

## Appendix 1

# MTM regulations



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# 1 General

The regulations describe the tasks, responsibilities and competences, as well as the underlying conditions for the Migros Exchange Equipment Management (MTM) and all involved MTM partners. The regulations constitute an integral contractual part of the rental agreements for exchange equipment.

These regulations replace chapter 1.3 on trading units in the Logistics folder and are binding for all organizations and persons (MTM partner) involved in MTM.

The regulations come into force on 1 January 2005.

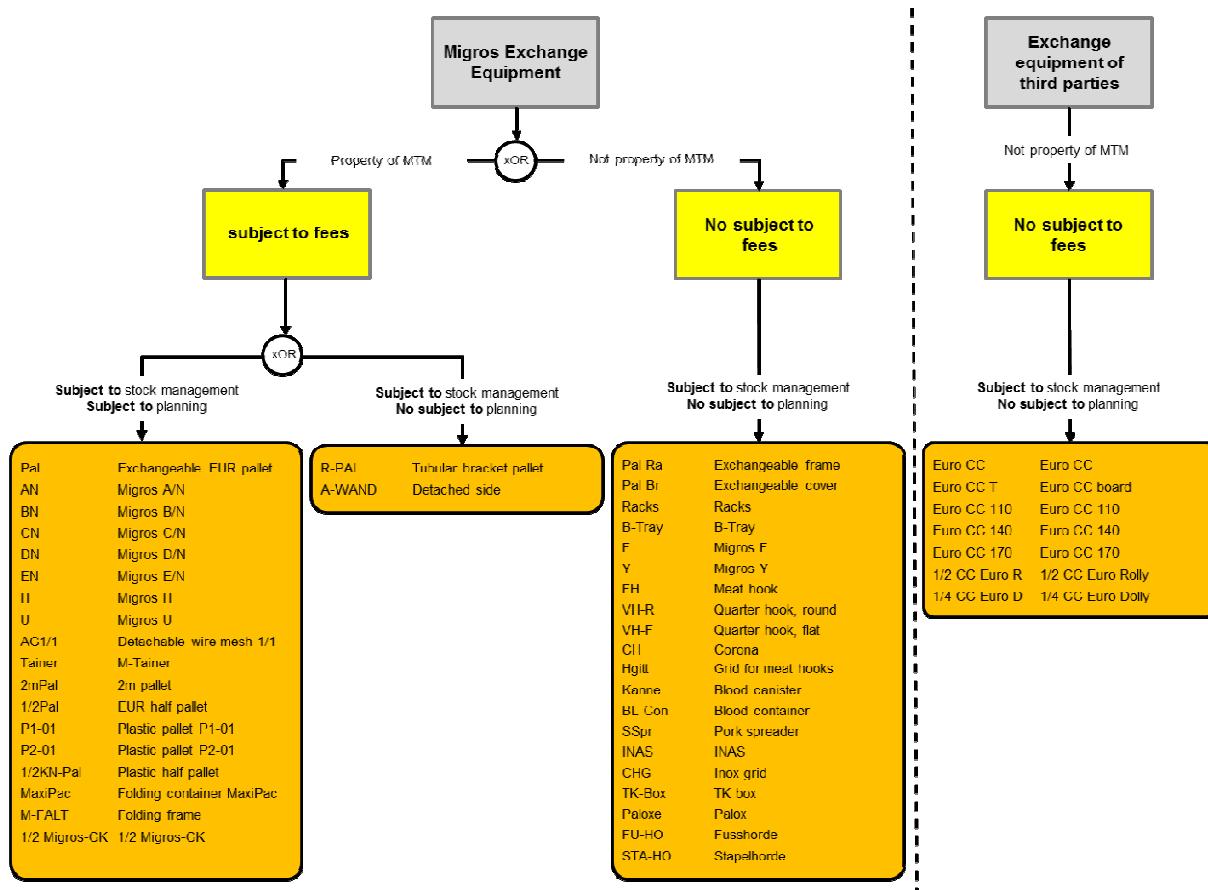
Any changes to these regulations are requested by the Manager of the MTM (TGM) from the Commission for Logistics systems (KLS), which releases the changes.

# 2 Migros exchange equipment

Migros exchange equipment (EE) refers to all containers and loading means that are used more than once by Migros logistics.

Ownership of the EE with the greatest optimization potential (left branch in below diagram) will transfer to MTM as of 1 January 2005 and will be rented out to users. The stock held by the individual MTM partner will be transparently managed in an IT system (TGIS) and the return to companies, ordering the EE, will be planned.

Owners of the remaining EE can use the TGIS for stock management.



## 3 Main aims

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The MTM has three main aims.

### **Transparency**

A consistent central stock management generates a high level of transparency with regard to EE stock and EE movements. Availability can thus be ensured, increasing confidence in the system.

### **Just system**

All MTM partners share the cost depending on their respective use of EE or services. This consequently accelerates the movement of EE and improves the quality of the EE in the MTM.

### **Costs**

As a result of the accelerated EE circulation, the quantity of EE required is reduced and thus also the required investment.

As a result of an efficient, centrally managed planning of the EE, returns, administration, IT and transportation costs are reduced and production downtimes are avoided.

A central, planable procurement of EE will result in lower purchase prices.

## 4 Principles

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### 4.1 Principles of Migros Exchange Equipment Management

Organization and procurement

- The TGM organizes the central scheduling of exchange equipment.
- In the central IT system (TGIS) a daily stock figure for each EE is maintained for each MTM partner.
- In the event that the TGIS is not available, movements must be entered in the TGIS as soon as the system is available again. Returns are carried out based on an emergency return plan.
- The procurement of EE and services is exclusively carried out by TGM.
- The EE and the MTM may not be used for other purposes; EE may only be used for direct goods transportation within the M community or for the correct storage of its products. The EE may not be used for other purposes by the MTM partner.

Costs/rental fees

- The TGM covers its own costs.
- The EE rental fees include costs for procurement, repair and storage of the EE and of the entire TGM (Administration, IT, training, support).
- Rental fees for the EE and services (transportation of empties, pallet administration for etc.) are invoiced monthly.
- The client shall pay for services that are not a part of MTM (e.g. machine sorting).

## 4.2 Principles for each MTM partner

### Organization

- A specific rental agreement is signed with every MTM partner. This agreement specifies the defined EE and services and the respective fees. Apart from paying the rental fees for exchange equipment, MTM partners contribute an administration charge for each obtained empty pallet for their EUR reusable pallets.
- Each day, the MTM partners (all producers) enter their EE order in the TGIS. The standard order quantity is one shipping unit (standardized number of EE per floor pallet). Based on this information, the EE are scheduled and a transportation order is raised. The MTM partners are obliged to accept the ordered EE.
- Every day, the MTM partners (all sales organizations) report their available EE quantities to the TGIS. Based on these available EE quantities, EE planning is carried out.
- Each MTM partner defines a person responsible for exchange equipment (TGV), conducting the operative daily business in his organization. Email is the main means of communication. Every MTM partner is responsible for maintaining and upkeeping his email account.
- MTM partners are responsible for their correct stock. Each outgoing EE is registered in the TGIS.
- For MTM partners, bookings are only made in the TGIS and no pallet vouchers are issued.
- The MTM partners of the M Community control the quantity and quality of incoming TGS from third parties. Any corrections are noted on the EE delivery note and only corrected by the TGV in the TGIS. Defective reusable EUR pallets can be collected by third parties until the next delivery.
- **Information to MTM in case of promotions**  
Known and planned promotion dates are reported by the responsible TGV as early as possible, reporting the planned EE quantities, EE type and duration of the promotion to the MTM by email. As a result, the MTM can improve the planning and provision of EE for the MTM partners.
- **Forecast in case of EE changes/return of EE**  
The responsible TGV must inform the MTM in writing six months in advance of any changes to other EE types or complete stop of EE, as products are no longer supplied or disposable packaging is used instead. In the event of this regulation not being observed, on-time delivery of the new EE type cannot be guaranteed to the MTM partner in case of a change.
- The MTM partners are responsible for their correct stocks. A negative stock account in the case of ordered exchange equipment (except EUR pallets) must be immediately reported to the exchange equipment manager (TGM). Minus stocks are corrected after consulting the TGM, missing rental fees are settled with the MTM partner.
- When transporting exchange equipment (with / without goods, initial entry in the TGIS) to a Migros establishment or to another MTM partner, it is essential to enclose an MTM delivery note (TGIS system delivery note or manual delivery note).

### **Migros folding frame (M-FALT)**

- Where the Migros folding frame is used for transporting goods and where there is a risk of soiling, a plastic bag adequately protecting the Migros folding frame must be provided. The below not exhaustive list details applications for which a protecting bag must always be used:

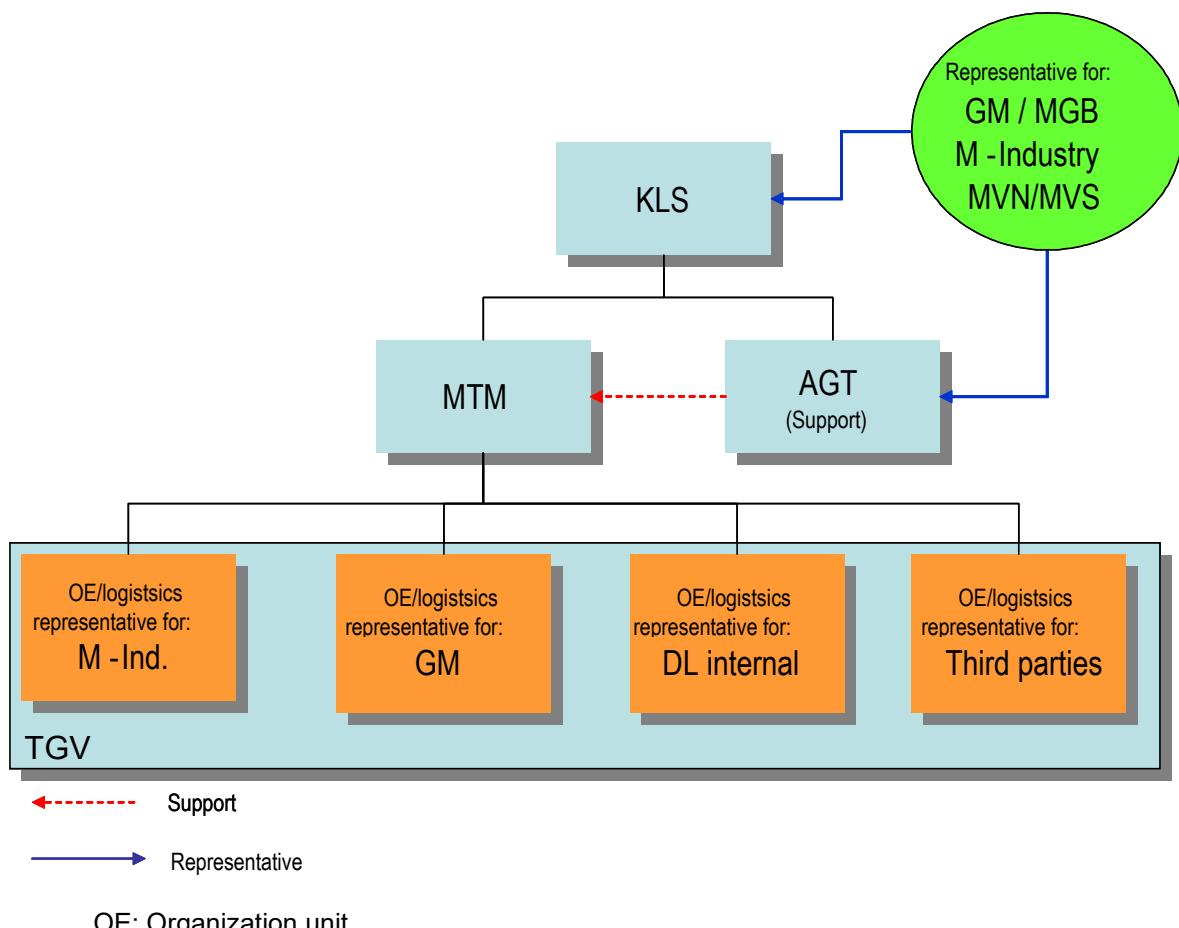
- Transportation of refuse
- Transportation of PET, milk and other bottles
- Transportation of garden waste
- Transportation of food (e.g. meat and sausage products, semi-finished products, etc.)

Cost of purchasing and using the protecting bags shall be borne by the shipper. Where soiling cannot be prevented despite of the use of the protecting bags, the Migros folding frame may not be used for the respective application.

- Prior to handing over Migros folding frames to a MTM partner in an empty condition, these should, as far as possible, be inspected. Soiled Migros folding frames are removed, cleaned, dried and returned into circulation by the Cooperative at its own expense.
- If the MVN occasionally receives soiled folding frames, these shall be cleaned by the MVN at its own cost.
- Where an increase in the number of soiled Migros folding frames is detected, this should be reported to MTM so that respective training measures can be carried out.
- Where despite all efforts a considerable increase in soiling of the Migros folding frames occurs, a washing concept with respective costs for users of the Migros folding frame must be established and implemented.

## 5 Organization of MTM

The management of the MTM (TGM) carries out the operative business. Every MTM partner nominates a person responsible for exchange equipment (TGV), carrying out the operative daily business in his organization. The organization of the MTM is shown below.



## 5.1 Exchange Equipment Management (TGM)

The TGM manages and coordinates the operative business of the MTM. The TGM is responsible for the management and organization of the MTM.

### Responsibilities and competencies

- ensures that the correct EE type is available
- signs agreements with all MTM partners
- calculates and defines service fees
- negotiates service prices
- with service providers
- is responsible for the current invoice and the operation of the MTM and provides transparency
- creates the financial plan
- procures the EE
- ensures information flow amongst all MTM partners
- provides the central contact and information point for all MTM partners
- is responsible for the operation of the TGIS
- ensures the master data maintenance in the TGIS
- ensures the process quality and compliance with the regulations
- requests changes to the regulations from the KLS
- organizes courses and training for TGV
- creates, maintains and updates training documents and provides these to the MTM partners
- submits applications to KLS
- instigates inventories
- represents the MTM externally
- is responsible for the continuous improvement process

## 5.2 Person responsible for exchange equipment (TGV)

The TGV of the MTM partner carries out the operative day-to-day business and is responsible for maintaining and implementing the MTM regulations.

### Responsibilities and competences

- determines the order quantity or available EE quantity
- enters order quantities or available EE quantities and EE exits in the TGIS with the respective time
- carries out the incoming check and records any correction entries in the TGIS
- carries out inventories in his organization and reports any inventory discrepancies to the TGM
- has a duty to report and provide information to the TGM
- checks and monitors the individual EE movements and EE stock in the TGIS
- is responsible for the EE and process quality assurance in his organization
- Is responsible for reporting to and informing the TGM. Especially for changes in the master data (e.g. address, contact person, e-mail address), the TGM must be informed beforehand.

## 6 Financial matters

### 6.1 Principles

The following principles describe the invoicing of the rental fee:

- Every MTM partner renting EE (excl. reusable EUR pallets) pays a daily rental fee for his EE stock.
- Every MTM partner pays an administration fee for each reusable EUR pallet.
- MTM partners pay for additional services, such as washing and sorting. The costs of transportation from the service provider, are borne by the EE recipient.

### 6.2 Rental fees

#### 6.2.1 Calculation of rent

The monthly rental per EE is calculated as follows:

Monthly rental = total of all daily stock x rental fee

Calculation example (no effective figures):

**Rental fee calculation per MTM partner**

EE	Total of stock at end of day/month	Rental fee in CHF	Rental fee/month in CHF
A/N	1'970'000	0.005	9'850.00
B/N	1'000'000	0.010	10'000.00
...	...	...	...

## 6.3 Principles of rental model

The following points form the basis for the model:

### 6.3.1 *EE rental fee for MTM partners*

The rental fees for the MTM partners are calculated from the effective costs (calculation) .

**The following elements are included in the external rental fees:**

- Calculated depreciation and calculated interest of respective EE
- Costs for TGM
- Storage costs for unused, available EE quantity
- Cost of alternative packaging or temporary rental of EE
- Repair and disposal of EE (excl. reusable EUR pallets)
- Transportation to sorting and repair sites
- Training/QM
- Costs of central IT (license and service fees) and User Interface
- Use of RFID tags with newly commissioned exchange equipment or expansion of existing types of MTM exchange equipment that already feature RFID tags
- Replacement of existing RFID labels that no longer work or have fallen off

**The below costs shall be borne by the MTM partners:**

- Transportation of EE empties
- Incoming EE check
- Washing the EE
- Sorting (special fee for automated sorting or hygiene)
- IT connection to ERP systems / interfaces (by IT unit of third party)
- All expenses not borne by the TGM
- Inspection of the functionality of RFID tags using the exchange equipment's filler, if fitted with an RFID tag
- Sorting out of exchange equipment with missing or defective RFID tags and reporting this to the TGM

### 6.3.2 *Administration fee for reusable EUR pallets payable by MTM partner*

In order to pay for the costs of the TGM, an administration fee based on the reusable EUR pallets obtained from the M Community, is charged. The MTM partners may only order the quantity of reusable EUR pallets required for their business with Migros.

The following elements are included in their administration fee:

- Costs for TGM
- Training/QM
- Costs of central IT and User Interface
- Initial costs of implementation GEPAL-MTM (2005 to 2007)

## 6.4 Service fees

Services, paid by TGM and charged on to the MTM partners, are described below.

### 6.4.1 *TGIS partner maintenance*

MTM partners shall pay an administration fee of 80 CHF to the TGM for the account management, operation, master data maintenance and management of the TGIS.

### 6.4.2 *Distribution of transportation costs*

The costs of transporting the empties shall be borne by the MTM partner.

#### **6.4.3 *Washing***

MTM partners may order washed exchange equipment. Washing contracts are concluded with the TGM after consulting the cooperatives concerned. The washing rates according to the MTM charge sheet apply to all MTM partners (MTM contract, appendix 2).

#### **6.4.4 *Sorting***

The sorting fees (in particular for reusable EUR pallets) are negotiated by the TGM with the internal and external service providers.

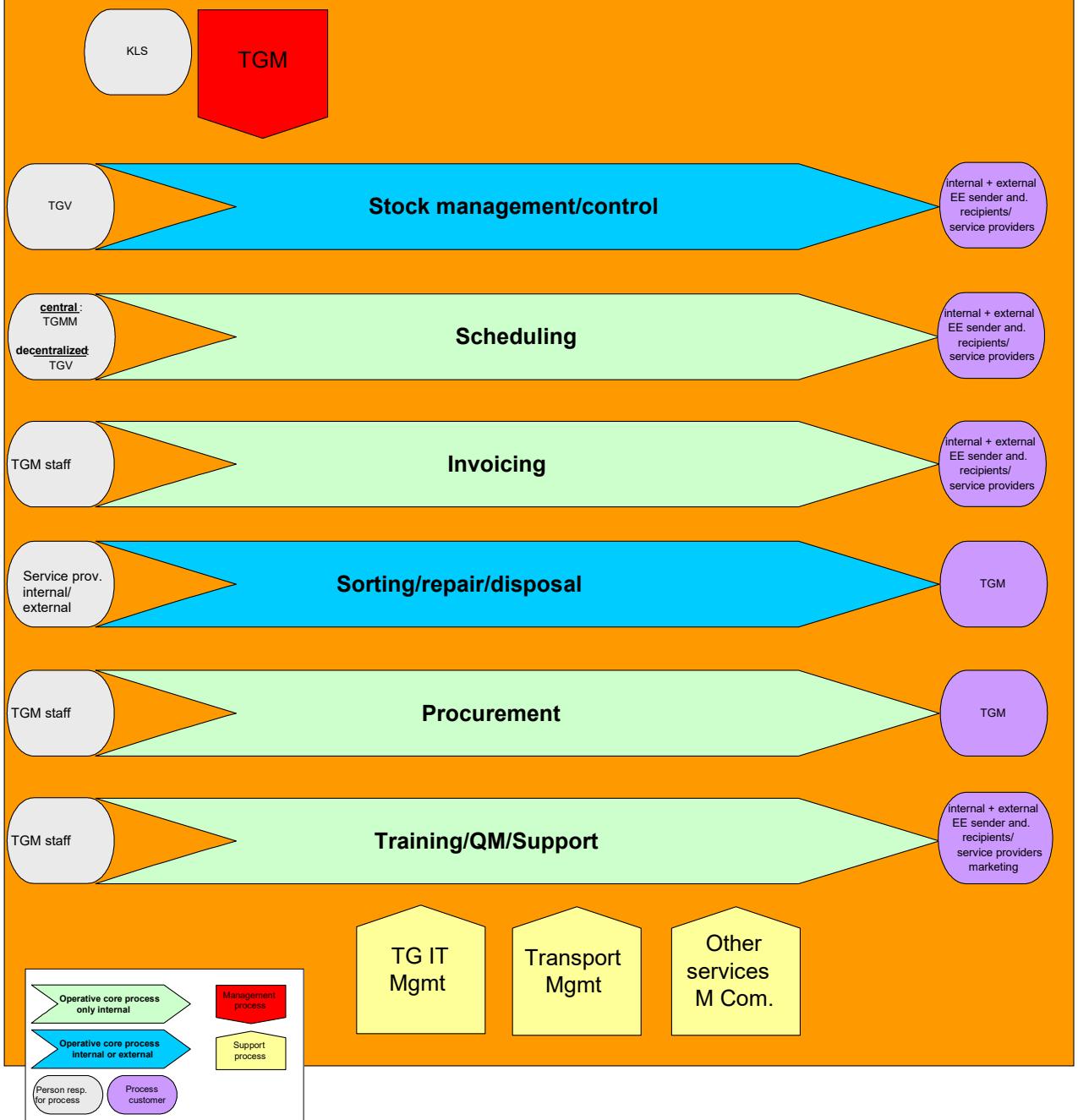
Where a MTM partner orders sorted EE from the TGM, these shall be charged-on by the TGM, depending on the cost.

## **7 Processes**

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The following illustration shows the core, management and support processes of MTM, the persons responsible for the process and the different clients.

# Migros Exchange Equipment Management MTM



## 7.1 Management process

The TGM manages and organizes the core and support processes.

## 7.2 Core processes

The daily business is carried out in the core processes.

### Stock management

The stock held by each MTM partner is determined on a daily basis. The TGV of the MTM partner is responsible for daily stock management (correct recording of outgoings to other MTM partners).

The TGV carries out incoming EE checks according to chapter 8 ff.

The EE sender books the date the EE is dispatched to the MTM partner, sorting works, repair works or disposal units in the TGIS. This entry in the TGIS automatically generates a EE receipt on the account of the EE recipient.

EE stock in transit is charged to the EE recipient.

### Scheduling

The TGM defines the targets for the scheduling.

A prerequisite for the implementation are the files for the EE orders and available EE quantities of all affected MTM partners.

Each day, the TGV calculates the EE order of his organization (requirement for the next day but one) and records these in the TGIS no later than 07.00 hrs on the scheduling day.

Each day, the TGV will, at the latest by 07.00 hrs. provide the forecasted scheduled EE quantities of the following day into the TGIS. Orders after this time will be charged for.

In case of reusable EUR pallets the quality requested by the ordering party must be observed.

By 11.00 hrs. the TGM schedules the EE orders of the MTM partners and triggers the transportation orders (rail, road, collection). Rail orders must still be triggered by the MTM partners.

The minimum order quantity is one shipping unit (standardized number of EE per floor pallet). Order quantities that are smaller than a shipping unit are processed without scheduling.

### Invoicing

The rental fees per EE are calculated for each MTM partner based on the stock at the end of the day (23.59 hrs.). The rental fees and the fees for services are invoiced monthly by the TGM.

The administration fee for obtaining reusable EUR pallets (MTM partners) is charged, based on the receipt of empty pallets.

Amounts under CHF 50 are charged in the subsequent month, but at the latest at the end of January.

### Procurement

EE are procured in case of additional requirement, bottlenecks, inventory losses or damage. Extraordinary EE orders in case of promotions, campaigns, seasonal planning, etc. must be entered into the TGIS as soon as these become known. Based on EE orders by the MTM partners, the TGM produces forecasts for the EE requirement for the coming weeks.

Based on these forecasts, the TGM can initiate respective EE purchases or ensure availability by hiring additional EE.

Any new EE purchases are entered in the TGIS.

Permanent changes in requirement, such as a new product in plastic containers, etc., shall be reported as soon as they are known. Three months advance notification must be given. The termination of products or change to disposable packaging must be reported in good time. Six months notice must be given.

### **Training/QM/Support**

The TGM is responsible for providing courses and training for the TGV in the companies of all MTM partners. Training programs and documents were generated for this purpose. The TGM sets up an operative process controlling. This allows the TGM to maintain and ensure a continuous improvement process (KVP). A support team (Hotline) is available to all MTM partners.

## **7.3 Support processes**

The support processes support the core processes in the operative daily business.

### **IT management**

The IT management operates the TGIS and provides the link to the MTM partner. It coordinates the cooperation with IT providers and assumes in this context the responsibility for the M Community.

### **Transport management**

The transport management commissioned by the TGM is responsible for the scheduling and on-time transportation and for invoicing the provided services to the TGM.

### **Other performances by third parties**

Other performances by third parties are commissioned by the TGM, as required.

## **8 Incoming / outgoing EE and handling defective EE**

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### **8.1 Incoming EE at MTM partners**

Defective EE should be immediately rejected upon collection and replaced. If the defect is only established upon arrival at the works, this must be reported immediately to the MTM. MTM shall agree on further procedure with the partner concerned. The MTM can collect the EE not accepted by the MTM partners. The EUR non-exchangeable exchange pallets sorted out at the goods entrance can be charged to the MTM partner. The fee per EUR pallet in such cases is CHF 25.-.

#### **Road transport**

Upon collection of the EE from the M Community ramp, the TG quality is deemed to have been accepted upon loading and signing of the EE delivery note.

Upon free delivery of the EE to the ramp, the recipient is entitled to deduct non-exchangeable EE from the EE delivery note in the presence of the shipper. Once the EE delivery note has been signed, the EE quality is deemed to have been accepted. After consultation with the TGM, the non-exchangeable EE can be credited to the recipient.

#### **Rail transport**

In case of shipment by rail, the recipient shall be entitled to report the non-exchangeable EE to the TGM within 24 hours of their receipt. After consultation with the TGM, the non-exchangeable EE can be credited to the recipient.

If no claim is received within 24 hrs. from receipt, it is implied that the delivery has been accepted.

### **8.2 Corrections**

The MTM partners are responsible for correct stocks. The initial entries are immediately effective as stocks. If differences are found by the recipient, these must be corrected within seven calendar days (as from the entry date).

### 8.3 Buffer store for exchange equipment

Every MTM partner shall maintain a buffer store for exchange equipment, safeguarding his production at least for the following day.

The TGM recommends this buffer amount to bridge any transportation delays. Within this period, the TGM shall not pay the cost of alternative packing.

## 9 Stocktaking

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### 9.1 Ordered stocktaking

The TGM may order a stocktaking to be carried out for the following reasons:

- contract dissolution or termination
- mutations by the contractual partner
- changes to the contractual conditions
- non-compliance with contractual conditions
- in case of discharge evidence
- on request of the MTM partner

#### MTM partner

The TGM is responsible for implementing the stocktaking. Where necessary, the TGM can involve a TGV from the M Community. The costs of implementing the stocktaking are born by the MTM partner.

### 9.2 Handling of stocktaking discrepancies

Where discrepancies are established during stocktaking, the following procedure is adopted:

#### MTM partner

If the physical stock is higher than that recorded in the books, the stock in the books is increased accordingly in the TGIS and the difference is credited to the stock difference account.

Were the physical stock is less than that recorded in the books, a loss is assumed and the stock in the books is decreased accordingly and the difference is charged to the stock difference account.

Such losses are invoiced to the audited MTM partner at the current procurement value.

#### Controlling and reporting

A systematic financial and process controlling is essential to guaranty a smooth business operation and is the responsibility of the TGM.

In order to ensure that the TGM can guaranty a controlling, the MTM partners report all relevant information and data not managed in the TGIS to the TGM:

- Loss
- Theft
- Deviations from process guidelines (such as incorrect use, incorrect handling, incorrect posting, etc.)
- Infringement of rules

## 10 Measures in case of infringement of rules

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Where rules are infringed, the TGM shall determine specific measures together with the KLS. The TGM is also responsible for their implementation.

**The following measures are currently defined:**

- The EUR non-exchangeable exchange pallets sorted out at the goods entrance can be charged to the MTM partner. The fee per EUR pallet in such cases is CHF 25.--.
- Were regular discrepancies are established between ordered and collected EE, the TGM shall be entitled to invoice a handling fee of CHF 10 per shipping unit (floor pallet) after having issued a warning.
- Where EE are found to be used incorrectly on the site of MTM partners, the TGM shall be entitled to charge the MTM partner a fee of CHF 5.-- per EE for incorrect use.
- An inventory is ordered in the case of third party MTM partners with minus stocks. The missing rental charges are invoiced in addition to an account handling fee of CHF 100.--. For continuing account clarifications and in the case of repetition, the extra work is charged according to an hourly rate of CHF 140.--. In addition the third party MTM partner is summoned to a TGIS system training course in Zurich. If, however, minus stocks are regularly found in the case of third party MTM partners, the TGM can temporarily block the types of package concerned in the TGIS account in order to analyse the entries with the MTM partner.
- If exchange equipment is delivered without an MTM delivery note (TGIS system delivery note or manual delivery note), the third party MTM partner (sender) is charged a handling fee of CHF 100.--. If necessary, the TGM can order a TGIS training course for a third party MTM partner.
- In the case of unreported changes of master data (e.g. company address, contact person, etc.), the third party MTM partner is charged a handling fee of CHF 100.--.