

# Annual Report Valora 2003

8

MAJOR EVENTS 2003

10

LETTER FROM THE CHAIRMAN

12

MESSAGE FROM THE CEO

16

GROUP STRUCTURE 2004

20

VALORA RETAIL

Mobility, increasing individuality and a desire for comfort and convenience: these are three key features of society today. And it is against these trends that Valora Retail offers its forward-looking retail concepts.

26

VALORA WHOLESALE

While the print media are currently in the midst of a crisis with no end in sight, Valora Wholesale can look back on a successful 2003 in which its business developed well. Some declines were seen in the press market; but these were offset by successes in the convenience sector.

32

VALORA TRADE

In a market environment that is marked by pricing wars and strong pressure from competitors, Valora Trade has underlined its credentials as an innovative and dynamic business force. The division has made a firm and unmistakable mark, as both an international distribution partner and a producer of branded items.

38

VALORA IMAGING

With the photography sector still featuring two parallel and coexisting technologies, Valora Imaging continues to pursue its own two-track strategy. But the potential for further growth clearly lies in the digital market segment.

41

CORPORATE HUMAN  
RESOURCES

Valora's Group-level human resources activities in 2003 focused on two prime concerns: harmonising personnel management structures throughout the Valora Group while paying due and full regard to national cultural considerations, and providing specific initial and further training for the Group's personnel.

42

SOCIAL RESPONSIBILITY

The processes of change can be difficult, burdensome or even painful for the people involved. Such phases can often lead to a loss of orientation, too. Valora offers support and assistance in various forms to employees who find themselves in problem situations.

43

ENVIRONMENTAL REPORT

The companies of the Valora Group are committed to the principle of sustainable business development. It is a principle which also requires them to pay due regard to environmental concerns in their business activities, and ensure that such activities cause minimum ecological strain.

44

ADDRESSES

# Rising to new challenges

When we are faced with dynamics, chaos, change and uncertainty, stress and desperation are often our first response. Are we up to the challenges of today? We sit together, we seek dialogue, we tackle the issues, we make mistakes and we adapt accordingly. The result: genuine development and new possibilities.





Taking new paths



Devising ideas, renewing processes, exploiting synergies: we are asked to strike out along new paths all the time. Breaking new ground brings its own doubts and fears. Where is the path leading? What should we do? Scope, patience, conviction and countless discussions are what we need to make a successful innovation out of a promising idea.



# Constant service enhancement

Services are provided for individuals, not for target groups. Dialogue with our customers – everywhere, and with every single one of them – is the key to our success. Do they hear us? Do we understand them? A critical and confident individual: that's our customer. This is their decision today; but it may be different tomorrow. And we constantly align ourselves to their ever-changing needs.

# Major Events 2003

## Clearing the corporate decks.

The company took the occasion of its change of CEO to conduct a systematic assessment of its opportunities and risks. It opted to concentrate its resources by focusing on its core business competencies. These moves resulted in non-recurring exceptional costs of CHF 49 million and an exceptional goodwill impairment of CHF 172 million, which both served to clean up the balance sheet and create a sound foundation for further business development.

## Focus on core business.

The company's declared policy of disposing of activities which no longer form part of its core business was successfully initiated. Dolmetsch AG, Again Production AB and BSV were sold with effect from December 31, 2003, resp. January 1, 2004. The Merkur speciality businesses will be disposed of with effect from June 1, 2004; and the system gastronomy and Merkur coffee businesses will follow in the course of the year. Preparations here are already well advanced.

January 1, 2004, also saw the creation of a parent-company structure in Switzerland bringing most trading activities directly or indirectly under a single roof. The new structure provides a stronger market presence under the Valora brand and offers tangible cost economies.

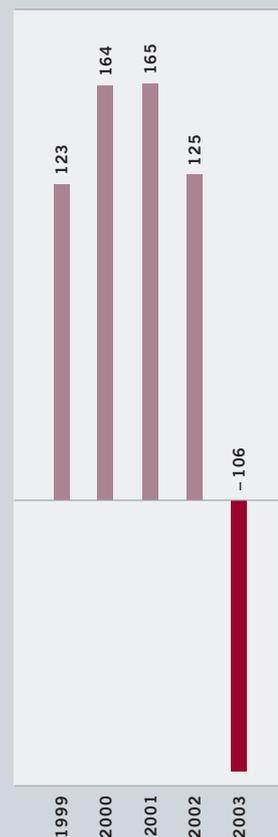
### Net revenues

IN MILLION CHF



### Operating result (EBIT)

EARNINGS BEFORE INTEREST AND TAXES (EBIT)



### Cash flow

NET INCOME PLUS DEPRECIATION PLUS AMORTIZATION OF GOODWILL, IN MILLION CHF



### Return on sales

EBIT IN % OF NET REVENUES



## Shareholder value.

Valora has been enabling its shareholders to benefit from its strong balance-sheet structure since August 2003. The company has been buying back its own shares via a second stock-exchange trading line and deleting the shares thus acquired. An initial capital reduction by 176 000 shares was completed by the end of November 2003. The subsequent concentration of the equity base

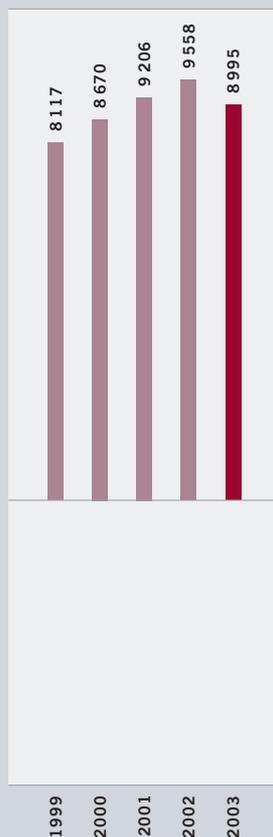
benefits all shareholders equally, both private individuals with smaller holdings and major institutional investors.

## Attractive financing.

The CHF 100 million bond was repaid at the end of August. And new credit financing for a five-year and a seven-year period had been concluded with a consortium of banks by the end of the year. The new arrangement offers substantially lower interest rates, whose benefit will be reflected in the company's income statements from 2004 onwards.

### Employees

FULL TIME EQUIVALENT



### Return on net assets

EBIT IN % OF AVERAGE NET CAPITAL EMPLOYED



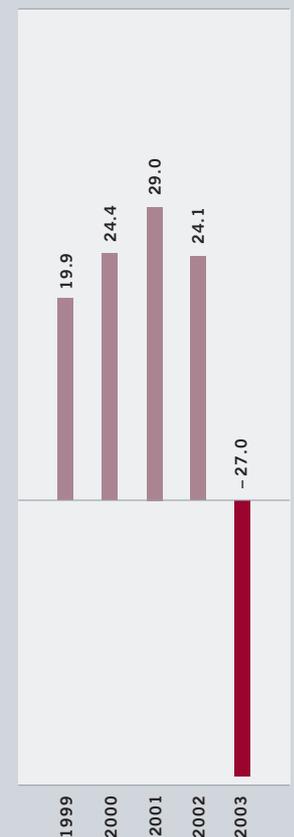
### Investments

IN MILLION CHF



### EPS

DILUTED EARNINGS PER SHARE, IN CHF



**DEAR SHAREHOLDER**

2003 was one of the most demanding years in Valora's history. While the business environment was far from favourable, we also faced numerous unexpected challenges in the course of the year. Those challenges demanded energetic action on our part – action that has had sizeable repercussions on the alignment, the structure and ultimately the very character of the Valora Group.

With business activities that bring it into close proximity with final consumers, Valora feels the effects of economic, political and social change on consumer behaviour virtually first-hand. So when the retail sector posts its second successive decline in annual sales volumes or travel activities collapse in the wake of the Iraq war and SARS, our business is directly affected.

These developments were reflected in Group operating results. But the prime cause of the unexpected net loss was the extensive value adjustments and provisions which had to be effected to clear the corporate decks of the adverse legacy of earlier years.

Having studied the situation in detail, the Board of Directors decided to establish a clear and solid foundation for the Group's business future. The rectifications required had their own impact on consolidated annual results. And the fact that, with its sound balance-sheet health, Valora is well able to weather this setback does not make these actions any less painful to perform.

With the Group's business operations showing stable trends in a difficult market and the large majority of the

exceptional costs, depreciation and provisions not affecting Group liquidity, the Board of Directors will propose the payment of a dividend for 2003 which is unchanged from its prior-year level. The current share buyback programme will also be continued.

The Valora Group's new strategic alignment to its core competencies which was announced in the 2003 half-yearly report is now well under way. A "focus strategy" of this kind demands that many previous assumptions must be questioned anew and that, if necessary, values which have prevailed for many years must now be revised. Action must also be taken to strengthen those same core competencies.

In all these endeavours, our aim is to secure a leading role in the niche markets we cultivate and grow faster than the market as a whole. In doing so, we will not only create added value for our shareholders; we will provide greater job security for our personnel. Provided, that is, we adhere consistently to the strategy we have adopted. The process will not create a new company, but it will create a renewed one. A company with a leadership; a company that does what it promises; a company that is staffed by skilled and committed personnel at every corporate level. A company, too, that forgoes exaggerated growth aspirations in favour of a healthy sense of realism and a strong credibility.

The Board of Directors is well aware that it and Executive Board have set themselves a sizeable task. But we are equally convinced that the goals we have defined of focusing on the Group's core business and enhancing

its earnings potential can be achieved within the time-frame envisaged, i.e. by 2005. An economic recovery would be of welcome assistance here; and the latest statistics from the retail sector point in this direction.

In this sense, 2004 will be a year of transition. Further enhancements will be made, to the Group's overall structure and organisation and to the portfolios within each division. By year-end, with the greater focus on its core business activities in place, the Valora Group will be even better equipped to tackle the challenges ahead.

These endeavours will require even more commitment than before from the entire Valora workforce. On that note, I thank all our personnel, on behalf of the Board of Directors, for rising to these challenges. And I also thank our shareholders for the confidence they continue to place in the Valora Group during this difficult and demanding process.



A handwritten signature in black ink, appearing to read 'P. Küpfer'. The signature is stylized and fluid, with a long horizontal stroke at the end.

Peter Küpfer  
Chairman of the Board

Valora has emerged all the stronger from an exceptionally testing business year. In view of the fact that the company suffered its first high net annual loss since its foundation, and that many more challenges still lie ahead, this may seem contradictory. It is, however, well warranted.

■ The changes in the company's overall thrust and top management, which were prompted by the events of last summer, forced us to address a series of fundamental questions. Whether we would have done so merely in the face of the difficult economic environment (which is a sizeable challenge in itself) and without the added impetus provided by external events, is debatable. What is certain, however, is that taking a long, hard look at where we aim to be tomorrow has better prepared us today to take advantage of the nascent business recovery.

■ Every one of our employees is now well aware that change cannot be avoided forever, even if it entails giving up familiar structures and approaches. A willingness to change is now palpable throughout our organisation. And that willingness should prove a valuable asset as we strive to achieve our ambitious plans of better focusing our business activities.

■ Investors' confidence in Valora remains intact: despite the far-from-favourable news that we have had to communicate about a number of serious but solvable problems, and despite the impact on our balance sheet of the restructuring measures effected. Indeed, the Valora share price has risen by about a third over the past 7 months. We are well aware, though, that this trend reflects not only heartening confidence, but high expectations, too.

■ We have gained some fundamental insights. Never before have our divisions and their activities been examined in so much detail as they have since last summer. Those investigations have had some unpleasant consequences; but these have all been incorporated into our 2003 accounts. Needless to say, with an internationally-active group like ours, which operates 1 615 offices and retail outlets and employs 12 220 personnel in 14 countries with all their varied cultures, unforeseen events or developments can never be ruled out. But we have learnt a great deal from our recent experiences, and are adjusting our management and control tools accordingly.

**CHALLENGES.** In view of the above, we can look to the future with confidence – even if that same future will continue to challenge us, especially over the next few years. Our current Group-level challenges have been clearly defined by the developments of 2003, the risk assessments commissioned and the strategic analyses conducted by the Board of Directors and Executive Board:

■ Consolidated net revenues (net of divestitures) for 2003 were 0.8% below their prior-year equivalent. Even taking weak consumer demand into account, we cannot be satisfied with this development. We need more growth; and we need to do our utmost to ensure that such growth is adequately achieved in 2004.

■ The sizeable increase of some 10% in net sales per employee is an encouraging result, confirming as it does that our personnel costs are under control. Overall, however, and largely as a result of high other costs and the depreciation required on our operating equipment, our expenditure increased by 3.9%. This is a trend that clearly needs to be countered with appropriate cost reduction programmes.

■ Swift corrective action on the range and pricing fronts helped halt the margin decline which we had sustained in the first half of 2003 and return the average margin for the year to its 2002 level. But we are not content with this. Our profitability needs to be substantially improved in the medium term. Focusing on our core businesses will help us do so.

■ Prompted by uncertainties over whether projected figures would be achieved, but also by more permanent shifts in demand and the application of new technologies, we concluded that the stated value of a number of our investments no longer reflected their actual current worth. The realisation naturally led to value adjustments – some of them substantial – especially within Valora Imaging, Valora Retail (in Germany) and Valora Trade (in Denmark).

■ The new Group structure introduced in 2003 has largely proved a success. The new structure makes sizeable demands on executives; but it does provide greater transparency in the Group's overall management. We will now be using the experience gained so far and any findings deriving from the reassessment of our overall Group strategy to make any further organisational adjustments if required.

**DIVISIONS.** While most divisions felt the benefit of favourable currency movements on their total sales volumes, developments within the various divisions and product sectors were affected almost without exception by the depressed consumer mood in all markets. The margin improvements achieved are largely attributable to enhanced purchasing terms, and only in isolated cases to better sales prices. The trend reflects a further increase in the pressure from competitors; but it also offers telling proof that targeted marketing actions can still exploit further profit potential.

**VALORA RETAIL.** This important Group division saw a 1.7% decline in its total sales for the year. The division felt the effects of a sluggish economy and consumers' reluctance to spend, especially in its main Swiss and German markets, and sustained declines in sales per customer at its kiosk outlets. Annual results for Germany were affected equally by the expensive fraud case in the rail station outlet sector and the successful turnaround of the German business in general.

Valora Retail did, however, take advantage of the economic recession to adjust to the changed market conditions and prepare for a recovery in demand. On these fronts, the division successfully tendered for various sales outlets in the new developments at Zurich Airport, earning itself "preferred partner" status in the process. Sales outlets were also opened at various triple-A locations in Switzerland and Luxembourg. The expansion of the convenience shops also progressed well, with 15 shops opened and contracts concluded for 7 more. The

redesign of the payment areas at all 1 200 k kiosks was a further investment that should reap future rewards.

**VALORA WHOLESALE.** With higher revenues from services, Valora Wholesale increased its margin for the year. Revenues from press and book sales suffered a further decline, however – doubtless as a result of changed reading habits in the major cities, where free daily newspapers are denting sales of more traditional titles. The actions taken by the publishing houses in response – promoting subscriptions more aggressively and putting pressure on margins – had a further adverse effect on the division's performance and results.

Like Valora Retail, the Wholesale division took a series of forward-looking actions in response to the changed market conditions. These included the entry into service of Europe's most advanced returns processing facility in Muttentz and the further refinement of its Swiss distribution network for third-party clients. Securing the Swiss Kiosk Owners' Association as a new key-account customer in the convenience sector was a further step forward offering with strong development potential.

**VALORA TRADE.** Favourable currency movements helped Valora Trade post an improved sales result. Net of these factors, however, Valora Trade suffered like its sister divisions from sluggish consumer demand. The division is also clearly feeling the increasing pressure on prices and margins in the retail field, initiated by growing price sensitivity among consumers and exacerbated by the discounters' aggressive business approach. The division also had a number of management problems to master in its Scandinavian operations, which prompted a change of management in Denmark and delayed the ongoing integration process in general.

Despite less-than-favourable market conditions, Swedish-based Gillebagaren AB posted record annual results in sales, volume and market share terms. As a further highlight, Alimarca AG can now offer a full range of products, having won the business of GlaxoSmithKline

in the non-food sector. A further milestone was achieved with Migros' inclusion of Ferrero and Kellogg's products in its supermarket range.

**VALORA IMAGING.** The Valora Imaging division, which not only depends on consumer mood but is also strongly affected by travel trends, suffered as expected from the general economic conditions. Results for the first six months were encouraging; but those for the second half-year fell short of objectives in both sales and earnings terms. Business at Valora Imaging is also feeling the impact of ever-escalating price wars, especially in the Swiss market.

While the restructuring of the division's Belgian business unit was less effective than had been hoped, the restructuring of its Central Europe operation was successfully concluded with the promise of substantial and sustainable cost economies. The key strategic objective of achieving 9% of sales from digital products was more than met. And, despite a decline in sales and the fact that some of its own laboratories have not yet reached the break-even point, the division's Professional Imaging business also posted an improved annual bottom-line result.

**OUTLOOK.** With signs of an economic upturn now being seen and consumer mood likely to recover accordingly, the Valora Group should feel the tailwind it is seeking in 2004 as it tackles the various tasks ahead.

As well as continuing its current divestitures to focus on its core competences and defining a coherent corporate strategy, Executive Board will be concentrating its endeavours on improving profitability throughout the Valora Group and securing adequate growth. All divisions face a series of key projects which should ultimately help them enhance their market position and achieve the improvements desired in their earnings power and potential.

The ambitious programme that we have set ourselves for 2004 will put great demands on each and

every employee. I am confident, however, that these sizeable challenges will release additional strengths and resources, too. On that note, I thank all the employees of the Valora Group for all their efforts and endeavours in 2003; and I hope that we can continue to count on the same care and commitment throughout the current year.

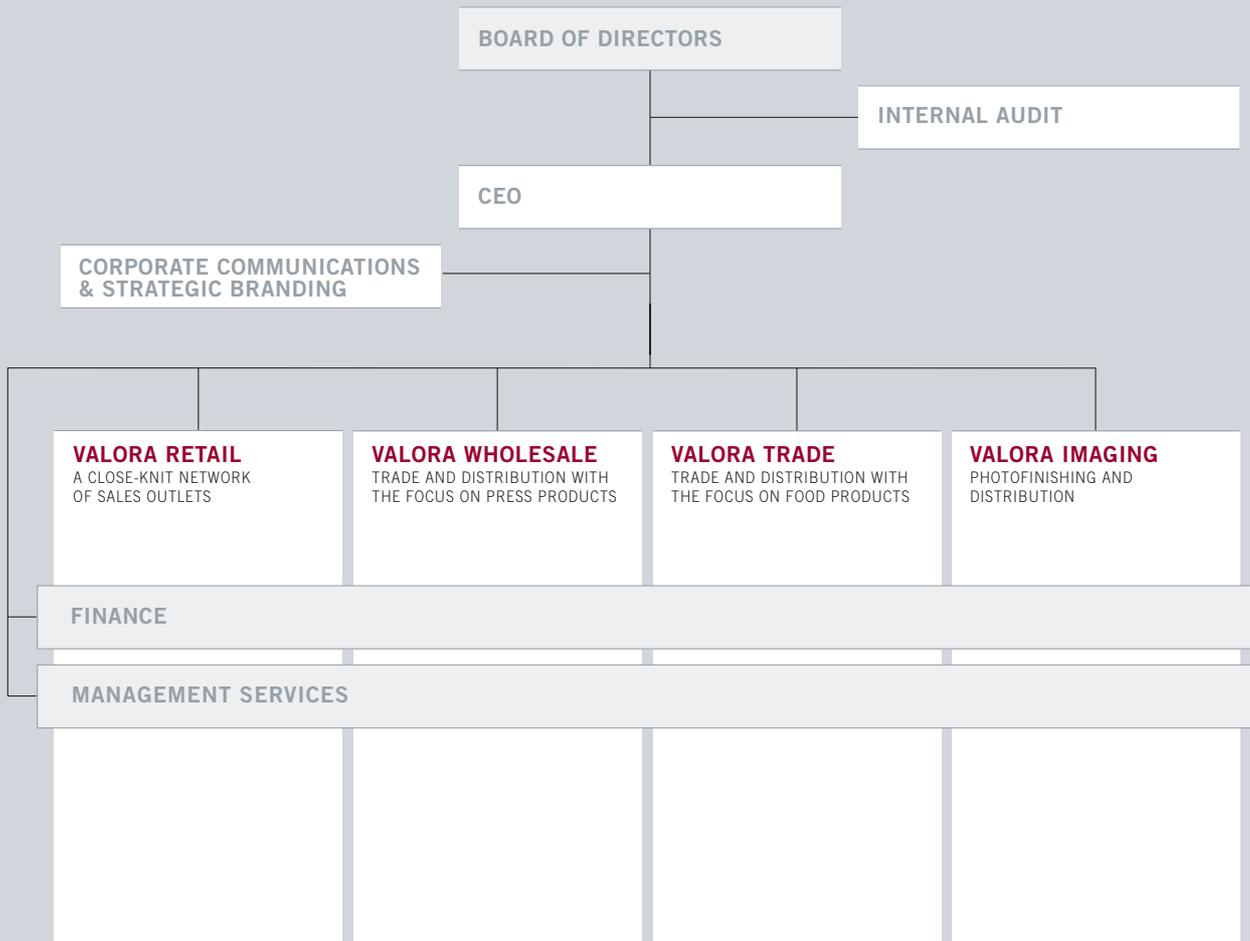


Peter Wüst  
CEO



f.l.t.r. **Josef Jungo** VALORA WHOLESale, **Paul Egger** LOCATION MANAGEMENT, **Ruedi Keller** MANAGEMENT SERVICES, **André Hurter** VALORA IMAGING, **Peter Wüst** CEO, **Max Ehram** VALORA TRADE, **Alex Minder** VALORA TRADE

## GROUP STRUCTURE 2004



**BOARD OF DIRECTORS****Peter Küpfer** CHAIRMANBeatrice Tschanz Kramel  
Hanne de Mora  
Fritz AmmannFritz Frohofer  
Andreas Gubler**AUDIT COMMITTEE**Hanne de Mora  
Peter Küpfer  
Fritz Frohofer  
Andreas Gubler**COMPENSATION COMMITTEE**Peter Küpfer  
Beatrice Tschanz Kramel  
Fritz Ammann**EXECUTIVE BOARD****Peter Wüst** CEOJosef Jungo DEPUTY CFO  
VacantAndré Hurter  
Alex Minder – as of 1.5.04Ruedi Keller  
Paul Egger – until 30.10.04Max Ehram – until 30.4.04  
Michael Tschopp a.i.**CORPORATE COMMUNICATIONS & STRATEGIC BRANDING****Stefania Misteli****FINANCE****Vacant**Thomas Egger  
CORPORATE CONTROLLINGAdrian Häsler  
CORPORATE ACCOUNTINGBeat Frey  
CORPORATE TAXESHanspeter Staub  
CORPORATE INVESTOR RELATIONS**MANAGEMENT SERVICES****Ruedi Keller**Ursula Moser  
CORPORATE HUMAN RESOURCESBeat Scheidegger  
CORPORATE BUSINESS  
DEVELOPMENTHeinz Hodel  
CORPORATE INFORMATION  
SERVICESVacant  
CORPORATE LEGAL SERVICES**VALORA RETAIL****Michael Tschopp a.i.**Paul Egger  
LOCATION MANAGEMENTChristof Biedermann  
KIOSK SWITZERLANDMathias Gehle/Lars Bauer  
KIOSK GERMANYChristian Schock  
KIOSK LUXEMBOURGDenis Vaucher  
CONVENIENCEJürg Stauffer  
RETAIL MARKETINGMarkus Stark  
CONTROLLING**VALORA WHOLESALE****Josef Jungo**Eduard Perret  
PRESS + BOOKRené Corpataux  
SOURCING TOBACCO, FOOD,  
NON-FOODClaudio Tozzini  
MARKETING INCOME SERVICESRuedi Suter  
WHOLESALE SWITZERLANDMartin Messerli  
LOGISTICSMarkus Nadig  
CONTROLLING**VALORA TRADE****Alex Minder**Bruno Winiger  
SWITZERLANDMax Ehram  
BUSINESS DEVELOPMENTBeat Allemann  
CENTRAL EUROPE  
MANUFACTURING UNITS COFFEEBeat Nydegger  
MANUFACTURING UNITS  
BAKERYAdrian Gehri  
CONTROLLING**VALORA IMAGING****André Hurter**Pascal Ducry  
CENTRAL EUROPETero-Pekka Hämäläinen  
SCANDINAVIANorbert Müller  
PROFESSIONAL IMAGINGKim Kauffmann  
NEW PHOTOGRAPHIC SERVICESSalvador Garcia  
CONTROLLING





#### RANGE

300 different daily and weekly newspapers and 3 300 magazines: that's what we provide at our kiosks. And up to 700 new print products find a space each year on the shelves of our sales outlets.



#### LOCATIONS

The 1 615 sales outlets of Valora Retail are all situated at well-frequented locations. Each sales outlet has thousands of customer contacts a day, calling for swift responses to a vast range of wishes and needs.



#### SERVICES

The services provided at the k kiosks change in response to society's needs. Besides day-to-day products, customers expect a growing range of services, too. So the range of services on offer at k kiosks is being constantly expanded, in collaboration with partners such as SWISSLOS.



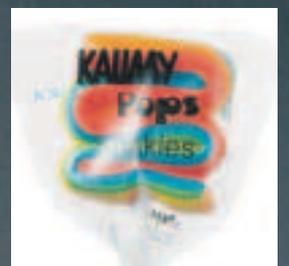
#### CONVENIENCE

Customer tastes and demands are shifting all the time. Valora Retail's convenience shops meet the needs of today's mobile society by offering the right products in the right locations at the right time.



#### INNOVATIONS

The k kiosk is just the platform for launching new products. Valora's retail outlets are an ideal place to identify new trends and swiftly introduce new products and services in response.



# Valora Retail



## HIGHLIGHTS

### MORE CONVENIENCE

Fuel station shop network expanded from 50 to 64 sales outlets.

### MARKET LEADER

Caffè Spettacolo well established as Switzerland's biggest coffee bar chain.

### ATTRACTIVE LOCATIONS

New frame agreements concluded with Zurich Airport.

### WELL ON COURSE

Luxembourg proves a revenue gem; German turn-around sees first success.

## KEY FIGURES

		2002	2003	
<b>Net revenues</b> IN MILLION CHF	Total Valora Retail	1 509	1 494	
	in % of total Valora	49%	49%	
<b>EBITA</b> IN MILLION CHF*	Total Valora Retail	27	8	
	in % of total Valora	16%	9%	
<b>Employees</b> FULL TIME EQUIVALENT	Total Valora Retail	n/a	5 603	
	in % of total Valora	n/a	62%	
<b>Investments</b> IN MILLION CHF	Total Valora Retail	17	17	
	in % of total Valora	28%	27%	

\*EBITA = EBIT before goodwill amortization

**Mobility, increasing individuality and a desire for comfort and convenience: these are three key features of society today. And it is against these trends that Valora Retail offers its forward-looking retail concepts.**

**AN INNOVATIVE FORCE IN THE INTERNATIONAL RETAIL SECTOR.** While the k Group was divided into Valora Retail and Valora Wholesale as recently as 2003, the two new divisions are already clearly positioned in their respective fields. As their names suggest, Valora Wholesale provides wholesale functions and services while Valora Retail focuses on the retail sector and on developing and operating local retail concepts.

Valora Retail has secured a leading role in the kiosk and convenience shop business in Switzerland, Luxembourg and Germany. The division's core competences are its extensive network of sales outlets at well-frequented locations and its proximity to its market: with around a million customer contacts a day, the division is excellently equipped to spot market trends and respond to new customer needs. The division's dense network of locations also provides its wholesale and production partners with international market access, permitting the swift introduction of new products and services over a large geographical area.

Net revenues per country	IN MILLION CHF	
	2002	2003
Total Valora Retail	1 509	1 494
Switzerland	n/a	1 225
Germany	n/a	192
Luxembourg	n/a	77

**CONVENIENCE FORMATS ON THE RISE.** Irrespective of current economic trends, customer needs are clearly moving towards greater mobility and convenience. Consumers today want flexible opening hours, prefer convenience shops and like to meet all their purchasing needs at a single retail outlet.

**A TOP POSITION IN THE GROWING CONVENIENCE MARKET.** Valora Retail's success is based on offering long opening hours, establishing its shops at convenient transport locations and providing an ever-broader range

of products and services that meet as many of the needs as possible of people who are on the move and often have little time to spare. The combination of its own sales outlet network with Valora Wholesale's logistics and distribution expertise also enables Valora Retail to acquire, maintain and further sharpen its key competitive edge.

Points of sale per country	NUMBER	
	2002	2003
Total Valora Retail	1 660	1 615
Switzerland	1 460	1 419
Germany	144	137
Luxembourg	56	59

**FLEXIBILITY IN RESPONSE TO CONSUMER MOBILITY.** Wherever people are on the move, Valora Retail is there. The division's outlet location policy is clearly and consistently focused on attractive and well-frequented locations – primarily rail stations, shopping centres and airports. Thus, new sales outlets were opened at both Zurich and Berne airports in the course of 2003. The division has also been closely involved in the RailCity train station concept right from the outset: Valora Retail is the biggest lessee in the RailCities Berne and Basel, which were opened during 2003, with no fewer than 20 sales outlets.

**CLOSENESS TO THE CONSUMER PROVIDES MARKET EXPERTISE.** With its proximity to the market, Valora Retail is superbly positioned to identify early any changes in consumer behaviour and other market trends. The sales outlets' close relations to their customers and extensive knowledge of market developments also benefit Valora Retail's business partners, who can make intensive use of the many promotional and advertising opportunities offered by the kiosk channel when introducing new products or launching specific sales promotions. The promotional and service business is managed individually for Switzerland, Luxembourg and Germany, in view of the

varying natures of the markets concerned. But all these activities are conducted with the same common goal of generating maximum added value at the final-consumer interface.

**LOCAL RETAIL SALES ON THE RISE.** The local retail business, with its dense network of outlets, has excellent market prospects. At the same time, however, it has become increasingly clear that concepts such as the Merkur confectionery shops and Dolmetsch no longer fit into Valora Retail's core business. As a result, these activities have now been disposed of under the division's strategic focus on its core business. Dolmetsch AG was acquired by Niclas AG of Liestal, Switzerland, with retroactive effect from January 1, 2004; and 41 out of 59 Merkur confectionery shops will be transferred to Confiseur Läderach AG of Ennenda, Switzerland, with effect from June 1, 2004.

Points of sale per business area	NUMBER	
	2002	2003
Total Valora Retail	1 660	1 615
Kiosks	1 441	1 383
Convenience shops	77	94
Confectionery	68	64
Gastronomy	74	74

**CONTINUOUS ENHANCEMENT OF THE SALES OUTLET NETWORK.** Valora Retail is pursuing a strategy of permanent enhancements for its core kiosk and convenience shop business. The network of the division's own retail outlets currently extends to 1 419 locations in Switzerland. All over Switzerland, a further 20 to 40 outlets are added every year, while a similar number are closed or converted to other uses. The division's kiosk chain is the leader in its markets in both Switzerland and Luxembourg. And Valora Retail is the clear number-one in the railway station book sales sector in the German market.

**CAFFÈ SPETTACOLO – A SUCCESS WITH FURTHER DEVELOPMENT POTENTIAL.** When it comes to trends in the Swiss

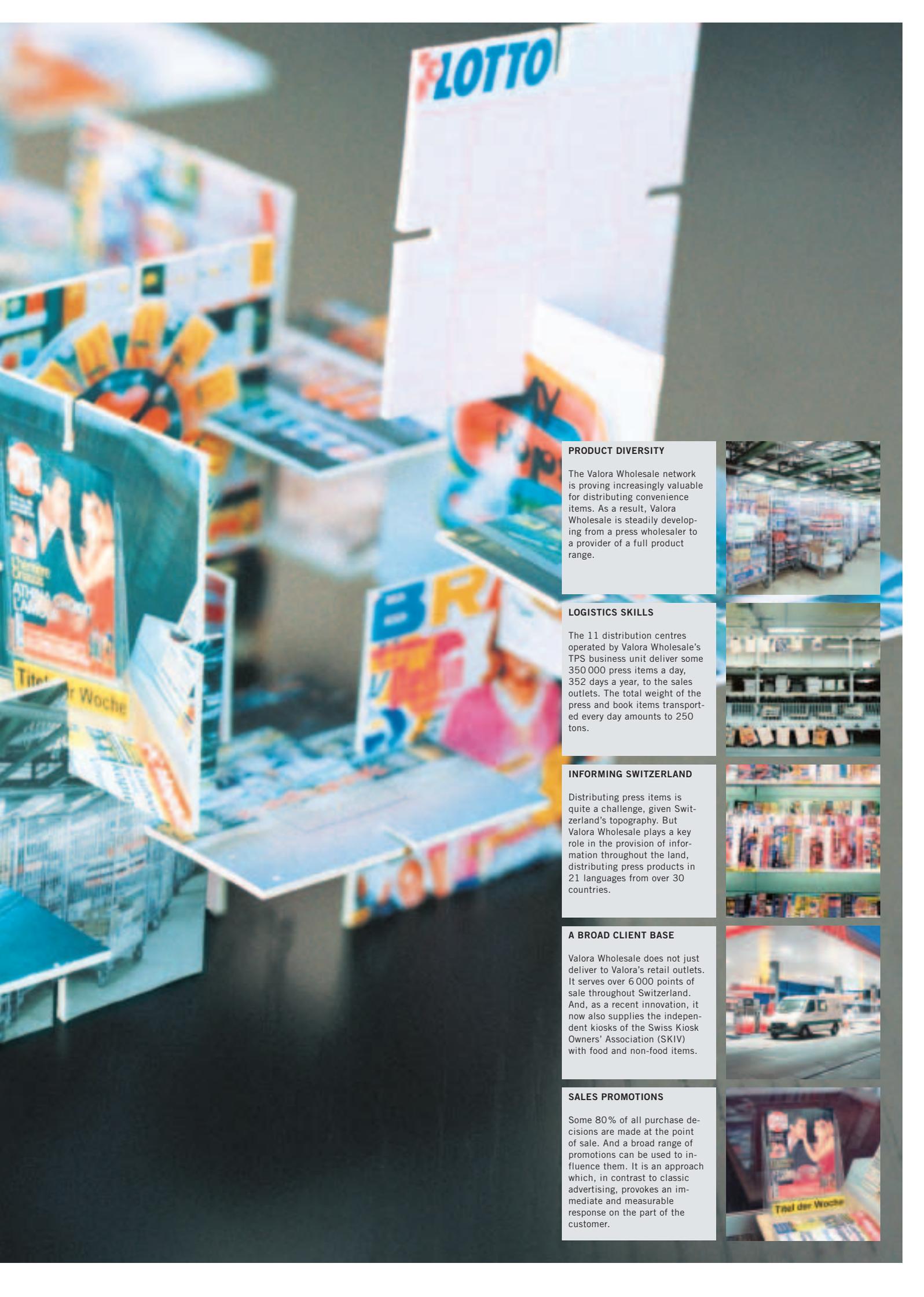
coffee bar sector, Caffè Spettacolo is leading the way. The Swiss market already has 20 Caffè Spettacolo and 21 Spettacolo outlets, which are integrated as modules into the "avec." shops. The small-scale gastronomy concept is well established in Switzerland, where it is already the country's biggest coffee bar chain. Luxembourg has now also opened its first Caffè Spettacolo; and the development of the franchise is proceeding according to plan. A manual and an advertising brochure have been produced to help acquire franchisees at the national and the international level. And the concept has been taking to the road, too, since the end of August 2003: the "Caffè Spettacolo mobile" made its first stop in St. Moritz, where it attracted an impressive number of customers.

**A HUB OF INNOVATIONS.** At k kiosks, users of prepaid phone cards will be provided with an electronic PIN code from summer 2004 onwards. The service will be welcomed by consumers, and relieves the kiosk from the onerous task of phone card handling. The prepaid principle is also being used for customers wishing to submit small ads via k kiosk outlets. This service has been developed in collaboration with the Basler Zeitung newspaper, and is already available at some 150 outlets in Northwest Switzerland. The k kiosks have long served as a source of possible good fortune; and the popular lottery products will be expanded with the addition of two to four new draws in the course of 2004.

**RECOGNITION FOR THE FRIENDLIEST STAFF.** The managers of k kiosks earned excellent marks in a survey of the readers of Switzerland's "Glückspost" magazine: 95 % of the individuals named as the friendliest kiosk managers were in charge of a k kiosk. Friendliness is a key element in securing customer satisfaction. And Valora Retail's sales staff are constantly reminded of this through a series of appropriate actions. The division's management also regularly work at the sales front, to ensure that they remain in contact with the markets they serve.

**BUILDING ON CORE COMPETENCES.** Valora Retail now intends to focus even more consistently on its core business activities. Disposing of its confectionery and gastronomy interests is as much a part of this strategy as concentrating on kiosk and convenience formats in their various forms. Valora Retail intends to further develop these concepts. In doing so, it also aims to pursue a clear branding strategy which should see the k brand become a byword for retail outlets that are fully attuned and aligned to today's consumer needs.





#### PRODUCT DIVERSITY

The Valora Wholesale network is proving increasingly valuable for distributing convenience items. As a result, Valora Wholesale is steadily developing from a press wholesaler to a provider of a full product range.



#### LOGISTICS SKILLS

The 11 distribution centres operated by Valora Wholesale's TPS business unit deliver some 350 000 press items a day, 352 days a year, to the sales outlets. The total weight of the press and book items transported every day amounts to 250 tons.



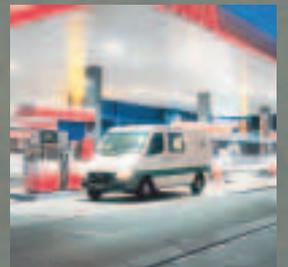
#### INFORMING SWITZERLAND

Distributing press items is quite a challenge, given Switzerland's topography. But Valora Wholesale plays a key role in the provision of information throughout the land, distributing press products in 21 languages from over 30 countries.



#### A BROAD CLIENT BASE

Valora Wholesale does not just deliver to Valora's retail outlets. It serves over 6 000 points of sale throughout Switzerland. And, as a recent innovation, it now also supplies the independent kiosks of the Swiss Kiosk Owners' Association (SKIV) with food and non-food items.



#### SALES PROMOTIONS

Some 80% of all purchase decisions are made at the point of sale. And a broad range of promotions can be used to influence them. It is an approach which, in contrast to classic advertising, provokes an immediate and measurable response on the part of the customer.



# Valora Wholesale



## HIGHLIGHTS

### EFFICIENT PROCESS DESIGN

Europe's most advanced returns processing facility put into operation.

### LOGISTICS SKILLS APPLIED

Distribution of convenience products expanded as a second business line.

### MORE INDEPENDENCE

Logistics optimised to refine distribution for Swiss third-party customers.

### KEY ACCOUNT ACQUIRED

Swiss Kiosk Owners' Association (SKIV) now uses Valora Wholesale services.

## KEY FIGURES

		2002	2003	
<b>Net revenues</b> IN MILLION CHF	Total Valora Wholesale	707	651	
	in % of total Valora	14%	14%	
<b>EBITA</b> IN MILLION CHF*	Total Valora Wholesale	38	33	
	in % of total Valora	23%	35%	
<b>Employees</b> FULL TIME EQUIVALENT	Total Valora Wholesale	n/a	827	
	in % of total Valora	n/a	9%	
<b>Investments</b> IN MILLION CH	Total Valora Wholesale	7	3	
	in % of total Valora	12%	5%	

\*EBITA = EBIT before goodwill amortization

While the print media are currently in the midst of a crisis with no end in sight, Valora Wholesale can look back on a successful 2003 in which its business developed well. Some declines were seen in the press market; but these were offset by successes in the convenience sector.

**A HIGH-PERFORMANCE WHOLESALER.** Like its sister Valora Retail division, Valora Wholesale was created in 2003 from the former k Group, and currently focuses entirely on its wholesaling activities. As a provider of logistics services for kiosks, Valora Wholesale holds a unique position on the Swiss market, supplying both Valora's own sales outlets and those operated by third parties. The division's core competences include the daily provision of German- and Italian-speaking Switzerland with "fresh" press products. The logistics expertise required for these activities is also applied successfully to the distribution of convenience items.

Valora Wholesale thus acts as a supplier of all-round logistics for the products and services of both Valora's own retail network and the sales outlets of outside customers. It also provides the media world with a powerful marketing platform and a reliable barometer of current market trends.

Net revenues per country	IN MILLION CHF	
	2002	2003
Total Valora Wholesale	707	651
Switzerland	n/a	580
Luxembourg	n/a	71

**PRESS DISTRIBUTION – AN ATTRACTIVE MARKET.** The press market is an extremely attractive one for Valora Wholesale: the division is the only kiosk logistics provider in Switzerland, supplying over 6 000 sales outlets with their press products every day. The combination of these wholesale functions with the Valora Group's retail activities produces a unique market expertise for the media world. And Valora Wholesale's high-performance commissioning facilities set benchmarks throughout the industry. Some 130 to 220 different newspapers and magazines are processed every day, and around 20 000 packages are made up for retail outlets throughout the country.

**A CLOSE-KNIT DISTRIBUTION NETWORK AND OVERNIGHT SERVICE.** The range of titles provided extends to some 3 500 publications in 21 languages from 30 different countries. The division has developed a sophisticated internal and external logistics system offering extensive coverage in German- and Italian-speaking Switzerland which supplies not only Valora's own sales outlets but also those operated by third parties – largely local sales outlets, department stores and fuel station shops. Coop, a major retailer, is one of the biggest recipients of these newspaper and magazine deliveries. And the division's flexible and reliable overnight service, which is operated on certain fixed routes and ensures that all sales outlets can be reached every day, is one of the key elements in its business success.

**EUROPE'S MOST ADVANCED RETURNS PROCESSING MACHINE.** Processing returned unsold copies of publications is one of the biggest challenges of all for the press market. Valora Wholesale's Muttenz base near Basel is home to Europe's most advanced returns processing facility. The facility processes and counts 110 000 newspapers and 250 000 magazines a day down to the last copy, ensuring that all the corresponding credits are issued correctly. All magazine returns have been processed by the facility since last year. In successfully introducing IT-based processing, Valora Wholesale has achieved a major improvement in the quality of these activities. The high-performance facility, which is fully integrated and can easily be further expanded, reinforces the division's expertise in the press market, and raises its profile and partnership appeal for the print and publishing sector.

**DISTRIBUTING CONVENIENCE PRODUCTS: A SECOND BUSINESS LINE.** Valora Wholesale performs a vital role in serving as a hub between the publishing houses and their readers. But, given the current difficulties on the media market, the division has also been vindicated in its long-term strategy of extending its distribution activities to a broad range of convenience goods such as

drinks, snacks, day-to-day items and more. It is a strategy that enables the division to raise its productivity without deploying any additional resources: along with press products, the same delivery truck can carry virtually anything else which will fit in and can be loaded and unloaded manually by its driver. The additional products thus distributed extend to the food, confectionery and drinks of the Valora Group's own kiosk and convenience shop range, but also include outside products such as coffee for hotels or spare parts for Swisscom. Every day, Valora Wholesale transports some 250 tons of press products along with 80 tons of convenience items. A further key product segment is tobacco goods, where Valora Wholesale is also well positioned, especially in the Swiss and Luxembourg markets.

**ATTRACTIVE PRODUCT RANGES CALL FOR STRONG PRODUCT SUPPLIERS.** Valora Wholesale works with over 700 publishing houses and distribution companies. The list of partners ranges from major Swiss publishing houses such as Ringier, Tamedia, NZZ and Jean Frey to Heinrich Bauer, Burda, Gruner & Jahr, Axel Springer and the Spiegel Verlag in Germany. Key suppliers of convenience products include brand manufacturers such as Valora Trade, the Nestlé Group, Masterfoods AG, Philip Morris and British American Tobacco. Valora Wholesale's supplier partners appreciate not only the division's professional and intensive market cultivation, but also its short and interlinked communication channels and advanced technical infrastructure, which allow major decisions to be swiftly made and the corresponding actions immediately taken. The division saw strong growth in its convenience business in 2003. At the same time, however, competition is clearly intensifying in this segment, and this in turn is putting more performance pressure on suppliers and retailers alike. Wholesalers, meanwhile, are being increasingly expected to provide all-in solutions and a range of products that offers the customer tangible added value. The corresponding concepts must be

tailored with the utmost care if they are to meet these high customer expectations.

**TRIED-AND-TRUSTED SALES PROMOTION CONCEPTS AT THE POINT OF SALE.** Valora's comprehensive network of retail outlets is not just an asset for its distribution activities; it serves as an efficient promotional channel, too. Direct at-kiosk sales promotions have the advantage over more traditional advertising that the customer can be addressed in the shopping environment, and can respond immediately as a result. The sales statistics for such actions conducted to date clearly show that sales promotions by Valora Wholesale generate market success. The division has so far defined 11 different types of promotion, allowing each to be specifically tailored to the product concerned. These sales promotion activities at its own retail outlets also provide Valora with findings and experience which can be evaluated in the wholesale sector. The expertise gained has proved particularly useful in the marketing of convenience items.

**PRECISE PROVISION OF THE LATEST AVAILABLE DATA.** Fluctuations in print media sales cannot only be monitored from day to day nowadays; they can be pinpointed to the hour. These data allow factors such as public holidays, the weather and the seasons and even advantageous sale times to be duly incorporated at the planning stage. Sales of print publications declined in 2003, especially in the daily newspaper and men's magazine sectors. But sales of youth magazines, comics (such as Mickey Mouse) and entertainment magazines showed upward trends. The data acquired allow such trends to be rapidly identified and corresponding action to be swiftly initiated.

**PRODUCT RANGES CONSTANTLY UPDATED.** The constant revisions of the ranges of publications reflect the strong dynamics within the media world. Some 1500 new publications appear on the market every year. And Valora Wholesale adds an annual 400 to 700 new titles to its own product range. Between 10 and 13% of the press

products distributed by the division are of Swiss origin, 60% are from Germany, and 25% are from other countries.

**HIGH CUSTOMER SATISFACTION THROUGH INDIVIDUAL CARE.** The Valora Wholesale distribution organisation covers German- and Italian-speaking Switzerland. And providing assistance and advice is a key part of the services the division offers to these markets. Valora Wholesale's advisory services focus in particular on how the range of products offered at a sales outlet can best be tailored to local customer demand. Product presentation is a further key area of attention. The division's field sales staff personally advise each retail outlet and visit them several times a year. They also have full access to all key customer data via the division's Muttenz base.

**EXTRA BUSINESS WITH SKIV KIOSKS.** In addition to newsagents, Valora Wholesale also numbers Valora Retail's sales outlets, fuel station shops and other shops of varying sizes among its customers. And, as a recent innovation, the 250 kiosks of the Swiss Kiosk Owners' Association (SKIV) are now also supplied with food and non-food items, tobacco goods and beverages along with their press products. The new arrangement will prompt a sizeable increase in the division's total sales.

**FIRST STEPS TAKEN IN THE "PRINT-ON-DEMAND" FIELD.** With globalisation continuing apace, an increase is also being seen in the demand for foreign publications which are not available in conventional printed form in Switzerland. To meet these requirements, Valora Wholesale has begun to offer – on a trial basis – digital versions of foreign newspapers at 10 airport and railway station kiosks in the Zurich area. The system uses special software to download the latest daily version of the publication from the internet as a data file and print it out in A3 format. The new product, which offers foreign visitors a slice of home, is growing in popularity.

**GOOD FUTURE PROSPECTS.** Valora Wholesale has identified strong further business potential in the logis-

tics, inventory management, marketing and quality control fields, and will continue to adopt innovative market solutions to further sharpen its competitive edge. Foremost among these endeavours will be the development of its convenience business, the expansion of its small-volume logistics services for third-party customers, and a transfer of knowledge to the Luxembourg market. The division also aims to make full use of the growth opportunities offered by the liberalisation of the parcels market. On the expenditure side, more actions are planned to reduce overall operating costs and further enhance the division's earnings results.

#### Productivity figures logistics Switzerland

##### Internal logistics Total goods to sales outlets

	2002	2003	DIFFERENCE %
Gross production IN MILLION CHF	1 600	1 593	0
Net expenditure IN MILLION CHF	24	21	- 14
Productivity	67	77	16

##### External logistics Deliveries by Transport und Presseservice

	2002	2003	DIFFERENCE %
Net revenues IN MILLION CHF	56	56	- 1
Expenditure IN MILLION CHF	54	53	- 3
Return on sales IN %	4	6	55





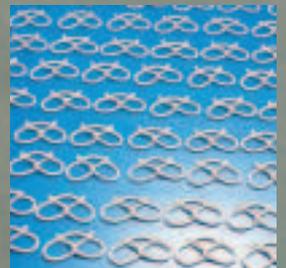
#### INNOVATIONS

When it comes to bringing innovative products to market as swiftly as possible, there is no better partner than Valora Trade. Sørland Chips, e.g., are aimed at a young and quality-minded public. This Norwegian brand with high fashion potential will soon be found in further European countries.



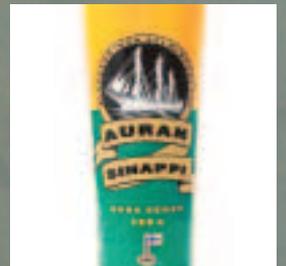
#### QUALITY

As well as constant brand cultivation, it is the quality of the product that has made Roland bakery items such a strong sales success. State-of-the-art production facilities and strict quality controls are Roland's guarantee of a top-quality product.



#### A SCANDINAVIAN PRESENCE

Over half of Valora Trade's sales are generated in Scandinavia. The division's strong position and expertise in the Nordic markets are used to the full benefit of the principals concerned.



#### DISTRIBUTION EXPERTISE

Marketing international products locally: that's the core competence of Valora Trade. Thanks to specific marketing activities and its long-established collaboration with Valora Trade, Ferrero is now the number two in the Swiss confectionery market.



#### PRODUCT RANGE

Valora Trade has now also entered the Swiss non-food market. And the addition of the internationally-reputed Odol brand has further expanded the division's product range.



#### LOGISTICS AND TRADING

Valora Trade assumes full responsibility for all aspects of the distribution process – including all logistics concerns – on its partners' behalf. With its new warehouse management systems Valora Trade ensures optimum product availability.



# Valora Trade



## HIGHLIGHTS

### A BOOST FOR FERRERO

Migros, Switzerland's leading retailer, takes Ferrero products on board.

### A RECORD YEAR FOR GILLE

The Swedish oat biscuit manufacturer increases sales and market share.

### INNOVATION MAKES A STRONG START

Market début for Roland's Snack Pearls and listing with Coop Switzerland.

### LEADING PRINCIPAL ACQUIRED

Alimarca, Switzerland, distributing GlaxoSmith-Kline products since January 1, 2004.

## KEY FIGURES

		2000	2001	2002	2003
<b>Net revenues</b> IN MILLION CHF	Total Valora Trade	459	597	914	930
	in % of total Valora	19%	23%	30%	31%
<b>EBITA</b> IN MILLION CHF*	Total Valora Trade	42	45	41	34
	in % of total Valora	22%	23%	24%	36%
<b>Employees</b> FULL TIME EQUIVALENT	Total Valora Trade	867	1084	1503	1423
	in % of total Valora	10%	12%	16%	16%
<b>Investments</b> IN MILLION CHF	Total Valora Trade	14	24	23	23
	in % of total Valora	22%	32%	38%	35%



\*EBITA = EBIT before goodwill amortization

In a market environment that is marked by pricing wars and strong pressure from competitors, Valora Trade has underlined its credentials as an innovative and dynamic business force. The division has made a firm and unmistakable mark, as both an international distribution partner and a producer of branded items.

**“TRADE IS CHANGE”.** The assertion is not a new one; but, with the current dynamic market developments, it has never been more true. The instability of the general economic climate and demographic shifts in society have combined to create challenging business conditions for those market participants who are forced to compete primarily in pricing terms. Price still remains the key criterion on the retail front; and this in turn means that discounters are making increasingly demonstrative use of their pricing power, and are playing an ever more prominent role in market developments.

Net revenues per country IN MILLION CHF				
	2000	2001	2002	2003
Total Valora Trade	459	597	914	930
Switzerland	289	292	291	301
Central Europe	137	135	131	127
Northern Europe	33	169	492	502

**A CONTINUING CONCENTRATION.** Trading companies which lack the critical mass required to feature a more favourable cost structure are tending to seek refuge in collaborations and strategic alliances. The trading sector is also making growing use of technology in its business activities: customer relationship management based on comprehensive customer databases is becoming a standard means of retaining customers and further exploiting their potential. This in turn places more complex demands on a company's personnel, whose professionalism and innovative skills need to be more actively acknowledged and appreciated as key strategic assets.

**VALORA TRADE HOLDS ITS OWN.** With its trading and distribution of internationally-known branded items in the confectionery, food, non-food and beverages fields, along with its own branded lines, Valora Trade has established a strong position for itself in this challenging market environment. The division boasts 10 trading organisations in 9 countries, along with 7 production companies

in 4 countries. Some 54% of its sales are generated in Scandinavia, 32% in its home Swiss market and the remaining 14% in other countries. Wholesaling is the prime emphasis of Valora Trade's operations, contributing 75% of the division's total sales and 41% of its operating profit or EBITA result.

**DISTRIBUTION AND MARKETING SKILLS UNDER THE SAME ROOF.** Valora Trade holds exclusive distribution rights within its markets, and assumes full responsibility for all logistic services and distribution on behalf of the manufacturer or principal. It is the close partnership which Valora Trade enjoys with its producers – which include leading food manufacturers such as Ferrero, Kellogg's (in Switzerland) and Heinz (in Scandinavia) – that lay such a firm foundation for the partners' shared success. The business with these major principals is supplemented by a portfolio of further branded products such as Ricola sweets and Ritter Sport confectionery.

**HOME-PRODUCED SPECIALITIES.** Alongside these trading activities, the production of its own branded products forms a second line of business for Valora Trade. The division manufactures a range of attractive goods which are closely aligned to market needs under the Roland (crispbreads, rusks, salt pretzels and puff pastry), Kägi (Kägi-fret chocolate wafers and Toggenburg waffles) and Gille (oat biscuits) brands. In doing so, Valora Trade constantly surprises the market with further innovations. Recent examples here include Roland Murten AG's "Snack Pearls", Kägi Söhne AG's new "Kägi-Rum" and a newly-packaged version of the popular Kägi-fret chocolate wafers.

**A CLEAR COMMITMENT TO BRANDS.** Brands clearly differentiate products from their competitors, and help raise their market profile. To further strengthen and refine their marketing impact, the brand strategies for Kägi and Roland were analysed in depth under brand management projects conducted in the course of 2003. For the Roland brand, a systematic appraisal of the overall brand image

has already produced results. A number of targeted surveys revealed that the positive attributes of “fresh”, “high-value” and “trustworthy” are associated with the Roland brand. Elsewhere, Sørland Chips of Norway has been delivering a highly impressive performance, tripling its market share from 5 to 15% within three years.

Net revenues per business area IN MILLION CHF				
	2000	2001	2002	2003
Total Valora Trade	459	597	914	930
Production	206	211	201	231
Trade	253	386	713	699

**OPTIMUM BUSINESS STRUCTURES FOR PROFITABLE GROWTH.** Despite a far-from-ideal economic environment, Valora Trade generally performed well in 2003. A large number of the division’s companies, Kuroczik, Alimarca and Pettersen in particular, posted favourable sales results. Margins were also maintained at their prior-year levels – an achievement which is far from self-evident, given the fierce competition experienced on the pricing front. In the coffee sector, Schirmer Kaffee proved particularly profitable; and bakery producers Gille and Roland also presented encouraging results. The only slight underperformer in the bakery products field was Cansimag France, which suffered a sales decline in the USA. The company has had a new CEO since October 1, 2003. The Scandinavian-based Consiva Group, whose integration has still not been satisfactorily completed, also experienced a change in management in the course of the year. And changes were effected to Kägi’s top management with effect from October 1, 2003.

**CONSOLIDATIONS TO BUNDLE RESOURCES.** Consolidations were effected to enhance market penetration and produce simpler and more efficient organisations. Again was integrated into Adaco in the Swedish market, and Plagemann was merged into Schweigl in Austria. The business units in Dubai and Spain were dissolved in the

course of 2003, as they no longer fit into Valora Trade’s core business activities.

**EXTENSIVE MARKET EXPERTISE: THE KEY TO SUCCESS.** Valora Trade supports its principals by offering national and regional distribution solutions which include both logistical and marketing processes, helping them achieve and maintain strong market positions. These activities are based on a comprehensive knowledge of the structures of and developments in Europe’s sales markets; but they are also founded on familiarity with the different cultures involved in all their variety. Valora Trade cultivates close ties to all its principals and customers throughout Europe. With its dense network of trading organisations, the division is excellently equipped to develop distribution solutions that are optimally tailored to each country’s cultures, conditions and needs.

EBITA per business area IN MILLION CHF				
	2000	2001	2002	2003
Total Valora Trade	42	45	41	34
Production	27	28	24	20
Trade	15	17	17	14

**OPENING THE DOOR FOR A NEW MARKET ENTRY.** Access to a market can be effected via wholesale or retail channels, depending on the customer’s requirements. These activities may also include the sister Valora Retail division, which maintains a comprehensive network of kiosks and other local sales outlets that reach a million European consumers every day. Whichever approach is adopted, the extensive integration within the value-adding chain offers ideal conditions for Valora’s market partners to raise their sales and their earnings volumes.

**CATEGORY MANAGEMENT – A KEY DISCIPLINE.** Valora Trade strives to continuously professionalise its category management and consistently align its distribution to the markets’ specific needs and its customers’ purchasing behaviour. In addition to product knowledge and dis-

tribution and marketing skills, these efforts demand, first and foremost, extensive flexibility in managing and processing the information involved. A swift and efficient two-way flow of information throughout the value-adding chain is crucial to effective category management, and has a direct impact on the quality of relations between manufacturer and trader. This relationship, which has often been marked by opposing interests in the past, is now increasingly developing into a collaboration that puts consumer needs centre stage. Valora Trade also deploys IT systems which meet all the discerning requirements of professional category management activities. These systems provide a foundation for electronic data interchange (EDI), and, under efficient consumer response (ECR), for the overall management of the processes involved.

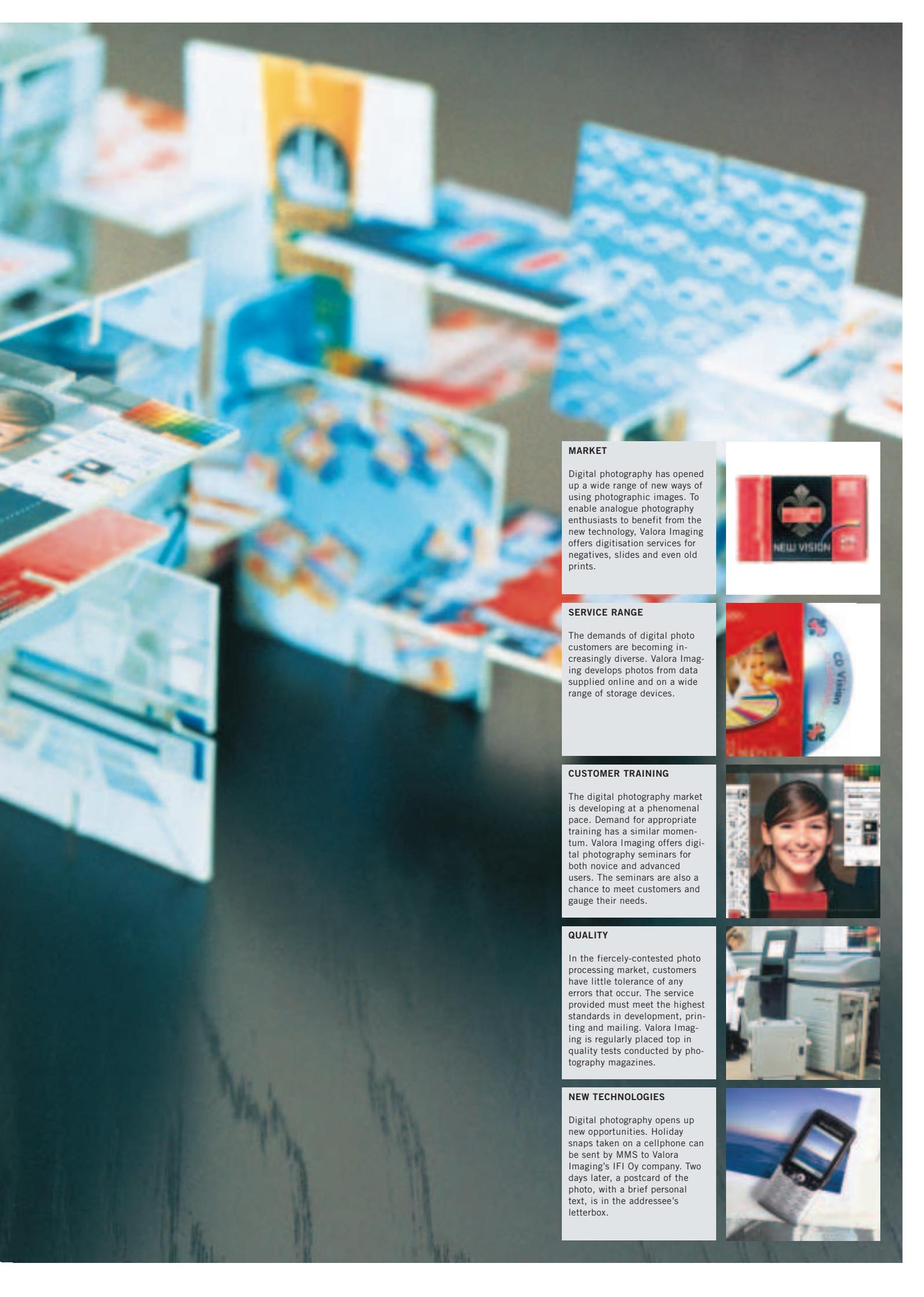
**REPUTED CUSTOMERS EUROPE-WIDE.** The professional cultivation of the fiercely-competitive fast-moving consumer goods market is one of the core competences of Valora Trade. With its persuasive concepts and its close business relations, the division has succeeded time and again in placing branded products on the shelves of major retail chains. One example of these successes in 2003 was the listing of Ferrero by the Migros supermarkets. Valora Trade's international customer portfolio also includes Coop, Denner, the Bon Appétit Group, Carrefour and Rewe in Switzerland, ICA, Ahold, Coop Scandinavia, Rema and Narvesen in Scandinavia, Shell, Stat Oil, Netto and Aldi in Germany and Ikea, Allbröd and Dansk Supermarkets in Denmark.

**CONTINUED FOCUS ON CORE BUSINESS.** Valora Trade is clearly positioned. In smaller European markets, the division is a full-range provider of fast-moving consumer goods; and in larger European markets it is a niche player in the confectionery and food fields. The production of selected bakery items is a meaningful complement to its trading activities.

**FURTHER PRODUCTION EXPANSIONS AHEAD.** Gillebaga-ren aims to increase the production capacity for its "Gille Hafertaler" oat biscuits by adding a further production line. Meanwhile, the new production facility at Roland offers attractive opportunities for expanding the product range. Sørland Chips, which have been extremely successful in Norway, have now been earmarked for export, and will shortly be trialled in a foreign test market.

**OPTIMISING STRUCTURES AND PROCESSES.** With markets becoming increasingly internationalised, further development is planned for the Nordic countries. Danish-based Consiva is home to "Axapta", a major strategic project to introduce an enterprise resource planning system (ERPS) focusing on warehouse management, production planning, financial accounting and human resources. Alimarca in Burgdorf, Switzerland, saw the completion at the end of 2003 of a new warehouse management programme which is part of a long-term endeavour to improve the existing logistics infrastructure.





**MARKET**

Digital photography has opened up a wide range of new ways of using photographic images. To enable analogue photography enthusiasts to benefit from the new technology, Valora Imaging offers digitisation services for negatives, slides and even old prints.



**SERVICE RANGE**

The demands of digital photo customers are becoming increasingly diverse. Valora Imaging develops photos from data supplied online and on a wide range of storage devices.



**CUSTOMER TRAINING**

The digital photography market is developing at a phenomenal pace. Demand for appropriate training has a similar momentum. Valora Imaging offers digital photography seminars for both novice and advanced users. The seminars are also a chance to meet customers and gauge their needs.



**QUALITY**

In the fiercely-contested photo processing market, customers have little tolerance of any errors that occur. The service provided must meet the highest standards in development, printing and mailing. Valora Imaging is regularly placed top in quality tests conducted by photography magazines.



**NEW TECHNOLOGIES**

Digital photography opens up new opportunities. Holiday snaps taken on a cellphone can be sent by MMS to Valora Imaging's IFI Oy company. Two days later, a postcard of the photo, with a brief personal text, is in the addressee's letterbox.



# Valora Imaging



## HIGHLIGHTS

### NEW PHOTOGRAPHIC SERVICES (NPS)

Strong demand for online prints; sizeable interest in internet photo albums and MMS pictures.

### DIGITAL PHOTOGRAPHY ON THE UP

New high-growth-potential digital services successfully launched.

### ACCESS

Scanning services open up the world of digital photography to analogue photographers, too.

### A SERVICE FOR THE CUSTOMER

Valora Imaging offers its customers courses on digital photography and its boundless possibilities.

## KEY FIGURES

		2000	2001	2002	2003
<b>Net revenues</b> IN MILLION CHF	Total Valora Imaging	262	245	224	186
	in % of total Valora	11%	9%	7%	6%
<b>EBITA</b> IN MILLION CHF*	Total Valora Imaging	52	44	43	27
	in % of total Valora	27%	22%	25%	29%
<b>Employees</b> FULL TIME EQUIVALENT	Total Valora Imaging	1 012	1 014	842	714
	in % of total Valora	12%	11%	9%	8%
<b>Investments</b> IN MILLION CHF	Total Valora Imaging	10	9	6	6
	in % of total Valora	16%	12%	10%	9%



\*EBITA = EBIT before goodwill amortization

With the photography sector still featuring two parallel and coexisting technologies, Valora Imaging continues to pursue its own two-track strategy. But the potential for further growth clearly lies in the digital market segment.

**A SECTOR BESET BY TECHNOLOGICAL CHANGE.** The photography sector continues to see the same development which first appeared a number of years ago: “traditional” photographic services are on the decline, while digital photography is posting high growth rates. In fact, online services are expanding week to week by between 80 and 150%.

**TWO-TRACK STRATEGY CONTINUED.** For as long as traditional photography retains its appeal for a sizeable customer base, Valora Imaging will continue to adhere to its own two-track strategy of retaining its leadership of Europe’s key mail-order markets in the traditional photography sector, while striving to achieve the leading position in the rapidly-growing digital photo processing sector in its established markets.

**EDUCATION SERVICES SUCCESSFULLY TRIALLED.** The first courses designed to explain the basics of digital photography were offered in Switzerland on a trial basis in 2003, together with follow-up courses for more advanced attendees. The move proved very popular: the courses, which were held in six Swiss cities over an eight-month period, inducted several hundred participants into the digital photography world. In view of this positive experience, and the strong demand in Switzerland, these education services will now be extended to Germany, France and Belgium, too.

**SCANNING SERVICES ARE POPULAR.** Valora Imaging offers customers the option of having their “old” images transferred into the digital age. Slides, photos and negatives are scanned onto CDs to preserve them. The digitisation permits the quality of the images to be enhanced, too: solicitous retouching can often produce a copy that is an improvement on the original.

**PERSONALISED STAMPS FOR AN INDIVIDUAL TOUCH.** In a further innovative venture, Valora Imaging has been collaborating with the Finnish post office to design personalised postage stamps which can be printed out on specially-certificated printers. The stamps have proved

quite an eye-catcher, and are extremely popular with companies and individuals alike. The successful digital post-card business is also being continued.

**PROCESSES ENHANCED IN RESPONSE TO A COMPLEX MARKET.** The parallel development of two such differing technologies within the same market calls for both intelligent handling of the varied demands and a long-term strategic planning perspective. In response to this situation, Valora Imaging has created its New Photographic Services (NPS) to combine all its technological and marketing resources and consistently focus on renewing its photo laboratory systems and aligning them to future market needs. NPS is thus overseeing the gradual re-equipment of the division’s laboratories from traditional to digital processing in a way that enables them to handle both analogue and digital orders in a single integrated process – an arrangement that should also deliver welcome cost economies.

**Net revenues per business area** IN MILLION CHF

	2000	2001	2002	2003
Total Valora Imaging	262	245	224	186
Consumer Imaging	223	206	189	155
Professional Imaging	39	39	35	31

**FOCUS ON THE CONSUMER MARKET.** With a view to asserting its leading role in the key photography markets and bundling the resources available, Valora Imaging intends to dispose of its professional photo processing business and focus exclusively on the consumer market. In doing so, the division aims to effect a sizeable increase in digital photography’s share of its total sales volume, which currently amounts to only 10%.



## Valora's Group-level human resources activities in 2003 focused on two prime concerns: harmonising personnel management structures throughout the Valora Group while paying due and full regard to national cultural considerations, and providing specific initial and further training for the Group's personnel.

**GROUP-LEVEL HR AUDITS.** Corporate Human Resources conducts regular HR audits of Valora's various subsidiaries, to ensure that personnel policies are consistent throughout the Valora Group. These on-the-spot audits analyse local personnel structures, relations with the local unions, other local conditions and the local legal environment. The audits are an excellent means of identifying where local personnel policies need to be aligned more closely to Group norms, and ensure that Valora's HR standards are applied and observed groupwide.

**MANAGEMENT TRAINING.** Valora attaches great value to encouraging its employees to develop their technical expertise and social skills. As well as supporting meaningful individual personal development through external training, Valora offers various in-house training modules which are specifically tailored to the Group's needs. The well-established Valora Management School (VMS) offers invaluable instruction in various aspects of management, and specific courses are also offered in project and conflict management.

**TRAINEE PROGRAMME.** The international Management Trainee Programme has also proved its worth in developing future management staff, and is extremely popular. The course provides excellent preparation for future Valora management positions for interested university-level graduates with high potential. The model works, too: a number of former trainees already hold management functions throughout the Valora Group.

**SYSTEMATIC TRAINING FOR SALES PERSONNEL.** Valora Retail is the largest of the Group's divisions with some 8 000 staff. Most of these employees are active on the sales front. Comprehensive steps have been taken over the last few years to offer attractive career and further training opportunities to these personnel. As part of these long-term development and promotional measures, a three-level training concept for sales personnel was established in 2003. In their basic training, which consists of two training modules, participants learn what

standards need to be observed at their point of sale and how they can best meet the retail outlet's day-to-day demands. The second level offers more ambitious employees the chance to build on this initial training by acquiring the expertise to manage a retail outlet. And for the third level, the employees showing the greatest potential are invited to join the "Sprinter Team", in which they will complete a diploma course which equips them as effectively as possible to assume responsibility for their own retail outlet.

**FURTHER TRAINING FOR GENERAL MANAGERS.** Employees who are already running a retail outlet are offered the opportunity to attend seminars on topics such as communications and personnel management. If they possess the appropriate abilities, they can also train to become Assistants to the Regional Sales Manager. In this capacity they will be assigned responsibility for several retail outlets and will serve as a vital link between the General Managers and the Regional Sales Manager.

**APPRENTICE TRAINING A SOLID SUCCESS.** Switzerland's formal recognition of kiosk sales as a profession in 2001 paved the way for the establishment of official apprenticeships in the field. Some 30 apprentices commenced their three-year training with Valora the same year and completed it in 2003. Despite a difficult economic environment, Valora has created new apprentice positions: apprentices are currently being trained at some 50 kiosk outlets; and the aim is to offer around 100 such apprenticeships by 2005. Valora also offers older adults with work experience who have not completed an apprenticeship the opportunity to obtain an appropriate occupational qualification: the first kiosk saleswoman to complete this one-year course received her diploma in July 2003.

The processes of change can be difficult, burdensome or even painful for the people involved. Such phases can often lead to a loss of orientation, too. Valora offers support and assistance in various forms to employees who find themselves in problem situations.

**LEARNING TO LIVE WITH CHANGE.** In an age in which both the economy and society as a whole are subject to constant change, every individual is required to adapt time and again to a new and different environment. It is a process that calls for mental flexibility and a willingness to accept and make the most of the new situation. But it is a process in which companies bear a responsibility, too: a responsibility to ensure that employees who are caught up in the change process are not merely left to cope as best they can.

**THREE SUPPORT UNITS, EACH FOR DIFFERENT NEEDS.** The prime source of assistance for any Valora employee who feels daunted by new work challenges is their contact person at Corporate Human Resources. If the situation is more complex, the employee is also entitled to receive further support in the form of personal coaching. This can be useful in cases where the employee is unsure of their future direction, or if they intend to make changes of their own. A third option is offered in the form of the ombudswoman's office, which can provide advice on problems at the workplace and on more personal difficulties, too.

**COACHING TO NEW PERSPECTIVES.** Valora introduced a new coaching facility in the course of 2003 aimed at employees who are facing a change of job, feel a need to find a new career direction or find themselves confronted with a major professional challenge. Under the new scheme, the coach and the employee jointly determine how the employee sees their current situation and discuss the positive and negative aspects of the employee's present position. These discussions often themselves reveal the employee's own aims and aspirations, which the change process may even offer opportunities to fulfil.

**COACH AND EMPLOYEE: A MEANINGFUL DIVISION OF DUTIES.** In the coaching process, the initiative must always lie with the person seeking advice: it is they who will determine what issues should be addressed. The employee will then agree with the coach when and where

they should meet and how often these meetings should be held. The coach is not expected to solve the employee's problems; they are there to help the employee decide what direction their professional future should take. What areas would they like to develop in? Where do they see their weaknesses and strengths? What goals do they hope to achieve? And how can they do so? These are the questions the coach and the employee will discuss, using them to jointly define a concrete objective and a path to reach it. The coach will also be on hand with assistance and advice as the employee strives to put these intentions into practice – helping them formulate applications, analyse job vacancy ads or procure information on a particular topic.

**COACHING: TEAMWORK BETWEEN EQUALS.** Employees who take advantage of Valora's coaching facility appreciate having a partner with whom they can discuss their questions and their fears. Many of them have also learnt, in the course of their coaching, that change can also be seen as an opportunity and used to their advantage. Coaching at Valora is regarded as a shared undertaking by two equal partners who jointly analyse a problem and seek an appropriate solution. The challenge for the coach is to win the employee's trust, pay due regard to the employee's personality and contribute their own empathy and understanding to the problem-solving process.

**VALUING THE EMPLOYEE.** The personal coaching facility is available free of charge to any Valora Group employee. Because Valora attaches great value to supporting its personnel, especially at times of major change, and to helping them make the most of their possibilities and potential.

The companies of the Valora Group are committed to the principle of sustainable business development. It is a principle which also requires them to pay due regard to environmental concerns in their business activities, and ensure that such activities cause minimum ecological strain.

**PET RETURN RATES NEED TO BE INCREASED.** Ensuring a high rate of returns of PET bottles is not only in the interests of industry and consumers. Swiss law has clear requirements, too. The Ordinance on Beverage Packagings, for example, demands a PET bottle return rate of 75%. If this is not met, the Federal Department of the Environment, Transport, Energy and Communications is empowered to order the charging of a deposit on PET bottles. This would not only entail a lot of extra administration; it would also result in additional costs for consumers. The PET return rate currently stands at 72% – just under the legal minimum. So further action on industry's part is evidently required.

**PET RECYCLING PARTNERSHIPS: A WIN-WIN SITUATION.** PET recycling has a tradition in Switzerland. The beverage sector founded the Swiss PET Recycling Association (PRS) over ten years ago. Its aim: to establish and maintain an extensive network of PET beverage packaging collection points throughout the country. Since then, the PRS has been constantly seeking partners to help raise the return rates of PET bottles. These endeavours met with further success in 2003: the association found Transport und Presseservice (TPS), a company which has been collecting PET bottles at Valora Retail's sales outlets and some 600 third-party customers and sending them for recycling since the beginning of 2004. The collaboration with TPS offers sizeable benefits for all the parties concerned. TPS supplies its own customers with press products and food and non-food items, and takes the PET bottles away on the return journey. The arrangement thus uses an existing logistics flow: no additional journeys are required, with the environmental burden they would entail. For PRS, the collaboration with TPS is interesting from a cost perspective, too. It also increases the number of PET collection points; and the retail outlets are relieved of the need to arrange transport for the PET bottles collected, and need only keep the containers in good order.

**ECOFRIENDLY WASTE DISPOSAL AT VALORA IMAGING.** Fotolabo Club SA, which is based in Montpreveyres, produces sizeable volumes of chemicals in its processing activities. These chemicals are recycled where possible, or are disposed of as special waste. One of the more problematic products, from an environmental point of view, is the silver which is washed out when photographic materials are washed in water. To minimise the impact of these elements on the environment, efforts are made to reclaim as much silver as possible from this waste water. The water – now largely silver-free – is then sent to a treatment plant. Regular checks by a neutral laboratory have confirmed that the process meets all the requirements of environmental law. Disposable cameras are a further cause of ecological concern. These are collected by Fotolabo and returned to their manufacturers Kodak, Agfa and Fuji for recycling.

**ENVIRONMENT-MINDED CONSTRUCTION.** Valora's construction department builds some 20 to 30 new retail outlets and refurbishes another 30 to 40 sales points every year. As a further endeavour to pay due and full regard to environmental concerns, care is taken to ensure that local companies are preferred and ecofriendly and recyclable materials used when the appropriate commissions are awarded. Every contractor is also issued with a factsheet stating Valora's ecological requirements. The factsheet details the requirements for and tips on minimising waste and disposing of it in an environmentally-acceptable way, avoiding the creation of special waste and optimising the environmental effect of the various materials used (in terms of their manufacture, transport, removal and re-use). These eco-recommendations form an integral part of the detailed commission, which each contractor is required to countersign.

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