

Review of Group results

Valora achieved encouraging results in the second half of 2007, following a disappointing first six months. Despite a declining overall market for press products, during the final six months of 2007 net sales at Valora's Swiss kiosks, the Group's largest business operation, were maintained at the levels seen in the same period of 2006, while operating income was raised by CHF 6.5 million. Group net sales for 2007 as a whole were up nearly 3%, with Valora Trade benefiting notably from the ongoing expansion of its network of internationally active principals, while the Retail division generated increased sales from its growing outlet network in Germany. Valora Media's net sales suffered from the absence of a major soccer picture card campaign of the kind seen during the 2006 World Cup. The Valora Group's net income for the year fell from CHF 66 million to CHF 52 million.

A Valora Group

Measures already under way to enhance profitability were accelerated and fine tuned during the second half of 2007. Particular emphasis was placed on driving the strategically important IT modernisation project forward. The second half of 2007 also saw the Group's Swiss kiosk business raise its sales by CHF 19 million compared to the the first six months of the year, while Group-wide net sales were up nearly 6% on the same period a year earlier. Consolidated operating earnings increased by CHF 10 million, or more than 30%, between the second half of 2007 and the second half of 2006.

Net revenues					
in CHF million	2007	Portion	2006	Portion	Change
Valora Retail	1 665.4	59.0%	1 632.9	59.4%	2.0%
Valora Media	553.2	19.6%	560.2	20.4%	- 1.3%
Valora Trade	791.0	28.0%	748.2	27.2%	5.7%
Other	14.4	0.5%	15.3	0.6%	
Intersegment elimination	- 202.2		- 207.3		
Group total	2 821.8	100.0%	2 749.3	100.0%	2.6%
Switzerland	1 696.2	60.1%	1 697.8	61.8%	- 0.1%
Elsewhere	1 125.6	39.9%	1 051.5	38.2%	7.0%

The Valora Group's net 2007 sales were up nearly 3% on the year, reaching CHF 2 822 million. The fastest sales growth was achieved by Valora Trade, whose turnover rose by almost

6%, while revenues at Valora Retail were up 2%. Overall market contraction and, above all, the absence of major soccer card promotions shaved just over 1% off sales. Noticeably higher turnover was generated by the production companies now in the process of being sold. Their sales rose from CHF 165 million in 2006 to CHF 181 million in 2007, representing a 9.6% increase. Valora Trade's intra-Group sales rose by a comparable percentage, reaching CHF 56 million. With the production companies' results included, the Valora Group's net sales rose from CHF 2 863 million in 2006 to 2 947 million in 2007.

in CHF million	2007		2006	
Net revenues	2 821.8	100.0%	2 749.3	100.0%
Gross profit	858.5	30.4%	855.9	31.1%
– Operating costs, net	– 802.6	28.4%	– 789.4	– 28.7%
Operating profit	55.9	2.0%	66.5	2.4%

Excluding production company results, Group operating earnings fell to CHF 55.9 million. This decline of CHF 10.6 million, or 16%, was mainly attributable to lower sales at Valora Media, the slide in profits at Valora Retail during the first half of 2007 and the non-recurrence of the extra revenue Valora Trade generated in 2006 from the brands it disposed of that year. Including the CHF 9.6 million of 2007 operating earnings contributed by the Own Brands companies, the Valora Group's operating profit for 2007 was CHF 65.5 million, largely compensating for the dip in profits experienced in the first six months of the year.

B Valora Retail

in CHF million	2007		2006	
Net revenues	1 665.4	100.0%	1 632.9	100.0%
Gross profit	536.6	32.2%	540.1	33.1%
– Operating costs, net	– 519.4	31.2%	– 518.7	– 31.8%
Operating profit	17.2	1.0%	21.4	1.3%

In 2007, Valora's Retail division succeeded in increasing sales by some CHF 30 million to CHF 1 665 million. The expansion at Kiosk Germany enabled it to boost sales 13%, the fastest rate of growth in the division, while Kiosk Luxembourg and the division's convenience and filling station business in Switzerland both increased turnover by 7%. Wholesaling operations in Switzerland benefited from a broader distribution network encompassing more outlets and were able to increase revenues by CHF 8 million. Conversely, the kiosk operations in Switzerland saw their turnover decline by CHF 21 million on the year. Besides the absence of collectible soccer cards and a significant drop in the number of lottery tickets sold, lower press sales were a major factor contributing to decline in turnover, which was not fully offset by increased sales of food items, which rose 7% on the year. Gastronomy operations generated CHF 3 million less in overall sales, though with the results of outlets

closed during the year stripped out, like-for-like sales increased by CHF 1 million between 2006 and 2007. Analysis of turnover by product group shows that most of the division's increase in revenues was generated by higher sales of tobacco products. These were up 5.2% or some CHF 37 million on the year, despite the fact that overall market volume declined in response to higher product prices as a result of increased tobacco duties. The division benefited from expanded floor space at new and existing outlets in Germany as well as from the broader distribution coverage achieved by wholesaling operations. It is also encouraging to note that the CHF 23 million fall in non-food sales mainly caused by the lack of a major soccer picture card campaign was nearly entirely made up for by higher sales of food items. These higher revenues were principally attributable to the successful roll out of new modules (such as the "mach mal Pause" or "Take a break" concept) or the new chilled drinks displays as well as to the significantly higher food turnover being achieved throughout the division's convenience store business. Lower sales of press products at the kiosks in Switzerland were compensated for by expanding operations in Germany and increased book sales. In aggregate, the Group's gross profits eased some CHF 3 million on the year, while operating profits fell by CHF 17 million, generating an operating margin of just over 1%.

In addition to completing the establishment of a uniform systems architecture incorporating modern, integrated till terminals at all outlets and the rapid implementation of measures to increase profitability at the kiosks in Switzerland, management will devote significant attention in the next few years to expansion-led growth in Germany and to optimising sales concepts in the division's fast-growing filling-station and convenience store operations.

C Valora Media

in CHF million	2007		2006	
Net revenues	553.2	100.0%	560.2	100.0%
Gross profit	154.3	27.9%	153.9	27.5%
– Operating costs, net	– 129.1	23.3%	– 125.7	– 22.5%
Operating profit	25.2	4.6%	28.2	5.0%

Despite the contraction of the overall market, sales of newspapers and periodicals were increased by just under CHF 1 million. This was achieved principally thanks to higher magazine sales in Austria and initiatives to increase volumes distributed to third-party customers in Switzerland. Book sales posted encouraging growth in Luxembourg. The 1.3 % decline in the division's overall sales is mainly due to the absence of revenues from selling collectible soccer picture cards. Continuing refinement of its press inventory management software enabled Valora Media to achieve further cuts in the number of returned items in 2007, while high paper recycling prices made it possible to generate a greater bottom line contribution from those items which still remained unsold. Costs rose on several fronts. Freight and fuel increased in price, logistics costs went up as the third-party customer network was expanded and rents and real estate costs also rose in line with prevailing market conditions. Operating profit for 2007 came in at just over CHF 25 million, slightly below the excellent result achieved during 2006, the soccer World Cup year. The recent addition of the maga-

zine publishers Egmont Ehapa and Marquard Media to its client list in Austria, expansion of the division's subscription business and the imminent launch of the Euro 08 soccer picture card collection all point to significant growth for the division in 2008.

D Valora Trade

in CHF million	2007		2006	
Net revenues	791.0	100.0%	748.2	100.0%
Gross profit	153.1	19.4%	146.9	19.6%
– Operating costs, net	– 136.0	17.2%	– 127.2	– 17.0%
Operating profit	17.1	2.2%	19.7	2.6%

Valora's Trade division (the results table above covers the division's ongoing distribution activities) turned in another year of good sales growth, with revenues advancing nearly 6%. The fastest rates of sales growth were achieved in the Nordic region, where Denmark was up 15% and Finland advanced 13%, and in Central Europe, where Austrian sales increased by 9%. Sweden and Norway both suffered small declines in their sales volumes as a consequence of the departure of individual principal customers. Austria achieved some noticeable successes with its sales of herbal sweets manufactured by Ricola, which advanced to that market's number one slot for these products. Valora Trade Finland signed up significant numbers of new principals. In Switzerland, the division's domestic market, the Ferrero products it represents achieved above-average sales growth, partly thanks to new product listings. Growing volumes of business with internationally active principals placed increased downward pressure on margins. This, coupled with the greater proportion of deliveries now accounted for by the lower-margin discount segment, shaved 0.2 percentage points off the division's gross margins. The CHF 2.6 million fall in Valora Trade's operating earnings to CHF 17.1 million is the result of one-off effects in 2006, when the division not only sold its Kobbs and Ocean Food brands but also released provisions made earlier in connection with the sale of its Merkur coffee roasting operations. Stripping out the effect of these special items, which amount to some CHF 3.2 million in aggregate, the division improved its operating profit slightly and held margins steady.

E Corporate

The Corporate area, comprising the Swiss logistics organisation, Corporate Information Services and Group support functions such as finance, HR and corporate communication, experienced a modest CHF 1 million fall in net logistics services sales to third parties. Lower volumes, improvements to process efficiency and an optimisation of route planning made it possible to cut logistics costs by CHF 4.4 million. Implementation of the modern electronic retail platform (ERP) and the roll out of integrated electronic till systems increased IT costs by over CHF 6 million compared to 2006 levels. The first key milestones in the ERP project were reached when the migration of Media and finance systems to the new SAP platform was successfully completed at the end of 2007. The remainder of the project, which is focused on the Retail division, can be expected to be completed smoothly. The

Valora Group pursues a policy of charging the net costs of its corporate functions, i.e. the direct costs incurred minus logistics sales to third parties, directly to the divisions. Since the production companies are now presented in the accounts as discontinued operations, the corporate overhead costs incurred in connection with these entities were not allocated to their results, which explains the loss of some CHF 4 million shown for the Corporate area in 2007.

F Financial result and taxes

The first six months of 2007 saw interest rates in Switzerland generally tightening, as evidenced by the clear uptrend in 3-month CHF Libor. Rates eased slightly in the second half of the year in the wake of the sub-prime crisis. The hedging strategy adopted by Valora enabled it to keep net interest expense modest. The Group's net financing results improved by a further CHF 3.2 million on the year, principally as a result of a reduction in net debt, a partial redemption and refinancing of an existing syndicated loan facility, improved financing terms and the ongoing extension of cash pooling structures. The low effective tax rate seen in 2006 was due to special one-off circumstances. In 2007, the Group's tax burden fluctuated around its targeted level of 23% of pre-tax earnings.

G Liquidity, cash flow and key financial data

Key financial data		
in CHF million	2007	2006
Cash and cash equivalents	153.4	222.1
Free cash flow	70.6	58.4
Equity	587.9	560.9
Equity in % of total assets	45.0%	42.3%
Net profit	52.3	65.8
Net debt	46.0	60.6
Net working capital ¹⁾	129.6	123.6
Net working capital in % of net revenues	4.6%	4.5%
Earnings per share (from continuing activities)	13.09	16.89

¹⁾ 2006 net working capital has been adjusted for discontinued operations, so that the net working capital in % of net sales ratio is comparable between the two years shown

As in 2006, the Valora Group made the most of the surplus liquidity it generated by repaying a portion of its outstanding syndicated loan, thus cutting its net debt to CHF 46 million. This outflow, coupled with the dividend paid in 2007, resulted in total financing-related expenditure of over CHF 100 million. The CHF 12.2 million increase in free cash flow is principally the result of the efficient management of working capital.

H Valora Value Added

Valora Value Added		
in CHF million	2007	2006
Net Operating Profit after Taxes (NOPAT)	56.6	71.3
Average invested capital ¹⁾	867.4	903.9
WACC	7.0%	7.0%
Capital costs	60.7	63.3
Valora Value Added	- 4.1	8.8

¹⁾ New formula which includes cash and cash equivalent assets

In 2008, the Valora Group will introduce the concept of Valora Value Added, or VVA, which is designed to measure the sustained return the Group generates over and above capital costs and is derived from the classic definition of economic value added. VVA consists, on the one hand, of net operating profits before taxes (NOPAT) and, on the other hand, a weighted average cost of capital which is set at 7%. This 7% WACC takes account of the costs of equity and debt capital and is based on benchmark figures for the industry as a whole and projected interest rate levels. Valora reviews the underlying WACC figures regularly and adjusts the capital costs used in VVA calculations if they exceed a defined range. The average invested capital figures used in the new VVA calculations differ from the net capital employed figures used previously, because, unlike these, they also include the cash positions in the balance sheet, which are essential to the Group's operations. By making VVA the basis for its incentive compensation, Valora intends to motivate its managers to create value which is sustainable over the longer term. In future, the emphasis will not be solely on sales growth and operating margins, but will take the efficiency of capital utilisation into account as well. Using this approach to compare 2007 results with those for 2006 shows that the lower operating profit generated in 2007, with its concomitant fall in NOPAT, resulted in VVA falling by some CHF 13 million. In the years to come, management's focus will be on achieving a sustained increase in VVA and therefore in creating an enduring increase in the company's value generation.

I Outlook

The key task for 2008 will be to pursue the path the company has taken and, above all, to continue implementation of Valora's new IT architecture. By the end of 2008, the planned closed loop inventory management system for the kiosk business in Switzerland should be fully operational. This will provide the basis for further enhancements to process efficiency and set the stage for modern enterprise management. By introducing new product ranges and sales concepts to the kiosks, the Retail division will increasingly be able to compensate for declining sales in categories whose overall market is shrinking, thus driving forward the turnaround of the Group's core business in Switzerland. In its other business areas, the Group's objective is to extend and strengthen the strong market positions it already enjoys. Thanks to Valora's sound financing and balance sheet structure, both targeted acquisitions and organic growth can be financed from internally generated resources.

