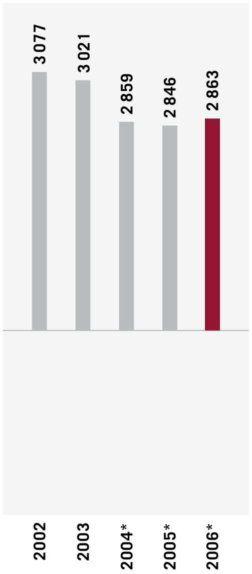
Financial Report Valora 2006

Key figures

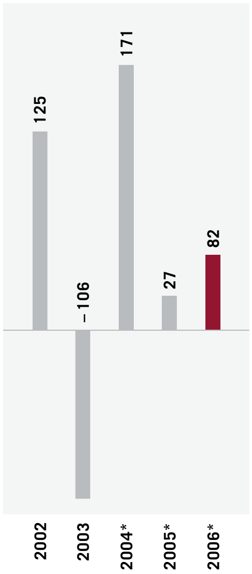
		31.12.2006 1)	31.12.2005 1)	31.12.2004 1)
Net revenues	**CHF million**	**2 862.5**	**2 846.4**	**2 858.5**
Change	%	+ 0.6	– 0.4	– 5.4
Operating profit	**CHF million**	**82.0**	**27.0**	**171.3**
in % of net revenues	%	2.9	0.9	6.0
Net profit	**CHF million**	**66.5**	**4.7**	**153.7**
Change	%	+ 1 304.5	– 96.9	n/a
in % of net revenues	%	2.3	0.2	5.4
in % of equity	%	11.9	0.9	24.6
Net cash provided by (used in)				
Operating activities	CHF million	108.2	96.4	173.3
Investing activities	CHF million	– 26.6	– 40.7	148.9
Free cash flow	**CHF million**	**81.7**	**55.7**	**322.2**
Financing activities	CHF million	– 82.8	– 123.7	– 232.2
Earnings per share	**CHF**	**20.58**	**1.17**	**41.66**
Change	%	+ 1 659.0	– 97.2	n/a
Free cash flow per share	**CHF**	**25.54**	**17.41**	**87.95**
Change	%	+ 46.7	– 80.2	+ 370.8
Share price at 31.12.	**CHF**	**334.75**	**254.75**	**280.00**
Market capitalisation at 31.12.	**CHF million**	**1 069**	**813**	**916**
Cash and cash equivalents	**CHF million**	**222.1**	**219.7**	**291.6**
Interest-bearing liabilities	**CHF million**	**282.7**	**333.4**	**399.0**
Total equity	**CHF million**	**560.9**	**513.6**	**623.9**
Balance sheet total	**CHF million**	**1 324.8**	**1 359.2**	**1 506.1**
Average number of employees		**7 185**	**7 454**	**7 903**
Change	%	– 3.6	– 5.7	– 12.1
Net revenues per employee	**CHF 000**	**398**	**382**	**362**
Change	%	+ 4.2	+ 5.5	+ 7.7
Points of sale		**1 414**	**1 464**	**1 531**
Net sales per point of sale 2)	CHF 000	1 155	1 153	1 099

All totals and percentages are based on unrounded figures from the consolidated financial statements.
1) from continuing operations
2) net sales of Valora Retail only

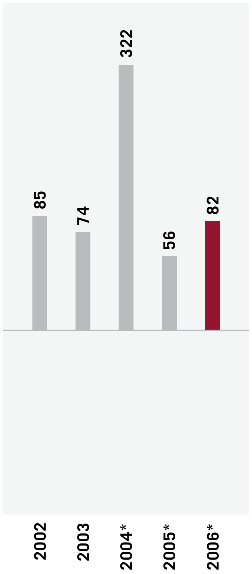
Net Revenues
In million CHF



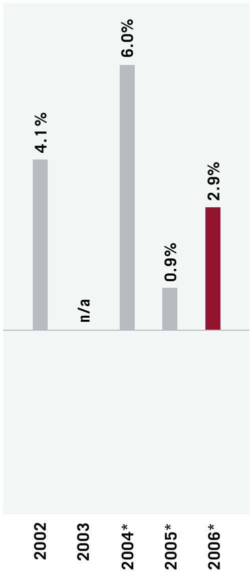
Operating Profit
Earnings before interest and taxes in million CHF



Free Cash Flow
Net cash provided by operating activities less net cash used in investing activities in million CHF

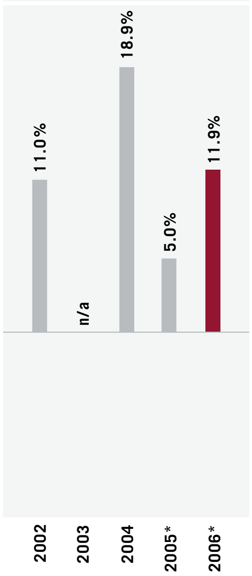


Return on Sales
Operating profit in % of net revenues

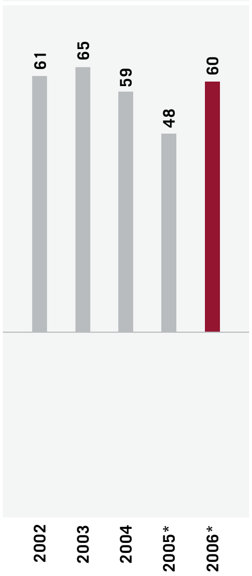


Employees
Average number of employees
(full time equivalent)

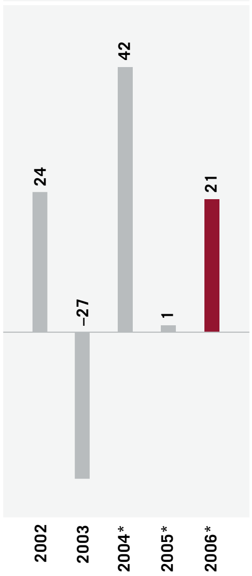
Return on Net Assets
Operating profit in % of average net capital employed



Investments
In million CHF



EPS
Earnings per share in CHF



*from continuing operations

Dear shareholder

In 2006, Valora demonstrated that the various measures it has taken to improve its core business are now beginning to bear fruit. The cost cutting which already helped to brighten results reported for the first half of 2006 has had a positive effect on the full year results as well.

The CHF 82.0 million of earnings before interest and taxes generated last year means that we reached our 2006 goal of a 2.8% - 3.0% operating profit margin. Sales growth at Valora Trade and Valora Press & Books more than compensated for the fall in Valora Retail's turnover following last year's outlet closures, with the result that Group sales rose slightly on the year to CHF 2 863 million.

With the refinancing projects (the bond issue and the syndicated loan facility) completed, and net debt reduced by CHF 53.1 million, the Group also improved its financial result by CHF 9.4 million to CHF 6.3 million. Another important milestone reached last year was the successful sale of Valora Imaging. Following a loss of CHF 56.3 in 2005, Group net income in 2006 rose to CHF 65.8 million or CHF 20.58 per share. Return on invested capital was more than doubled, from around 4% to more than 10%. The Board of Directors will therefore recommend to the Annual General Meeting that a dividend of CHF 9.00 per share be distributed.

Valora Retail – network streamlining and growth. The measures the division implemented in 2005 enabled it to cut costs by CHF 30 million in 2006. The closure of some 150 unprofitable outlets and lower staffing levels in administrative areas have clearly made a positive contribution. The division raised its same-outlet sales in all product categories bar press and services. Kiosk Switzerland's improved product mix in higher margin categories is also now beginning to show positive results. Having opened 16 new outlets in 2006, Valora Retail Germany has now entered an expansion phase enhanced by further gains in profitability. The division will now vigorously pursue growth, by expanding attractive product ranges and outlet formats in Switzerland and by increasing market coverage in Germany.

Valora Press & Books – improving operating margins. The division was able to maintain net revenues in a contracting overall market. The units in Austria and Luxembourg managed to raise turnover slightly, partly thanks to their success in distributing new products. Turnover at the Swiss unit, which was most affected by the shrinking market because of the high proportion of its sales accounted for by daily newspapers, declined 3%. Disciplined cost management enabled the division to raise its operating margin to an encouraging 5%.

Valora Trade – growth from new principals and innovation. The division increased sales by CHF 56.5 million in 2006, a result to which its two business areas, distribution and own brands, contributed equally. Most of the growth in distribution sales was achieved by the Nordics unit, which signed up a number of new principals. This confirms the new platform's potential for successful growth generation. Product innovations and the exploitation of new distribution channels helped to foster growth at the Own Brands unit.

Enhanced free cash flow. Improved net results and the sale of real estate not required for operations both helped to boost free cash flow. These additional funds were used for a further reduction in the Group's net debt position.

A healthy balance sheet with an excellent risk structure. The improvement in results achieved in 2006 has brought shareholders' equity back above 40% of total assets. The existing syndicated loan facility was refinanced on more favourable terms during 2006 and net working capital, at 4.9% of sales, is looking very healthy.

Outlook - clear focus on retail. Having reviewed and adapted its strategy, Valora is positioning itself clearly in the market. The Own Brands division will therefore be sold. With nearly CHF 3 billion in sales and an operating profit margin nudging 3%, the Group has realised some ambitious milestone achievements. Management's attention over the next one to two years will clearly focus on the IT-infrastructure projects now being carried out and on paving the way for future growth. The changes which will result from this strategy mean that the medium term goal of an operating profit margin of 4% will be achieved later than originally planned. Based on the Group's revised business strategy, the Board of Directors and Group Executive Management intend to harness organic and external growth to drive net sales to CHF 4 billion by 2012. Implementation of this strategy will be coupled with a consistent value-based approach to running the Group, focusing on achieving a sustainable improvement in economic value added. The aim is to maintain the return on invested capital above the Group's capital costs, thus creating lasting added value for shareholders and other stakeholders.

Peter Wüst
CEO

Markus Voegeli
CFO

Review of Group results

The turnaround initiated in the first half of 2006 continued throughout the rest of the year. By streamlining its outlet network and instituting cost cutting measures, the Retail division was able to stabilise operating earnings, while Valora Press & Books improved its operating results in a declining overall market. Valora Trade generated higher operating earnings on expanded turnover. These achievements, plus additional improvements in net financial results, enabled the Group to raise net income for the year to CHF 65.8 million.

A Valora Group

For the first time after three years of focusing and restructuring, Valora can look back on a successful financial year which was not burdened by significant extraordinary expense items. Measures taken in the Swiss retail business are beginning to show positive effects and both the Press & Books and Trade divisions achieved encouraging results.

Net revenues in CHF million	**2006**	**Portion**	2005	Portion	Change
Valora Retail	1 632.8	57.0%	1 688.4	59.3%	– 3.3%
Valora Press & Books	560.2	19.6%	555.3	19.5%	0.9%
Valora Trade	862.2	30.1%	805.7	28.3%	7.0%
Other	15.3	0.5%	15.2	0.5%	
Intersegment elimination	– 208.0		– 218.2		
Group total	**2 862.5**	**100.0%**	**2 846.4**	**100.0%**	0.6%
Switzerland	1 734.1	60.6%	1 804.3	63.4%	– 3.9%
Elsewhere	1 128.4	39.4%	1 042.1	36.6%	8.3%

Group net revenues rose by a modest 0.6 %, with a more differentiated picture at division level. Valora Trade posted notable turnover growth of 7.0 %, while the Valora Press & Books division's sales edged up by around 1 %. The profitability drive at Retail Switzerland, encompassing changes in the wholesale area and a streamlining of the outlet network, meant that the Retail division's aggregate sales fell 3.3 % on the year.

in CHF million	2006		2005	
Net revenues	**2 862.5**	**100.0%**	**2 846.4**	**100.0%**
Gross profit	**954.2**	**33.3%**	**942.4**	**33.1%**
– Operating costs, net	– 872.2	– 30.4%	–915.4	– 32.2%
Operating profit	**82.0**	**2.9%**	**27.0**	**0.9%**
+ Restructuring costs	0.0		31.2	
Operating profit before restructuring	**82.0**	**2.9%**	**58.2**	**2.0%**

Operating results before restructuring costs were improved by more than 40% to CHF 82 million. The 2.9% operating profit margin thus achieved is a significant milestone on the way to the sustained profitability we are targeting.

Concerted implementation of strategic projects aimed at introducing a modern and uniform systems architecture and infrastructure, supporting optimised processes, focused efforts throughout the Group, and management will continue to devote great attention to this over the next two years.

B Valora Retail

in CHF million	2006		2005	
Net revenues	**1 632.8**	**100.0%**	**1 688.4**	**100.0%**
Gross profit	**540.1**	**33.1%**	**546.4**	**32.4%**
– Operating costs, net	– 518.7	– 31.8%	– 566.0	– 33.5%
Operating profit	**21.4**	**1.3%**	**– 19.6**	**n/a**
+ Restructuring costs	0.0		26.2	
Operating profit before restructuring	**21.4**	**1.3%**	**6.6**	**0.4%**

The fall in net revenues at Valora Retail was principally due to the closure of unprofitable k kiosk retail outlets in Switzerland (shaving CHF 43 million from turnover) and the profitability drive in the Swiss wholesale business (cutting out a further CHF 43 million of sales). Turnover in Germany advanced CHF 14 million or 6.8% on the year, largely thanks to an expansion of the outlet network by 16 new units. Sales at Retail Luxembourg rose by 7.0%, a CHF 6 million increase.

Management continued to devote its attentions to enhancing the profitability of existing Swiss operations, while concerting efforts to pave the way for future growth. The roll-out of a uniform systems architecture with modern integrated cash registers at all retail outlets is progressing well and measures taken to improve the product mix of goods on sale are also proving successful. The first pilot shops placing greater emphasis on food articles for immediate consumption are demonstrating the potential of this concept, while new initiatives such as ‹take a break› and chill cabinets for soft drinks are beginning to have an impact on the composition of sales turnover by product category. These new approaches helped to counter the effect of declining sales of tobacco and press products.

Operating losses from wholesale operations in Switzerland were cut from some CHF 9 million in 2005 to CHF 2 million in 2006, thanks to a comprehensive series of measures to enhance profitability, and break even at operating level should be achieved next year. In 2007, the Retail division is continuing to implement initiatives already begun earlier and is generating further growth in specific areas (Germany, Caffè Spettacolo).

C Valora Press & Books

in CHF million	2006		2005	
Net revenues	**560.2**	**100.0%**	**555.3**	**100.0%**
Gross profit	**153.9**	**27.5%**	**149.4**	**26.9%**
– Operating costs, net	– 125.7	– 22.5%	– 127.3	– 22.9%
Operating profit	**28.2**	**5.0%**	**22.1**	**4.0%**
+ Restructuring costs	0.0		1.9	
Operating profit before restructuring	**28.2**	**5.0%**	**24.0**	**4.3%**

The modest CHF 4.9 million increase in net revenues for 2006, which was achieved despite a declining overall market in Switzerland, largely results from very encouraging success in distributing additional product types. Both PGV in Austria and MPK in Luxembourg managed to increase turnover significantly, with PGV raising sales by 9% to CHF 155 million, while MPK added 4% to CHF 77 million. Consistent cost discipline helped to boost operating profit by CHF 4.2 million, improving operating margins to a pleasing level of 5%.

D Valora Trade

in CHF million	2006		2005	
Net revenues	**862.2**	**100.0%**	**805.7**	**100.0%**
Gross profit	**245.2**	**28.4%**	**231.9**	**28.8%**
– Operating costs, net	– 213.6	– 24.7%	– 202.2	– 25.1%
Operating profit	**31.6**	**3.7%**	**29.7**	**3.7%**

Valora Trade turned in good growth in net revenues for 2006, which were up CHF 57 million on the year. Both the distribution unit, whose turnover rose 7.7% to CHF 748 million, and Own Brands operations, where sales rose 9.1% to CHF 165 million, contributed to this encouraging performance. Most of the sales growth on the distribution side was generated in the Nordics region. All Own Brands units, with the exception of Kägi, achieved significant sales growth. Increased sales of lower margin products have however slightly diluted gross margins. By reining in cost growth, the division managed to hold operating profit steady at 3.7% of net revenues, while in absolute terms operating earnings were raised CHF 2 million to CHF 31.6 million.

E Corporate

Corporate's net turnover consists solely of the sales generated by the Swiss TPS logistics unit, which are assigned to it. Since the effective net costs of this are charged on to the divisions, logistics operations have no effect on the operating results in the Corporate unit. The operating earnings of CHF 0.7 million include CHF 2.6 million of revenue arising partly from the non-utilisation of a guarantee issued previously and partly from the receipt of a trade account due to a unit now disposed of, against which an impairment had been recorded.

F Financial result and taxes

Despite a modest upward trend in interest rates, the Group managed to improve its net financial result by some CHF 10 million. A full year without coupon payments on the bond issue redeemed in 2005, lower net debt and favourable foreign exchange effects were the main factors contributing to this encouraging result. Measures to optimise financing capacity included the refinancing of the existing syndicated loan facility with a broadly diversified consortium of banks.

Thanks to special income tax effects, net income rose by a greater percentage than operating profit. By utilising loss carry forwards from prior years, it was possible to achieve a relatively low effective tax rate of 12.5 %, resulting in tax expense of CHF 9 million.

G Liquidity, cash flow and key financial data

Key financial data

in CHF million	**2006**	2005
Cash and cash equivalents	222.1	219.7
Free cash flow	**81.7**	**55.7**
Equity	560.9	513.6
Equity in % of total assets	**42.3%**	**37.8%**
Net profit/(loss)	65.8	– 56.3
Return on equity	**11.7%**	**n/a**
Net operating profit after taxes (NOPAT)	72.5	20.6
Average net capital employed (NCE)	686.8	537.0
Return on invested capital (ROIC)	**10.6%**	**3.8%**
Net debt	**60.6**	**113.7**
Net working capital	140.2	126.0
Net working capital in % of net revenues	4.9%	4.4%
Earnings per share (from continuing activities)	**20.58**	**1.17**

Cash flow from operations was increased CHF 12 million to CHF 108 million. Net working capital has shown encouraging growth since mid-2006 and is now at a healthy CHF 140 million or 4.9% of net revenues.

The sale of the Imaging division, real estate sales in Switzerland, Germany and Austria and a number of small scale disposals meant that net investment expenditure was reduced considerably, to CHF 26.6 million. New gross investments in property, plant and equipment and intangible assets totalled some CHF 60 million in 2006. Free cash flow was used to reduce interest bearing liabilities, so that net debt was reduced to CHF 60.6 million.

The comfortable liquidity, debt and leverage positions Valora now enjoys mean that it is well placed for the strategic developments planned for the years ahead.

H Outlook

With the improved first-half results now confirmed for the full year of 2006, and with its strong balance sheet ratios, Valora has reached a major milestone on its way to robust financial health and is well positioned to meet the strategic challenges of the years ahead. Given the current necessary focus on the product range enhancements now being carried out in Valora Retail's Swiss operations and on the creation of a sound systems and infrastructure environment, a rapid further improvement in operating margins over the next two years is not envisaged. The goal for 2007 is to maintain an operating margin of around 3%. Looking to the medium term, the Board and Group Executive Management intend, through a combination of organic and external growth, to increase net revenues to CHF 4 billion by 2012.

The implementation of this strategy will be accompanied by disciplined observance of value-based management, with a clear focus on the enduring enhancement of economic value added. The aim is to maintain the return on invested capital above Valora's capital costs, thus creating lasting added value for shareholders and other stakeholders.