017	2016
Income from advertising services	57	44
Internally generated assets (fixed and intangible)	30	29
Revenue from the disposal of		
↳ Investment property	9	6
↳ Fixed assets	31	20
↳ Intangible assets	–	–
↳ Investments	40	0
Other operating income	290	274
Total other operating income	**457**	**374**

Other operating income includes income from regular sidelines. This income includes government grants amounting to CHF 4 million (2016: CHF 4 million). Other forms of government grants directly benefiting Migros Group amount to CHF 2 million (2016: 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 1 million (2016: CHF 6 million), resulting from acquisitions that have been made (cf. Note 39).

9. Cost of goods and services sold

CHF million	2017	2016
Cost of goods and services sold	15'898	15'717
Inventory change	29	45
Total cost of goods and services sold	**15'927**	**15'762**

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 (2016: CHF 8 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	2017	2016
Wages and salaries		4'646	4'520
Pension costs	33	481	456
Social insurance and other social security benefits		562	549
Other personnel expenses		257	248
Total personnel expenses		**5'947**	**5'774**

In agreement with the social partners, Migros companies granted salary increases – individually and performance-related – of between 0.3% and 0.7% in 2017. Furthermore, the increase in wages and salaries compared to the previous year is due to expansion at a number of different companies and acquisitions.

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

Personnel expenses include government grants totalling CHF 0.3 million (2016: CHF 0.2 million) shown as a reduction of costs.

11. Depreciation and amortisation

CHF million	Notes	2017	2016
Investment property	25		
↳ Ongoing depreciation & amortisation		14	7
↳ Impairments		–	0
↳ Reversal of impairments		–0	–
Total depreciation & amortisation investment property		13	7
Fixed assets	26		
↳ Ongoing depreciation & amortisation		1'231	1'092
↳ Impairments		101	22
↳ Reversal of impairments		–3	–0
Total depreciation & amortisation fixed assets		1'329	1'114
Intangible assets	27		
↳ Ongoing depreciation & amortisation		157	168
↳ Impairments		1	81
↳ Reversal of impairments		–	–
Total depreciation & amortisation intangible assets		158	248
Other Assets			
↳ Ongoing depreciation & amortisation		–	–
↳ Impairments		0	0
↳ Reversal of impairments		–	–
Total depreciation & amortisation other assets		0	0
Total depreciation & amortisation			
↳ Ongoing depreciation & amortisation		1'401	1'266
↳ Impairments		102	103
↳ Reversal of impairments		–3	–0
Total depreciation & amortisation		**1'500**	**1'370**

12. Other operating expenses

CHF million	2017	2016
Rental and building-lease cost	895	832
Losses from the disposal of		
↳ Investment property	0	0
↳ Fixed assets	6	2
↳ Intangible assets	0	0
↳ Investments	19	6
Maintenance	439	430
Energy and consumables	500	479
Advertising	671	647
Administration	380	369
Other operating expenses	993	909
Total other operating expenses	**3'903**	**3'675**

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	2017	2016
Finance income		
Interest income		
Cash and cash equivalents	2	2
Receivables due from banks	0	0
Fixed asset securities	5	5
Loans	3	3
Other interest income	2	1
Total interest income	**12**	**10**
Profit from other financial assets		
Profit / (loss) on current asset securities	12	7
Profit / (loss) on fixed asset securities	0	0
Dividend income on fixed asset securities	1	1
Currency translation differences, net	10	1
Total profit from other financial assets	**24**	**9**
Reversal of impairments on fixed asset securities and receivables due from banks		
fixed asset securities	0	–
Loans	0	0
Receivables due from banks	–	–
Total reversal of impairments on fixed asset securities and receivables due from banks	**0**	**0**
Impairments on fixed asset securities and receivables due from banks		
Fixed asset securities	–1	–1
Loans	–2	–1
Receivables due from banks	–	–
Debt waiver of receivables	–0	–2
Total impairments on fixed asset securities and receivables due from banks	**–4**	**–4**
Total finance income	**32**	**16**
Finance costs		
Interest expense		
Payables due to banks	–4	–3
Issued debt instruments	–1	–3
Other financial liabilities	–	–0
Finance leasing	–7	–7
Provisions: present value adjustments	–0	–0
Other interest expense	–17	–19
Total interest expense	**–30**	**–32**
Other finance costs	–8	–7
Total finance costs	**–37**	**–40**

14. Income tax expense

CHF million	2017	2016
Current income tax expense	149	211
Current income tax expense of previous years	4	6
Total current income taxes	**153**	**217**
Deferred income tax expense / (income)	–30	–5
Changes to income tax rates	–26	14
Total deferred income taxes	**–56**	**10**
Total income tax expense	**97**	**227**

Reconciliation of expected and effective income tax expense

CHF million	2017	2016
Profit before income tax	600	890
Weighted average tax rate in	20.6 %	20.3 %
Expected income tax expense	**124**	**181**
Reasons for increase / decrease		
↳ Non-tax-deductible expenses	6	8
↳ Tax-exempted income (incl. income from investments)	–26	–24
↳ Use of non-capitalised tax loss carry forwards	–54	–4
↳ Non-capitalisation of deferred income tax assets on period losses	51	35
↳ Non-deductible depreciation / impairments of goodwill	11	12
↳ Tax on gains from disposal of properties (Zurich model)	1	–
↳ Changes to tax rates	–26	14
↳ Income tax expense of previous years	4	6
↳ Other effects	6	–1
Total effective income tax expense	**97**	**227**
Effective income tax rate	16.1 %	25.5 %

In 2017, the expected income tax expense deviated by CHF + 27 million (previous year: CHF – 46 million) from the effective income tax expense. The increase in the weighted Group tax rate from 20.3 % to 20.6 % is in line with normal fluctuations. The use of non-capitalised tax loss carry forwards from previous years of CHF – 54 million in 2017 was the result of offsetting against taxable profits from the reporting year as part of restructuring measures. The changes to tax rates of CHF – 26 million were mainly the result of the decision that has already been taken to reduce the profit tax rate in the canton of Vaud as part of the Corporate Tax Reform III.

Development of the deferred tax liabilities (net)

CHF million	2017	2016
As per 1 January	**1'369**	**1'353**
Changes to the scope of consolidation	1	7
Recorded through profit and loss	–56	10
Currency translation differences	2	–1
As per 31 December (net)	**1'316**	**1'369**

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	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016
Reasons for deferred income tax				
Cash and cash equivalents	–	–	–	–
Receivables	1	1	12	13
Inventories	0	0	126	124
Fixed assets	9	8	675	733
Intangible assets	4	4	66	73
Other financial assets	1	1	87	54
Tax losses carry forwards	196	196	–	–
Other assets	0	0	127	119
Liabilities from employee benefits	1	1	1	1
Financial liabilities	24	24	0	–
Other liabilities	6	7	382	378
Total	**242**	**242**	**1'477**	**1'494**
Valuation allowance	–82	–118		
Netting	–82	–55	–82	–55
Total deferred income tax in balance sheet	**79**	**70**	**1'395**	**1'440**

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	**31.12.2017**	31.12.2016
Maturity in 1 year	17	22
Maturity in 2 years	12	19
Maturity in 3 years	11	68
Maturity in 4 years	37	31
Maturity in 5 years	43	31
Maturity after 6 years	42	220
No maturity	197	167
Total of unused tax loss carry forwards	**359**	**557**

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 decrease in unused tax loss carry forwards, on which no deferred income tax assets were applied, was the result of offsetting against taxable profit in the reporting year as part of restructuring measures 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	2017	2016
Culture	29	32
Education / training	64	60
Social	7	7
Leisure and sport	13	11
Economic policy	3	3
Administration	6	7
Special expenditure	–	–
Total expenditure for cultural, social and economic policy purposes	**122**	**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	2017	2016
Minimum expenditure required	112	112
Incurred expenditure	122	120
Excess / (shortfall) in expenditure for the financial year	**11**	**8**
Excess / (shortfall) in expenditure for 4-year period	35	32
Culture Percentage reserve as per 31 December	**–**	**–**

In the 2017 financial year, Migros Group's expenditure relating to the Culture Percentage exceeded the minimum specified in the charter by CHF 11 million. No Culture Percentage reserve was set up in 2017.

The Culture Percentage reserve is part of retained earnings.

16. Discontinued operations

CHF million	**31.12.2017**	31.12.2016
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 31.12.2017 and 31.12.2016. Further details on the disposal of subsidiaries and business operations can be found in Note 39.

Explanations to the balance sheet

17. Cash and cash equivalents

CHF million	31.12.2017	31.12.2016
Petty cash / postal accounts / bank accounts	6'272	6'369
Fixed-term deposits with an original maximum maturity of 90 days	54	121
Total cash and cash equivalents	**6'327**	**6'490**

18. Mortgages and other customer receivables

CHF million	31.12.2017	31.12.2016
By type of engagement		
Mortgages		
↳ Residential property	32'696	31'533
↳ Office and commercial property	1'122	1'051
↳ Manufacturing and industry property	1'542	1'530
↳ Other mortgages	115	118
Other customer receivables	2'038	2'319
Total mortgages and other customer receivables (gross)	**37'513**	**36'550**
Provision for impairment	–57	–66
Total mortgages and other customer receivables	**37'456**	**36'484**
By type of collateral		
Mortgages	35'569	34'353
Securities	7	8
Sureties or other collateral	152	111
Unsecured	1'784	2'078
Total mortgages and other customer receivables (gross)	**37'513**	**36'550**
Provision for impairment	–57	–66
Total mortgages and other customer receivables	**37'456**	**36'484**

The sustained demand for real estate loans resulted in an increase in mortgages and customer receivables by CHF 1.0 billion.

Changes to the provision for impairment

	2017			2016		
CHF million	Mortgages	Customer receivables	Total	Mortgages	Customer receivables	Total
As per 1 January	**13**	**52**	**66**	**13**	**50**	**63**
Changes to the scope of consolidation	–	–	–	–	–	–
Impairments	5	20	25	5	20	25
Reversals of impairments	–3	–11	–13	–2	–8	–10
Disposals	–4	–17	–21	–2	–10	–12
Currency translation differences	–	–	–	–	–	–
As per 31 December	**11**	**45**	**57**	**13**	**52**	**66**

The mortgage business of the financial services business is mainly secured and in the Swiss real estate market.

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	31.12.2017	31.12.2016
Mortgages pledged to mortgage bond bank	7'738	7'481
Loans from mortgage bond bank	5'032	5'118

19. Trade receivables and other receivables

CHF million	31.12.2017	31.12.2016
Receivables of goods and services sold	850	774
Other receivables	282	187
Total receivables of goods and services sold and other receivables (gross)	**1'133**	**961**
Provision for impairment	–27	–27
Total receivables of goods and services sold and other receivables	**1'106**	**933**

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

Changes to the provision for impairment

CHF million	2017	2016
As per 1 January	**–27**	**–27**
Changes to the scope of consolidation	1	–0
Impairments	–5	–5
Reversals of impairments	2	4
Disposals	1	1
Currency translation differences	1	0
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	31.12.2017	31.12.2016
Raw materials and consumables	465	461
Work in process	66	70
Finished products	305	312
Goods for resale	2'140	1'944
Compulsory stocks	25	26
Total inventories (gross)	**3'002**	**2'812**
Provision for impairment	–268	–249
Total inventories	**2'734**	**2'563**
Pledged inventories	–	–

The level of inventories has risen moderately as a result of higher volumes of goods for resale. Impairments have remained stable 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 2017	**16**	**108**	**1'014**	**178**	**1'316**
Changes to the scope of consolidation	–	–	0	1	2
Additions	–	330	74	123	527
Fair value gains / (losses) through profit and loss	–8	10	1	5	8
Reclassifications	–	–	–	–	–
Disposals	–4	–84	–61	–112	–260
Currency translation differences	0	–	0	0	0
As per 31 December 2017	**4**	**365**	**1'028**	**195**	**1'592**
Accumulated provision for impairment					
As per 1 January 2017			**–2**	**–2**	**–4**
Changes to the scope of consolidation			–	–0	–0
Impairments			–1	–1	–2
Reversals of impairments			0	0	0
Reclassifications			–	–	–
Disposals			0	0	0
Currency translation differences			–	–1	–1
As per 31 December 2017			**–3**	**–4**	**–7**
Balance sheet value					
1 January 2017	**16**	**108**	**1'012**	**176**	**1'312**
31 December 2017	**4**	**365**	**1'025**	**191**	**1'586**
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 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					
As per 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	–	–	–	–	–

22. Current asset securities

CHF million	31.12.2017	31.12.2016
Debt instruments		
Listed on stock exchanges	–	–
Not listed	0	0
Total debt instruments	**0**	**0**
Equity instruments		
Listed on stock exchanges	362	104
Not listed	3	4
Total equity instruments	**365**	**108**
Total current asset securities	**365**	**108**

The increase in listed equity instruments is linked to the increase in the range of Migros Bank funds.

23. Fixed asset securities

CHF million	31.12.2017	31.12.2016
Debt instruments		
Listed on stock exchanges	807	814
Not listed	83	86
Total debt instruments	**890**	**901**
Equity instruments		
Listed on stock exchanges	13	11
Not listed	125	103
Total equity instruments	**138**	**114**
Total fixed asset securities (gross)	**1'028**	**1'014**
Provision for impairment	–3	–2
Total fixed asset securities	**1'025**	**1'012**

Debt instruments falling into the fixed asset securities category were reduced further through the decision not to reinvest after maturity of securities.

24. Derivative financial instruments

CHF million	31.12.2017 Replacement values positive	31.12.2017 Replacement values negative	31.12.2017 Contract volume	31.12.2016 Replacement values positive	31.12.2016 Replacement values negative	31.12.2016 Contract volume
Derivative financial instruments recognised						
Trading portfolio						
Interest instruments	–	–	–	–	0	80
Foreign currency instruments	3	12	1'318	16	1	1'612
Commodity hedging	0	–	1	0	–	1
Equity instruments	–	–	–	–	–	–
Total derivative financial instruments recognised	**4**	**12**	**1'319**	**16**	**2**	**1'693**
Derivative financial instruments not recognised						
Held for cash flow hedge						
Interest instruments	–	–	–	–	–	–
Foreign currency instruments	22	21	1'181	21	7	1'220
Commodity hedging	0	–	12	0	–	9
Held for Fair Value Hedge						
Interest instruments	–	16	2'800	0	31	4'001
Derivative financial instruments concluded in connection with related parties						
Foreign currency instruments - related counterparty[1]	116	40	10'433	167	51	9'553
Foreign currency instruments - third party counterparty[1]	40	116	10'433	51	167	9'553
Total derivative financial instruments not recognised	**179**	**194**	**24'858**	**240**	**256**	**24'336**
Total derivative financial instruments	**182**	**205**	**26'177**	**256**	**258**	**26'029**

[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.

As other instruments (financing in foreign currency) were also used for hedging purposes, the volume of foreign currency hedges recognised in the balance sheet (fair value hedges) was reduced despite 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	2017	2016
Acquisition costs		
As per 1 January	**528**	**519**
Changes to the scope of consolidation	4	–0
Additions from		
↳ acquisitions	30	12
↳ capitalised costs	–	–
Reclassifications from / to fixed assets	–1	8
Disposals	–27	–12
Currency translation differences	0	–0
As per 31 December	**534**	**528**
Accumulated depreciation and impairment provision		
As per 1 January	**–157**	**–157**
Changes to the scope of consolidation	–	0
Depreciation	–14	–7
Impairments	–	–0
Reversal of impairments	0	–
Reclassifications	–5	1
Disposals	3	6
Currency translation differences	–0	0
As per 31 December	**–172**	**–157**
Balance sheet value		
1 January	**371**	**363**
31 December	**362**	**371**
Additional information about investment property		
Undeveloped plots of land recognised as investment property		
↳ Acquisition costs	123	96
↳ Accumulated impairment provision	–7	–7
Investment property - finance lease	–	–
Rental income from investment property	–20	–21
Maintenance and operating costs for investment properties generating rental income during the period	10	8
Maintenance and operating costs for investment properties not generating rental income during the period	2	3
Existence and extent of restrictions with regard to sale	4	4
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 2017	**80**	**12'576**	**12'826**	**2'054**	**554**	**28'090**
Changes to the scope of consolidation	–4	–145	1	–18	0	–166
Additions from						
↳ acquisitions	1	294	530	122	385	1'331
↳ capitalised costs	–	–	1	–	9	9
Reclassifications						
↳ within fixed assets	–	136	232	20	–388	–
↳ from / to investment property	–	1	0	–	–0	1
Disposals	–1	–167	–498	–124	–62	–852
Currency translation differences	0	37	39	12	2	90
As per 31 December 2017	**76**	**12'732**	**13'131**	**2'067**	**498**	**28'504**
Accumulated depreciation and impairment provision						
As per 1 January 2017	**–6**	**–5'484**	**–8'374**	**–1'397**	**–2**	**–15'262**
Changes to the scope of consolidation	–	109	12	16	–	136
Depreciation	–	–337	–739	–155	–0	–1'231
Impairments	–	–94	–7	–1	–	–101
Reversal of impairments	–	1	2	0	–	3
Reclassifications						
↳ within fixed assets	–	–8	7	1	0	–
↳ from / to investment property	–	5	0	–	–	5
Disposals	–	146	494	120	1	762
Currency translation differences	–	–15	–19	–6	–0	–39
As per 31 December 2017	**–6**	**–5'676**	**–8'623**	**–1'422**	**–1**	**–15'727**
Balance sheet value						
1 January 2017	**75**	**7'092**	**4'452**	**657**	**552**	**12'828**
31 December 2017	**70**	**7'056**	**4'508**	**645**	**497**	**12'776**
Additional information about fixed assets						
Fixed assets – finance leasing	–	73	1	1	1	76
Pledged or restricted title of fixed assets	–	652	6	0	7	666
Contractual obligation to purchase, construct and maintain fixed assets	–	34	61	7	209	311
Reimbursements / compensation received from third parties	–	–	0	–	–	0

Impairments carried out in 2017 mainly affect the segments Cooperative Retailing (in the amount of CHF 46 million) and Industry & Wholesaling (CHF 55 million), following a failure to meet anticipated earnings.

In 2017, Migros Group received government grants for fixed assets of CHF 1 million (2016: 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 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
↳ capitalised 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 segment Industry & Wholesaling, 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.

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 2017	**780**	**339**	**800**	**243**	**26**	**2'188**
Changes to the scope of consolidation	12	–11	5	–3	–	3
Additions from						
↳ acquisitions	–	63	5	1	36	106
↳ capitalised costs	–	–	–	–	–	–
Reclassifications	–	–1	1	21	–21	–
Disposals	–	–34	–3	–2	–	–39
Currency translation differences	10	4	16	0	–	30
As per 31 December 2017	**802**	**361**	**824**	**260**	**41**	**2'287**
Accumulated depreciation and impairment provision						
as per 1 January 2017	**–459**	**–250**	**–450**	**–217**	**–1**	**–1'377**
Changes to the scope of consolidation	9	7	6	2	–	25
Depreciation	–52	–35	–56	–14	–0	–157
Impairments	–	–1	–	–	–	–1
Reversal of impairments	–	–	–	–	–	–
Reclassifications	–	–3	–0	3	–	–
Disposals	–	9	2	2	–	14
Currency translation differences	–7	–2	–8	–0	–	–18
As per 31 December 2017	**–509**	**–274**	**–506**	**–224**	**–1**	**–1'514**
Balance sheet value						
1 January 2017	**321**	**89**	**351**	**26**	**25**	**811**
31 December 2017	**293**	**87**	**318**	**36**	**40**	**773**
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, logistics and point-of-sale 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 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
↳ capitalised 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						–

28. Other assets

CHF million	31.12.2017	31.12.2016
Prepayments	103	98
Real estate from collateral loans[1]	4	2
Accrued interest income	15	13
Other accured income	127	139
Total other assets	**248**	**252**

[1] From financial services segment.

29. Other financial liabilities

CHF million	Notes	31.12.2017	31.12.2016
Liabilities from finance leases		114	116
Derivative financial instruments	*24*	12	2
Staff accounts		0	0
Staff investment accounts		1'364	1'399
Other financial liabilities		475	345
Total other financial liabilities		**1'964**	**1'862**

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

			31.12.2017			31.12.2016
CHF million	Nominal	Discount[1]	Present value[2]	Nominal	Discount[1]	Present value[2]
Remaining contract terms						
Up to one year	12	7	5	12	7	5
More than one and up to five years	45	25	20	44	26	18
More than five years	150	62	88	161	67	93
Total liabilities from finance leases	**207**	**93**	**114**	**216**	**100**	**116**

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

Additional information about finance leases

CHF million	31.12.2017	31.12.2016
Contingent lease payments recorded in the income statement	6	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	31.12.2017	31.12.2016
Trade payables	1'728	1'692
Other liabilities	635	560
Accrued expenses		
↳ Course fees of Club Schools	57	58
↳ Rent	9	10
↳ Interest	56	60
↳ Other accrued expenses	329	282
Total trade payables and other liabilities	**2'814**	**2'662**

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 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
As per 1 January 2017	**11**	**5**	**31**	**5**	**10**	**54**	**116**
Changes to scope of consolidation	–0	–	–5	0	–	–0	–5
Addition	14	18	39	1	5	32	109
Usage	–15	–3	–9	–0	–4	–18	–50
Release	–0	–0	–1	–1	–2	–6	–9
Unwinding of discounts	–	–	0	–	–	0	0
Reclassification	–	–	–	–	–	–	–
Currency translation differences	0	–	0	0	–	2	2
As per 31 December 2017	**10**	**20**	**55**	**6**	**9**	**63**	**163**
Of which current	7	16	5	2	4	13	46

Overall, provisions as at 31 December 2017 are CHF 47 million higher than as at 31 December 2016.

Provisions for restructuring increased in the 2017 financial year due to the creation of new provisions, especially in the case of Magazine zum Globus AG.

Provisions from onerous contracts mainly refer to rented property. The increase in the reporting year by CHF 25 million is mainly associated with the closure of branches at Magazine zum Globus AG, Ex Libris AG and the Migros Cooperative Zurich.

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

Provisions for legal cases are at the level of those of the previous year.

The other provisions are of various kinds and have increased by CHF 10 million.

32. Issued debt instruments

CHF million	31.12.2017	31.12.2016
Long-term bonds issued	–	150
Mortgage backed loans[1]	5'032	5'118
Medium-term bonds[1]	707	764
Private placements	–	–
Total issued debt instruments	**5'740**	**6'032**
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.

The long-term bond of the Federation of Migros Cooperatives, with a nominal value of CHF 150 million, matured in the reporting year. No new long-term bonds were issued.

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) and the Denner Pension Fund.

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	31.12.2017	31.12.2016
Short-term benefits	28	20
Post-employment benefits	0	0
Employer contribution reserves	643	610
Economic benefit from pension funds	–	–
Total assets from employee benefits	**671**	**630**

Employer contribution reserve

CHF million	Pension funds	patronage funds / patronage pension institutions	Total
Nominal Value			
As per 1 January 2017	**610**	**–**	**610**
Accumulation of employer contribution reserves	39	–	39
Use of employer contribution reserves	–7	–	–7
Interest income	0	–	0
As per 31 December 2017	**643**	**–**	**643**
Granted renounced use			
As per 1 January 2017	**–**	**–**	**–**
Granted renounced use in the reporting period	–	–	–
Reversed renounced use in the reporting period	–	–	–
As per 31 December 2017	**–**	**–**	**–**
Total employer contribution reserves 31 December 2017	**643**	**–**	**643**
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**

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	31.12.2017	31.12.2016
Short-term benefits	237	247
Termination benefits	6	6
Post employment benefits	123	130
Other long-term benefits	426	435
Economic obligation from pension funds	–	–
Total liabilities from employee benefits	**792**	**819**

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	31.12.2017	31.12.2017	31.12.2016	2017	2017	2017	2017
Patronage funds / patronage pension institutions	–	–	–	–	–	–	–
Pension institutions without surplus / deficit	–	–	–	–	14	14	17
Pension institutions with surplus	100	–	–	–	453	453	426
Pension institutions with deficit	–	–	–	–	–	–	–
Pension institutions without own assets	–	–	–	–	15	15	14
Total	**100**	**–**	**–**	**–**	**481**	**481**	**456**

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

			2017	2016
CHF million	Switzerland	Abroad	Total	Total
Employer contribution				
Contributions concerning current periode	459	15	474	450
Employer contributions accumulated by the employer contribution reserve	7	–	7	4
Total employer contribution	**466**	**15**	**480**	**454**
Change in employer contribution reserve by asset development, provision for impairment etc.	0	–	0	0
Employer contribution and change in employer contribution reserve	**466**	**15**	**481**	**455**
Change in economic part due to surplus / deficit	–	–	–	–
Change in obligation pension institutions without own assets	–	1	1	2
Pension benefit expenses current period	**466**	**15**	**481**	**456**

34. Cooperative capital

Cooperative share certificates	Share certificate 10.--	Share certificate 20.--/30.--	Total share certificates
1 January 2016	**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 share certificates	6'261	–12	6'249
31 December 2017	**2'188'524**	**117**	**2'188'641**

Change in Cooperative capital CHF thousand			
1 January 2016	**21'662**	**3**	**21'665**
Change in Cooperative capital	160	0	160
31 December 2016	**21'823**	**3**	**21'825**
Change in Cooperative capital	63	–0	62
31 December 2017	**21'885**	**2**	**21'888**

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.

			31.12.2017			31.12.2016
CHF million	Current assets	non-current assets	Total	Current assets	non-current assets	Total
ASSETS						
Cash and cash equivalents	6'327	–	6'327	6'490	–	6'490
Receivables due from banks	318	–	318	660	–	660
Mortgages and other customer receivables	7'652	29'804	37'456	8'863	27'621	36'484
Trade receivables	826	–	826	749	–	749
Other receivables	279	0	280	184	0	185
Inventories	2'734	–	2'734	2'563	–	2'563
Other financial assets	349	1'236	1'586	238	1'074	1'312
Investment in associates and joint ventures	–	87	87	–	92	92
Investment property	–	362	362	–	371	371
Fixed assets	–	12'776	12'776	–	12'828	12'828
Intangible assets	–	773	773	–	811	811
Assets from employee benefits	28	643	671	20	610	630
Current income tax receivables	57	–	57	41	–	41
Deferred income tax assets	–	79	79	–	70	70
Other assets	248	–	248	252	–	252
TOTAL ASSETS	**18'820**	**45'761**	**64'581**	**20'059**	**43'478**	**63'537**

CHF million	Current liabilities	Non-current liabilities	Total	Current liabilities	Non-current liabilities	Total
LIABILITIES						
Payables due to banks	432	89	521	288	91	378
Customer deposits and liabilities	33'210	–	33'210	32'646	–	32'646
Other financial liabilities	1'538	427	1'964	1'402	459	1'862
Trade payables	1'728	–	1'728	1'692	–	1'692
Other liabilities	1'086	–	1'086	970	–	970
Provisions	46	117	163	32	84	116
Issued debt instruments	357	5'383	5'740	595	5'437	6'032
Lliabilities from employee benefits	241	551	792	252	566	819
Current income tax payables	70	–	70	128	–	128
Deferred income tax liabilities	–	1'395	1'395	–	1'440	1'440
TOTAL LIABILITIES	**38'707**	**7'961**	**46'668**	**38'005**	**8'077**	**46'082**

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	**31.12.2017**	31.12.2016
Remaining contract terms		
Up to one year	825	790
More than one and up to five years	2'617	2'492
More than five years	2'904	2'671
Total future liabilities from operating leases	**6'347**	**5'953**
Minimum lease payments	860	820
Contingent lease payments	36	13
Income from sub-lease relationships	–65	–58
Net payments from operating leases and sub-lease contracts affecting net income	**831**	**775**
Expected future payments from sub-lease contracts	233	271

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	**31.12.2017**	31.12.2016
Remaining contract terms		
Up to one year	246	229
More than one and up to five years	614	571
More than five years	169	210
Total future receivables from operating leases	**1'030**	**1'010**
Contingent lease payments received	5	6

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 2017 annual financial statements.

Most of the contingent liabilities originate from the operational banking business of the Migros Bank.

Contingent liabilities

CHF million	**31.12.2017**	31.12.2016
Contingent liabilities from the financial services business		
Guarantees for loans and similar instruments	0	1
Performance guarantees and similar instruments	94	68
Unutilised irrevocable loan commitments	679	618
Capital commitments	58	58
Total contingent liabilities from the financial services business	**830**	**745**
Other contingent liabilities		
Guarantees	59	48
Sureties	0	0
Others	52	54
Total other contingent liabilities	**111**	**101**

Contingent liabilities from the financial services business are part of the normal course of customer business and are CHF 85 million higher than in the previous year. Other contingent liabilities mainly include guarantees issued by the Hotelplan Group for the travel business, and have increased compared to the previous year.

Contingent assets

CHF million	**31.12.2017**	31.12.2016
Total contingent assets	**–**	**–**

There were no contingent assets as at 31 December 2017.

Fiduciary placements

CHF million	**31.12.2017**	31.12.2016
Fiduciary placements with third party banks for account of the customers	**5**	**2**

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

31.12.2017 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	28	–	10	–	–	38
Trade receivables	1	1	–	–	–	1
Other receivables	0	–	–	–	3	3
Other financial assets	12	2	–	–	56	70
Other assets	–	–	–	2	0	2
Customer deposits and liabilities	–5	–	–	–19	–0	–24
Other financial liabilities	–	–	–	–298	–2	–300
Trade payables	–1	–	–	–4	–0	–6
Other liabilities	–	–	–	–2	–10	–13
Provisions	–	–	–	–	–	–
Income statement						
Net revenue from goods and services sold	10	1	0	4	0	15
Other operating income	0	0	–	0	7	8
Result from financial services	0	–	0	–	–	1
Expenses of financial services	–	–	–	–	–	–
Cost of goods and services sold	–4	–0	–2	–6	–3	–15
Other operating expenses	–2	–	–	–15	–24	–41
Finance income	1	0	–	521	0	523
Finance cost	–	–	–	–313	–0	–313
Off-balance-sheet transactions						
Issued guarantees	–	–	–	–	–30	–30
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	–2	–	–	–378	–15	–395
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 other financial 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. In the previous year, the amount of CHF 328 million was reported under other liabilities.

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).

A letter of comfort, limited in amount and issued by the FMC for the benefit of Ferrovia Monte Generoso SA, Capolago, was reported under the guarantees issued.

31.12.2016

CHF million	Associates	Joint ventures	Key mananagement 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
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
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.

Personnel expenses of key management personnel

CHF million	2017	2016
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

Acquisition of subsidiaries and business operations in 2017

Fair Value[1] CHF million	Note	Segment Cooperative Retailing	Segment Industry & Wholesaling	Segment Travel	Total
Cash and cash equivalents		3	7	1	11
Receivables		12	12	1	24
Inventories		1	5	–	7
Other financial assets		0	3	–	3
Fixed assets and investment property		12	44	0	56
Intangible assets (w / o goodwill)		13	0	0	14
Deferred income tax assets		1	–	–	1
Other assets		1	0	–	1
Financial liabilities		–7	–23	–	–30
Trade payables		–3	–11	–1	–16
Provisions		–0	–	–	–0
Deferred income tax liabilities		–3	–2	–0	–5
Other liabilities		–17	–2	–0	–19
Addition net assets		**12**	**33**	**1**	**46**
Minority interests					–8
Badwill					–1
Goodwill	27				21
Cost of acquisition					**58**
Of which attributable to capital investment					–
Of which interests held before acquisition date					–7
Acquired cash and cash equivalents[2]					–11
Future obligations					–0
Compensation for already existing financing operations					–3
Net outflow of funds					**37**

[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 2017 from the areas of health/fitness (Fit im Job AG and Silhouette Group) as well as food (Hitzberger AG and Herzberger Bäckerei GmbH). A lack of information relating to financial statements as at the end of 2016 meant that Checkup Center AG, which was acquired on 31 October 2016, was only included for the first time in the scope of consolidation of Migros Group on 1 January 2017. Whereas Fit im Job AG and Hitzberger AG were included on 1 January 2017, Herzberger Bäckerei GmbH and Silhouette Group expanded the scope of consolidation of Migros Group on 1 April 2017 and 1 May 2017 respectively. The acquired companies have contributed sales of CHF 32 million since their inclusion in the scope of consolidation. If all of the companies had already been acquired as at 1 January 2017, the sales of Migros Group would have been greater by CHF 10 million in total.

In the segment Industry & Wholesaling, companies from the fish processing (Tipesca SA), baked goods (Hug Bäckerei AG, step acquisition) and dairy processing sectors (Schwyzer Milchhuus AG, step acquisition) all expanded the scope of consolidation. A lack of information relating to financial statements as at the end of 2016 meant that Sushi Mania SA, which was acquired on 13 December 2016, was only included for the first time in the scope of consolidation of Migros Group on 1 January 2017. All of the acquired companies in the segment Industry & Wholesaling were included in the scope of consolidation on 1 January 2017 and contributed sales of CHF 60 million.

In the segment Travel, TW AG (formerly Reisebüro Beo AG) – which had already been acquired in the 2016 financial year but had remained unconsolidated due to a lack of information relating to its financial statements – as well as the newly acquired Jo-Jo Reisen GmbH were included in the scope of consolidation for the first time. Jo-Jo Reisen GmbH was merged with TW AG in the 2017 financial year. The contribution to the sales of Migros Group made by these two companies since their acquisition amounted to CHF 0.7 million.

As far as the following transactions are concerned, the information relating to financial statements was unavailable at the time of the Migros Group financial statements being released. Consequently, the initial recognition of the business combination was not possible. Full-year inclusion in Migros Group will only be shown in 2018:

– Acquisition of the major PHZ Permanence practice at Zurich central railway station by Medbase AG on 9 November 2017, thereby increasing the range of services available in the areas of general practice and emergency medicine

Acquisition of subsidiaries and business operations 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). Finally, in the segment Travel, the soft adventure provider Explore Worldwide and the diving specialist Regaldive – which had already been acquired in the 2015 financial year but had remained unconsolidated due to a lack of information relating to their financial statements – 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

Disposal of subsidiaries and business operations in 2017

CHF million	Segment Commerce	Segment Industry & wholesaling	Total
Cash and cash equivalents	9	1	10
Receivables	31	6	37
Inventories	45	36	81
Other financial assets	0	0	0
Fixed assets	21	59	81
Intangible assets	7	0	7
Other assets	7	1	8
Financial liabilities	–43	–52	–95
Trade payables	–17	–9	–26
Provisions	–6	–	–6
Deferred income tax liabilities	–3	–0	–3
Other liabilities	–15	–6	–20
Currency translation differences	–	–	–
Disposal of net assets	**36**	**37**	**72**
Retained part of net assets of associated companies / minority interests			–8
Retained share of net assets from subsidiaries and associated companies			21
Sales price			**85**
Of which claim waiver seller			–
Of which claim waiver buyer			–
Disposed of cash and cash equivalents			–10
Deferred sales price payments			–3
Net inflow of funds / (Outflow of funds)			**72**

In the **segment Commerce**, the shareholding in Dolphin France SAS (Probikeshop) was disposed of on 17 May 2017. On 1 December 2017, Office World Group (Office World AG, Iba AG and Tramondi Büro AG) was sold to the Austrian MTH Retail Group (MTH). The majority shareholding in Sharoo AG was also reduced on 3 July 2017, from 59.2 % to 19.9 %. The contribution made by these companies to sales amounted to CHF 153 million and CHF 128 million respectively (third-party sales) at the time of disposal.

In 2017, Migros Group sold CCA Angehrn AG in the **segment Industry & Wholesaling** following its spin-off from Saviva AG. The contribution made by this company to sales amounted to CHF 106 million at the time of its disposal on 30 November 2017. In addition, on 31 May 2017, Laiterie d'Ambilly (MFA) was spun off from Mifroma France SA and sold as an independent legal entity.

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 contribution made by this company to sales amounted to CHF 63 million at the time of disposal on 31 October 2016.

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	
	31.12.2017	31.12.2016	**2017**	2016
1 EUR	1.17	1.07	1.12	1.09
1 GBP	1.32	1.26	1.28	1.33
1 USD	0.97	1.02	0.98	0.99

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	5'063.0	P
BEEF2go AG	Berne	E	Switzerland	CHF	100.0	50.0
BOOTCAMPER.CH AG	Moosseedorf	F	Switzerland	CHF	1'000.0	100.0
Casa Interio AG	Moosseedorf	F	Switzerland	CHF	1'000.0	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	5'000.0	100.0
Golf Limpachtal Betriebs- und Verwaltungs AG	Buchegg	F	Switzerland	CHF	1'000.0	100.0
LFS AG	Moosseedorf	F	Switzerland	CHF	1'000.0	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
Time-Out AG	Moosseedorf	F	Switzerland	CHF	100.0	100.0
VOI AG	Moosseedorf	F	Switzerland	CHF	1'000.0	100.0
Migros Cooperative Basel	Basel	F	Switzerland	CHF	1'685.4	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	1'333.9	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
SC Néovitam	FR-Paris	E	Other countries	EUR	1.0	20.0
Société immobilière du Marché de gros de l’alimentation (SIMGA)	Carouge	E	Switzerland	CHF	2'625.0	42.8
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	1'919.0	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	1'230.2	P
Agy Est SA	Granges-Paccot	F	Switzerland	CHF	100.0	100.0
Au Léopold SA	La Tène	F	Switzerland	CHF	100.0	100.0
AVRY CENTRE SA	Avry	F	Switzerland	CHF	2'000.0	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	4'102.7	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
fit im job AG	Winterthur	F	Switzerland	CHF	100.0	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

Segment / Company	Domicile	Accounting method[1]	Switzerland / Other countries	Currency	Registered capital in 1000	Equity interest in % [2]
Randenburg-Immobilien AG	Schaffhausen	F	Switzerland	CHF	400.0	78.7
Società Cooperativa fra produttori e consumatori Migros-Ticino	Sant'Antonino	F	Switzerland	CHF	979.9	P
ACTIV FITNESS TICINO SA	Sant'Antonino	F	Switzerland	CHF	100.0	100.0
Mitico 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	1'518.0	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	3'260.9	P
ACTIV FITNESS AG	Stäfa	F	Switzerland	CHF	650.0	100.0
Sihouette Wellness SA	Genève	F	Switzerland	CHF	100.0	100.0
Hitzberger AG	Thalwil	F	Switzerland	CHF	1'241.9	100.0
Ospena Group Ltd	Zurich	F	Switzerland	CHF	2'500.0	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
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
Herzberger Bäckerei GmbH	DE-Fulda	F	Other countries	EUR	153.4	100.0
Federation of Migros Cooperatives Owned by the regional Migros Cooperatives	Zurich	F	Switzerland	CHF	15'000.0	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
Bike World AG	Zurich	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

Segment / Company	Domicile	Accounting method[1]	Switzerland / Other countries	Currency	Registered capital in 1000	Equity interest in % [2]
digitec AG	Zurich	F	Switzerland	CHF	100.0	70.0
Digitec Galaxus AG	Zurich	F	Switzerland	CHF	240.0	70.0
Digitec Galaxus Deutschland GmbH	DE-Weil am Rhein	F	Other countries	EUR	25.0	70.0
Digitec Galaxus d.o.o. Beograd-Stari Grad	SRB-Belgrad-Stari Grad	F	Other countries	RSD	0.1	70.0
Galaxus AG	Wohlen AG	E	Switzerland	CHF	360.0	70.0
Interio AG	Dietikon	F	Switzerland	CHF	1'000.0	100.0
Le Shop S.A.	Ecublens	F	Switzerland	CHF	4'500.0	100.0
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
Migrol AG	Zurich	F	Switzerland	CHF	52'000.0	100.0
Swisstherm AG	Rupperswil	F	Switzerland	CHF	400.0	100.0
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
primetrust AG	Suhr	F	Switzerland	CHF	500.0	100.0

Industry & Wholesaling						
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
Sushi Mania SA	Vuadens	F	Switzerland	CHF	300.0	51.0
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	F	Switzerland	CHF	4'500.0	60.0
Schwyzer Milchhuus Deutschland GmbH	DE-München	F	Other countries	EUR	25.0	60.0
Jowa AG incl. production plants	Volketswil	F	Switzerland	CHF	10'000.0	100.0
Hug Bäckerei AG	Lucerne	F	Switzerland	CHF	1'000.0	70.0
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	600.0	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	100.0
QBC Holdings Ltd.	GB-Wokingham	F	Other countries	GBP	1.0	100.0
The Quantum Beauty Company Ltd.	GB-Wokingham	F	Other countries	GBP	0.3	100.0
Absolute Beauty Solutions Ltd.	GB-Wokingham	F	Other countries	GBP	0.2	100.0
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
Tipesca SA	Sigirno	F	Switzerland	CHF	100.0	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-Industrie AG	Zurich	F	Switzerland	CHF	100.0	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 Industrie France SAS	FR-Paris	F	Other countries	EUR	500.0	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	100.0
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
Farmco AG	Köniz	F	Switzerland	CHF	1'036.0	70.0
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
Enigma Travel Group Ltd.	GB-Godalming	F	Other countries	GBP	147.0	100.0

Segment / Company	Domicile	Accounting method[1]	Switzerland / Other countries	Currency	Registered capital in 1000	Equity interest in % [2]
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-Inzlingen	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 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
TW AG	Spiez	F	Switzerland	CHF	100.0	100.0

Others

Segment / Company	Domicile	Accounting method[1]	Switzerland / Other countries	Currency	Registered capital in 1000	Equity interest in % [2]
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
Mitreva Treuhand und Revision AG	Zürich	NC	Switzerland	CHF	200.0	100.0

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 Cooperatives
Zurich

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the Migros Group (the Group) as at 31 December 2017, which comprise the consolidated income statement and the consolidated balance sheet, 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 30 to 111).

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 2017 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.

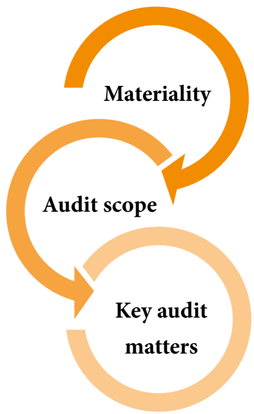
Basis for the opinion

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



Materiality: CHF 100 million, which represents approx. 0.4 % of total income.

We concluded full scope audit work at 17 Group companies in three countries. These Group companies contributed 70.2 % of the Group's revenues. Additionally, specified audit procedures were performed at a further three Group companies in Switzerland.

As key audit matters, the following areas of focus were identified:
- Impairment of intangible assets
- Impairment of fixed assets
- Impairment 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.

The audit strategy for the audit of consolidated financial statements was determined taking into account the work performed by the Group auditor, the component auditors in the PwC network and third parties. The Group auditor performed the audit of the consolidation and the presentation of the consolidated financial statements as well as of intangible assets, like goodwill, and intangible assets from acquisitions. As the Group editor, we were adequately involved in the work of the component auditors in order to assess whether sufficient appropriate audit evidence was obtained on the financial information of the components to provide a basis for our opinion. Our involvement comprised communicating the risks identified at Group level, specifying the materiality thresholds to be applied, examining the reporting, conducting conference calls with component auditors during interim audit and year-end audit and participating in the closing meetings of the year-end audits of the two largest companies abroad.

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 total income
Rationale for the materiality benchmark applied	We chose the proceeds 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.

Key audit matters

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 current period. 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.

Impairment of intangible assets

Key audit matter

Intangible assets on the balance sheet amount to CHF 773 million. Besides software, this item comprises primarily acquired goodwill (CHF 293 million) as well as brands, licences, patents and contractual rights (CHF 318 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 valuation of intangible assets to be a key audit matter because the nature of such assets means that significant judgement is required to assess whether there are indications of impairment and to derive 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, which are derived from internal budgets and financial plans, used to calculate the value in use.
– Discount rate used for the related business units.
– Underlying data and derivation when using multiples

Please refer to pages 64 and 65 (Critical accounting estimates and judgements) and pages 88 and 89 (Notes to the financial statements).

How our audit addressed the key audit matter

We performed the following auditprocedures:

– 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. Additionally, we 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 these valuation methods are 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.

Impairment of fixed assets

Key audit matter	How our audit addressed the key audit matter
Fixed assets are recognised at the historical or acquisition cost less the accumulated depreciation or; certain assets are stated at market value, if this is higher. At a recognised value of CHF 12.8 million, fixed assets represent a significant portion of the balance sheet total. In the year under review, impairment of CHF 101 million has been booked against fixed assets. We consider the impairment of 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 fixed assets: – Cash flows, which are derived from internal budgets and financial plans, used to calculate the value in use. – Discount rates used for the related business units. – Underlying data source and derivation of the recoverable amounts and the assumptions used Please refer to pages 64 and 65 (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-specific information as well as with the developments in previous financial years. In addition, we 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 value of objects for which this valuation basis was used. – Checked that the costs relating to impairment (impairment and 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.

Impairment 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 on the balance sheet in the amount of CHF 37.5 billion. 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 personal loans to private individuals. Besides its significance on the balance sheet (58 %), we consider the recoverability of this item to be a key audit matter 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 58 to 60 (credit risks) and pages 78 and 79 (Notes to the financial statements).	Our audit approach consisted principally of testing 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 examinations: – Tested selected key controls of the Bank relating to the approval, processing and monitoring of loans. – On a sample basis, tested credit items (including 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 audit procedures , we consider the principles and the assumptions applied by Management to test for the impairment of mortgages and other customer loans 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.

Report on other legal and regulatory requirements

In 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, 15 March 2018

Legal information

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