Financial Report
Valora 2004

Dear shareholder,

The management of the Valora Group firmly pursued its adopted focus strategy in 2004, with a prime emphasis on the planned divestitures of real estate not required for operations and of business units outside the Group's core business. Despite a difficult economic environment and only very modest growth rates in the relevant markets, the financial result achieved by Valora for 2004 does permit a distribution of profits to shareholders in line with the levels of previous years. The Board of Directors will be recommending to the General Meeting of Shareholders that, instead of a dividend, the fiscally-attractive option be adopted of reducing the nominal value of the Valora share by CHF 9.00 and repaying this amount to shareholders.

Divestitures - the Spector joint venture. The divestitures effected in the course of the year generated gains of some CHF 90 million, slightly above expectations. Elsewhere, the Board of Directors and Group Executive Management decided to abandon negotiations with the Belgian-based Spector Group on a projected joint venture in the imaging field. The lack of financial securities for the planned medium-term sale to Spector of these activities and the complex legal structure which the joint venture would have required were ultimately the reasons for this decision. In view of the abandonment of these talks and the continuing difficulties in the photography sector, a further CHF 120 million impairment was effected to the Group's Fotolabo shareholding.

Differing profitabilities within the divisions. Consolidated net revenues for the Valora Group for 2004 were affected by the divestitures during the year and amounted to CHF 2'990 million, around 1% below their prior-year level. Excluding the gains from disposals and impairments effected to goodwill, the Group saw a slight year-on-year deterioration in its operating performance.
Valora Retail – below expectations: The negative trends in the core press products and tobacco goods markets continued in 2004 and led to a disappointing result for the division's Swiss kiosk operations. The German press and book business showed encouraging developments and returned to an operating profit after some difficult years.
Valora Wholesale – PGV acquisition offsets sales decline: As at Valora Retail, 2004 proved a testing year for the Valora Wholesale division. But, in acquiring the Austrian-based PGV Salzburg group, Valora made full use of an opportunity to strengthen the international dimension of its press wholesale business. The acquisition was successfully concluded in the third quarter, and PGV's operational integration had been largely accomplished by the end of the year.
Valora Trade – successful consolidation: Despite a further rise in the pressure on prices and margins in the production and trading sectors, Valora Trade achieved a small increase in its sales for the year. In organisational terms, the year was marked by efforts to concentrate resources: the division's Austrian organisation was simplified by the amalgamation of the K. Schweigl Handels GmbH + Co. KG distribution company and Plagemann Lebensmittel GmbH + Co. KG, while its Swedish operations were streamlined through the integration of the Again AB distribution company into Adaco AB. The restructuring activities already showed their effects, and the adjusted operating result was an improvement on its prior-year equivalent.

Valora Imaging – in the midst of technological change: Although digital film processing already accounts for some 10% of its total revenues, Fotolabo is feeling the impact of the faster-than-expected contraction of the analogue film business. The effects of the revenue declines in the imaging sector were partly offset by cost economies; but the annual operating result was halved to some CHF 13.9 million.

A strong cash flow. More effective management of net working capital and fiscally advantageous applications of losses brought forward helped raise operating cash flow to CHF 175 million. As a result, and despite the conducting of the share buyback programme, liquidity was improved by some CHF 82 million.

A healthy balance sheet. Even after the value adjustments and the share buyback programme carried out in the course of the year, the consolidated balance sheet at the end of 2004 showed an equity ratio of a healthy 41%, giving the Valora Group the scope and the entrepreneurial freedom to effect selected investments or acquisitions. A CHF 130 million syndicated credit facility was secured to cover the Group's medium-term financing needs.

Outlook. In view of the modest economic and industry forecasts and the continuing erosion of margins in the Group's core businesses, the Board of Directors and Group Executive Management have initiated further actions to reduce costs in 2005. We are confident that the ongoing restructuring and the improvements it will achieve will enable Valora to retain its financial earnings power, and will create a sound and solid foundation for further profitable growth within its core businesses.

Peter Wüst
CEO

Markus Voegeli
CFO

Review of the Group's results

2004 was dominated by the further pursuit of the Group's declared focus strategy and the corresponding structural adjustments. While the sale of real estate no longer required for business operations and of various business units produced encouraging results, a satisfactory solution could only be found for the professional imaging sector of Valora Imaging's activities. An additional CHF 120 million impairment was required within this division following the abandonment of the joint venture negotiations with the Spector Group.

A Net revenues

in million CHF	**2004**	2003	Change
Valora Retail	1 483.3	1 494.2	– 0.7%
Valora Wholesale	1 266.6	1 242.3	2.0%
Valora Trade	897.8	930.3	– 3.5%
Valora Imaging	152.1	186.1	– 18.3%
Corporate	3.0	11.5	
Elimination	– 812.7	– 843.0	
Total Group	**2 990.1**	**3 021.4**	**– 1.0%**
Switzerland	1 927.6	1 983.1	– 2.8%
Elsewhere	1 062.5	1 038.3	2.3%

The ongoing divestiture programme reduced Group net revenues by some CHF 46 million year-on-year. At the same time, however, sales in the Group's core business sectors were almost maintained, despite a still-difficult economic environment. The CHF 34 million decline at Valora Imaging is due largely to the substantial decline in analogue film development orders.

in million CHF	**2004**		2003	
Net revenues	**2 990.1**	**100.0%**	**3 021.4**	**100.0%**
Consolidated EBIT	**54.2**	**1.8%**	**– 106.0**	**n/a**
– Gains on disposals of business units	– 22.5			
– Gains on disposals of real estate	– 67.7			
+ Impairments and focus strategy costs	12.5			
EBIT before gains on disposals and focus strategy costs	**– 23.5**	**n/a**	**– 106.0**	**n/a**
+ Amortisation of goodwill	138.1		201.2	
Operating result before focus strategy and amortisation of goodwill	**114.6**	**3.8%**	**95.1**	**3.1%**

The operating result for 2004 was substantially affected by gains from asset disposals and costs arising from the implementation of the Group's focus strategy. The proceeds from the sales of operating units outside the core business defined and of real estate not required for business operations slightly exceeded expectations at some CHF 90 million.

With due regard for the CHF 49 million exceptional expenses incurred in 2003 and for the loss of some CHF 5 million in EBIT contributions from business units now sold, the Group's operating result for 2004 before gains from asset disposals and goodwill amortisation was CHF 24 million below the prior-year result.

B Valora Retail

in CHF million	2004		2003	
Net revenues	**1 483.3**	**100.0%**	**1 494.2**	**100.0%**
Consolidated EBIT	**25.5**	**1.7%**	**– 25.2**	**n/a**
– Gains on disposals of business units	– 1.9			
EBIT before gains on disposals and focus stategy costs	**23.6**	**1.6%**	**– 25.2**	**n/a**
+ Amortisation of goodwill	1.2		33.3	
Operating result before focus strategy and amortisation of goodwill	**24.8**	**1.7%**	**8.1**	**0.5%**

With net revenues virtually unchanged at CHF 1'483 million, the Valora Retail division posted an adjusted EBIT result of CHF 24.8 million and an EBIT margin of 1.7%. The sale of the Dolmetsch and Merkur Confiserien business units reduced net revenues by CHF 28 million. The net revenue for Switzerland's k kiosk business unit showed a slight 0.2% decline. After years of losses, the German press product and book business posted encouraging trends, and has been reporting an operating profit since June 2004.

C Valora Wholesale

in CHF million	2004		2003	
Net revenues	**1 266.6**	**100.0%**	**1 242.3**	**100.0%**
Consolidated EBIT	**14.5**	**1.1%**	**21.3**	**1.7%**
– Gains on disposals of business units	– 0.5			
+ Impairments and focus strategy costs	0.2			
EBIT before gains on disposals and focus strategy costs	**14.2**	**1.1%**	**21.3**	**1.7%**
+ Amortisation of goodwill	2.9		4.8	
Operating result before focus strategy and amortisation of goodwill	**17.1**	**1.4%**	**26.1**	**2.1%**

The net revenues for Valora Wholesale were a slight 2.0% improvement on 2003. The increase, however, is the result of the acquisition of the PGV Group effective October 2004 that added CHF 33 million to the divisional net revenue result. The CHF 4 million loss on receivables for the Swiss tobacco wholesale business in June 2004 and revenue declines in the Swiss services sector are the main reasons for the lower adjusted operating result.

D Valora Trade

in CHF million	2004		2003	
Net revenues	**897.9**	**100.0%**	**930.3**	**100.0%**
Consolidated EBIT	**62.0**	**6.9%**	**14.5**	**1.6%**
– Gains on disposals of business units	– 27.8			
+ Impairments and focus strategy costs	1.3			
EBIT before gains on disposals and focus strategy costs	**35.4**	**3.9%**	**14.5**	**1.6%**
+ Amortisation of goodwill	4.0		19.8	
Operating result before focus strategy and amortisation of goodwill	**39.4**	**4.4%**	**34.3**	**3.7%**

Valora Trade reported a gain of CHF 27.8 million from the sale of Merkur Kaffee, Schirmer Kaffee (Germany) and Nuxo Marketing in the course of the year. The sales reduced net revenues by CHF 32 million and EBIT by CHF 5 million year-on-year. In view of this, and despite tough market competition, the division posted an encouraging performance for 2004.

The Own Brands business unit recorded net revenues of CHF 151 million and an EBIT of CHF 11 million for the year, while the Trade business unit reported net revenues of CHF 734 million and a CHF 23 million EBIT result.

E Valora Imaging

in CHF million	2004		2003	
Net revenues	**152.1**	**100.0%**	**186.1**	**100.0%**
Consolidated EBIT	**– 123.9**	**n/a**	**– 115.9**	**n/a**
+ Loss from disposals of business units	7.8			
EBIT before loss on disposals and focus strategy costs	**– 116.1**	**n/a**	**– 115.9**	**n/a**
+ Amortisation of goodwill	130.0		143.3	
Operating result before focus strategy and amortisation of goodwill	**13.9**	**9.1%**	**27.4**	**14.7%**

The sale of Professional Imaging resulted in a loss of CHF 7.8 million and a CHF 7 million year-on-year decline in net revenues. Thanks to strict cost economies, Valora Imaging made a positive adjusted contribution to the consolidated EBIT result, despite a sizeable decline in analogue processing business. Given the present difficulties within the sector, the 9.1% EBIT ratio can be regarded as a satisfactory result. Following the abandonment of the joint-venture negotiations with the Spector Group, an analysis of the current financial potential of the Fotolabo Group resulted in an additional profit-relevant impairment of CHF 120 million.

F Corporate

in CHF million	**2004**	2003
Net revenues	**3.0**	**11.5**
Consolidated EBIT	**76.1**	**– 0.7**
– Gains on disposals of business units	– 0.1	
– Gains on disposals of real estate	– 67.7	
+ Impairments and focus strategy costs	11.1	
EBIT before gains on disposals and focus strategy costs	**19.4**	**– 0.7**
+ Amortisation of goodwill	0.0	0.0
Operating result before focus strategy and amortisation of goodwill	**19.4**	**– 0.7**

The Corporate sector reported a CHF 67.7 million profit from the sales of real estate no longer required for business operations and, at CHF 11.1 million, incurred most of the costs arising from the implementation of the focus strategy. The latter include costs relating to the ongoing sales negotiations, consultancy fees and impairments on remaining real estate no longer required for business operations.

G Financial result

Financial expenses showed a year-on-year decline thanks to favourable refinancing of the 4.75% bond repaid in August 2003 and a reduction in interest-bearing Group net debt. Financial income was CHF 3.8 million below its prior-year level. The net financial result was virtually unchanged from 2003 at CHF –17.4 million.

H Liquidity, financing and shareholders' equity

Net debt was reduced CHF 138 million from the CHF 242 million of 2003 to CHF 104 million. The sale of real estate and various business units produced net proceeds of CHF 293 million. With a CHF 34 million reduction in net working capital, net cash provided by operating activities rose CHF 38 million to CHF 175 million.
The gains from the sale of real estate not required for business operations and of non-core business units provided the Valora Group with a CHF 150 million net cash inflow from investing activities. In addition to CHF 49 million in ordinary operating investments, CHF 31 million was spent on the acquisition of the Austrian-based PGV Group. Cash flow from financing activities was affected primarily by the repayment of CHF 59 million in bank debts and the CHF 152 million spent on the share buyback programme.
Cash and cash equivalents increased to CHF 292 million.
As part of the share buyback programme which was continued in 2004, a further 512'000 Valora shares were acquired by the company. The Extraordinary General Meeting of Shareholders of October 20, 2004 approved the deletion of 454'000 shares and the purchase of up to 270'000 further registered shares by the date of the 2005 Ordinary General Meeting in order to further reduce share capital. Share capital amounted to CHF 35.7 million at the end of 2004.
The Board of Directors will recommend to the 2005 Ordinary General Meeting that the nominal value of the Valora registered share be reduced from its present CHF 10.00 to CHF 1.00 and that the difference of CHF 9.00 be repaid to shareholders.

I Financial risks

The impact of risks on the balance sheet and income statement demands a systematic and holistic analysis of all the risks to which a company is exposed and of its overall risk exposure. Valora consistently and systematically monitors and manages its financial risk items and produces a comprehensive annual analysis of all its financial risks. These comprise interest rate and currency risks and the risks inherent in the Group's financial investments. (Commodity risks are no longer included in this analysis following the sale of the Group's coffee roasting businesses in 2004.)

The latest assessment (as of June 30, 2004) was based on the following assumptions:

- The risk exposure is calculated for a 12-month period.
- Each risk is assessed at one standard deviation (STD), i.e. with a likelihood of occurrence of 68%. The interest rate risk, for example, means that Valora is likely to incur additional interest costs of up to CHF 1.2 million in 68% of all possible cases. Two STDs cover 95% of all likelihoods of occurrence and entail additional interest costs of up to CHF 2.4 million.
- The intercorrelations between individual risk categories (certain risks can increase or diminish one another) are included in the analysis.

The impact of risks determined (at one STD) can be summarised as follows:

in CHF million	**2004**	2003
Interest-rate risks	1.2	2.3
Currency risks	23.2	22.5
Commodity risks	0.0	6.9
Financial investments (treasury shares)	23.9	25.4
Intercorrelations	– 15.2	– 10.2
Total	**33.1**	**46.9**
Impact on income statement	7.9	17.0
Impact on balance sheet	52.7	57.1

The overall financial risk exposure of the Valora Group remains low at some 8.5% of shareholders' equity.

J Outlook

Having successfully completed most of its planned divestitures, Valora will be concentrating on the Group's restructuring and disposing of the Fotolabo Group in 2005. With the overall economic situation remaining less than stable, the cost economies initiated will be crucial to maintaining results at their present levels. Valora is confident of returning to growth once these structural adjustments have been completed in the course of 2006.

Consolidated income statement

January 1 to December 31, in CHF 000 (except per share amounts)	Note	2004	%	2003	%
Net revenues	28	**2 990 086**	**100.0**	**3 021 431**	**100.0**
Cost of goods		– 1 904 518	– 63.7	– 1 856 444	– 61.4
Gross margin		**1 085 568**	**36.3**	**1 164 987**	**38.6**
Personnel expenses	4	– 529 581	– 17.7	– 543 862	– 18.0
Other operating expenses	5	– 411 216	– 13.8	– 456 715	– 15.1
Depreciation and amortisation of operating assets	16, 17	– 54 654	– 1.8	– 69 498	– 2.3
Other income, net	6	24 499	0.8	205	0.0
Goodwill amortisation	17	– 138 102	– 4.6	– 201 160	– 6.7
Gains on disposals of business units	2	22 482	0.7	0	0.0
Gains on real estate disposals	2	67 729	2.3	0	0.0
Impairments and focus strategy costs	2	– 12 529	– 0.4	0	0.0
Earnings before interest and taxes (EBIT)		**54 196**	**1.8**	**– 106 043**	**– 3.5**
Financial expenses	7	– 20 087	– 0.7	– 23 578	– 0.8
Financial income	8	2 674	0.1	5 973	0.2
Share of profit/loss of associates		564	0.0	– 133	0.0
Income/loss before income taxes and minority interest		**37 347**	**1.2**	**– 123 781**	**– 4.1**
Income taxes	9	– 1 731	0.0	17 934	0.6
Minority interest		– 1 012	0.0	– 405	0.0
Net income/net loss		**34 604**	**1.2**	**– 106 252**	**– 3.5**
Average number of shares outstanding	10	3 664 006		3 935 088	
Earnings/loss per share					
Earnings/loss per share (in CHF)		9.44		– 27.00	
Dividend per share (in CHF)		0		9.00	

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated balance sheet

Assets **At December 31,** in CHF 000	Note	**2004**	**%**	2003	%
Current assets					
Cash and cash equivalents	11	291 645		209 928	
Securities available for sale	12	3 247		3 838	
Trade accounts receivable	13	192 780		211 929	
Inventories	14	260 208		304 709	
Current income tax receivable		4 716		7 896	
Other current assets	15	56 761		60 144	
Total current assets		**809 357**	**53.7**	**798 444**	**46.7**
Non-current assets					
Property, plant and equipment	16	393 639		509 479	
Goodwill, software and other intangible assets	17	182 819		289 925	
Other long-term assets	18	73 565		70 786	
Deferred income tax assets	24	46 690		42 121	
Total non-current assets		**696 713**	**46.3**	**912 311**	**53.3**
Total assets		**1 506 070**	**100.0**	**1 710 755**	**100.0**

Liabilities and shareholders' equity

At December 31, in CHF 000	Note	**2004**	**%**	2003	%
Current liabilities					
Short-term bank debt		1 050		199 314	
Current bonds payable	19	219 501		0	
Trade accounts payable		288 275		263 743	
Current income tax liabilities		11 302		4 920	
Other current liabilities	20	123 693		132 975	
Current provisions	21	6 269		6 967	
Total current liabilities		**650 090**	**43.2**	**607 919**	**35.5**
Long-term liabilities					
Long-term debt	19	178 494		37 104	
Bond payable	19	0		218 903	
Long-term accrued pension cost		10 470		7 614	
Long-term provisions	21	12 047		22 143	
Deferred income tax liabilities	24	31 033		39 925	
Total long-term liabilities		**232 044**	**15.4**	**325 689**	**19.0**
Total liabilities		**882 134**	**58.6**	**933 608**	**54.5**
Minority interest in subsidiaries		**2 438**	**0.2**	**3 125**	**0.2**
Shareholders' equity					
Share capital		35 700		40 240	
Additional paid-in capital		0		75 439	
Retained earnings		660 096		706 354	
Treasury stock		– 77 685		– 55 704	
Cumulative translation adjustments		3 387		7 693	
Total shareholders' equity		**621 498**	**41.2**	**774 022**	**45.3**
Total liabilities and shareholders' equity		**1 506 070**	**100.0**	**1 710 755**	**100.0**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated cash flow statement

January 1 to December 31, in CHF 000	Note	**2004**	2003
Earnings before interest and taxes (EBIT)		**54 196**	**– 106 043**
Adjustments to reconcile income to cash generated from operations			
Depreciation		58 534	59 077
Amortisation of goodwill and other intangible assets		148 828	211 581
Gain on sale of fixed assets, net		– 67 931	– 676
Gain on disposal of business units, net		– 22 482	– 639
Allowances made for loans receivable		250	3 921
(Release) creation of provisions, net		– 3 588	14 940
Changes in operating assets and liabilities, net of effects of acquisitions and disposal of business units			
Decrease (increase) in trade accounts receivable		17 443	– 5 477
Decrease (increase) in inventories		23 941	– 33 284
(Increase) decrease in other current assets		– 4 092	3 589
Increase in trade accounts payable		3 567	31 722
Increase (decrease) in accrued pension cost		502	– 3 677
Provisions assigned		– 7 061	0
Increase (decrease) in other liabilities		394	– 1 381
Cash generated from operations		**202 501**	**173 653**
Interest paid		– 20 810	– 22 612
Income taxes paid		– 9 848	– 19 225
Interest received		3 432	5 500
Net cash provided by operating activities		**175 275**	**137 316**

Cash flows from investing activities			
January 1 to December 31, in CHF 000	Note	**2004**	2003
Capital expenditures		– 49 190	– 59 575
Proceeds from sale of fixed assets		165 960	12 467
Acquisition of subsidiaries, net of cash acquired	2	– 30 508	– 378
Disposal of business units, net of cash sold	2	73 258	– 123
Disposal (purchase) of securities available for sale, net		3 434	– 945
Purchase of minorities and other long-term assets		– 2 851	– 9 314
Purchase of other intangible assets		– 10 281	– 5 971
Net cash provided by (used in) investing activities		**149 822**	**– 63 839**
Cash flows from financing activities			
(Repayment) increase of bank debt, net		– 59 489	78 156
Repayment of bond payable		0	– 100 000
Treasury stock purchased		– 151 554	– 68 143
Treasury stock re-issued		2 607	17 661
Dividends paid		– 33 875	– 35 537
Dividend payments by subsidiaries to minorities		– 678	– 216
Net cash used in financing activities		**– 242 989**	**– 108 079**
Net increase (decrease) in cash and cash equivalents		**82 108**	**– 34 602**
Translation adjustments on cash and cash equivalents		– 391	5 520
Cash and cash equivalents at beginning of year		209 928	239 010
Cash and cash equivalents at end of year		291 645	209 928

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of changes in shareholders' equity

in CHF 000	Share capital	Additional paid-in capital	Retained earnings	Treasury stock	Cumulative translation adjustments	Total shareholders' equity
Balance at January 1, 2003	**42 000**	**126 451**	**848 143**	**– 57 994**	**– 5 349**	**953 251**
Net loss			– 106 252			– 106 252
Dividend Valora Holding AG			– 35 537			– 35 537
Treasury stock purchased				– 68 143		– 68 143
Issues of treasury stock				17 661		17 661
Reduction of share capital	– 1 760	– 51 012		52 772		0
Translation adjustments					13 042	13 042
Balance at December 31, 2003	**40 240**	**75 439**	**706 354**	**– 55 704**	**7 693**	**774 022**
Net income			34 604			34 604
Dividend Valora Holding AG			– 33 875			– 33 875
Treasury stock purchased				– 151 554		– 151 554
Issues of treasury stock				2 607		2 607
Reduction of share capital	– 4 540	– 75 439	– 46 987	126 966		0
Translation adjustments					– 4 306	– 4 306
Balance at December 31, 2004	**35 700**	**0**	**660 096**	**– 77 685**	**3 387**	**621 498**

A dividend of CHF 9.00 was paid in 2004 (2003: CHF 9.00). Dividend payments are based on the net income for the year and the balance brought forward by the parent company Valora Holding AG. The Board of Directors will recommend to the 2005 Ordinary General Meeting of Shareholders that the nominal value of the Valora share be reduced by CHF 9.00 to CHF 1.00 per share.

Of the CHF 151.6 million spent on the purchase of treasury stock, CHF 150.3 million was used to purchase the 512'000 Valora shares acquired via the second trading line. A total of 9'020 treasury shares were sold to employees under the employee share ownership plan. The capital reduction was effected through the deletion of 454'000 treasury shares (2003: 176'000 shares), as had been approved by the Extraordinary General Meeting of Shareholders of October 20, 2004. Following the capital reduction, share capital at December 31, 2004 consisted of 3'570'000 fully-paid-up registered shares (2003: 4'024'000 shares) with a nominal value of CHF 10.00 per share. The Extraordinary General Meeting of Shareholders of October 20, 2004 also approved the additional purchase of up to 270'000 registered shares by the date of the 2005 Ordinary General Meeting in order to further reduce share capital. The repurchase of this final tranche of shares was completed on February 11, 2005.

The company has conditional capital of 84'000 shares, which the Board of Directors is empowered to issue in connection with current and future employee and management share ownership plans. No such shares had been issued by December 31, 2004.

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 Summary of significant accounting policies

Description of business. Valora is an international distribution and convenience group with operating activities in the following business segments. Segment reporting of these business segments is disclosed accordingly in note 28 (page 43). Transfer prices between subsidiaries and business segments are determined on arm's length basis.

Valora Retail: Valora Retail operates small retail shops in heavily frequented locations throughout Europe (Switzerland, Germany and Luxembourg) and functions as a marketing and distribution system with comprehensive geographic coverage for press products, tobacco and consumer goods for daily use and the impulse buyer's market.

Valora Wholesale: Valora Wholesale supplies kiosks and other small outlets with newsprint, tobacco and food products and other convenience goods.

Valora Trade: Valora Trade serves as an exclusive sales representative distributing branded food and non-food products together with goods from its own production to retail customers.

Valora Imaging: Valora Imaging specialises in providing innovative services for private customers in the photo development and image processing fields. It operates its own manufacturing sites for conventional and digital image processing.

Corporate: Central activities not attributable to individual business segments, including centrally-performed real estate management activities.

Basis of presentation. The consolidated financial statements of Valora have been prepared under the historical cost convention (except for securities available for sale, which are carried at market value, and financial assets and financial liabilities, which are stated at fair value) and in accordance with International Financial Reporting Standards (IFRS) and in conformity with the legal provisions of the Swiss Code of Obligations. The financial statements are prepared in Swiss francs (CHF). The summary of the significant accounting policies is explained below.

The preparation of financial statements in conformity with generally-accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions Valora may undertake in the future, actual results may ultimately differ from such estimates.

Application of new accounting standards. The amendments effected to the IFRS effective January 1, 2005 have not been retroactively adopted. The new IFRS 3 was applied to acquisitions effected after March 30, 2004. The new standards will be applied from the 2005 business year onwards.

Scope of consolidation. A list of all significant subsidiaries is presented in note 31.

Principles of consolidation. The consolidated financial statements of Valora include the operations of Valora Holding AG and all its direct and indirect subsidiaries which Valora Holding AG controls with more than 50% of voting rights.
Investments and joint ventures where Valora exercises significant influence but does not have control are accounted for using the equity method. Under the equity method, investments are disclosed as investments in associates and presented at their fair value as of the date of acquisition, adjusted for Valora's share in retained earnings (losses) resulting after the date of acquisition.
Subsidiaries and investments acquired or disposed of during the year are included in the consolidated financial statements after the date of acquisition (assumption of control) and excluded after the date of sale respectively.
Investments in companies which the Group neither controls nor exercises significant influence on – generally when Valora's interest is less than 20% – are recorded at fair value.
All intercompany balances, transactions and profits are eliminated on consolidation. Balances and transactions with investments and joint ventures accounted using the equity method are separately disclosed as items with associates.
Minority interests in shareholders' equity and net income are also disclosed separately.

Goodwill from acquisitions and other intangible assets. Differences between the purchase price of acquisitions and the fair value of net assets acquired are capitalised as goodwill from acquisitions. Goodwill and other intangible assets are amortised on a straight-line basis over their estimated useful life, up to a maximum of 20 years. Goodwill from acquisitions effected after March 30, 2004 is no longer amortised in compliance with IFRS 3.

Disposals of business units. In the case of disposals of business units, results from operations are presented in the corresponding ordinary income statement and cash flow statement positions up until the date of disposal. The difference between the sale proceeds and the net asset value on the sale date is shown – less the direct sale costs involved – under gains on disposals of business units.

Impairments and focus strategy costs. Impairments were effected on real estate not yet disposed of and general costs arising from the implementation of the strategy resolved by the Board of Directors under which the Valora Group is to focus on its core business activities. These are summarised in the income statement and separately presented.

Foreign currency translation. Transactions denominated in foreign currencies are recorded at the rate of exchange prevailing at the dates of transaction. At the end of the accounting period the unsettled balances in foreign currency receivables and liabilities are valued at the rate of exchange prevailing at the balance sheet date, with resulting exchange rate differences charged to income.
The assets and liabilities of subsidiaries reporting in currencies other than Swiss francs are translated at the rates of exchange prevailing at the balance sheet date. Income, expenses, cash flows and other movement items are translated at the average exchange rates for the period. Translation gains and losses are accumulated and separately disclosed as cumulative translation adjustments in shareholders' equity.

Cash and cash equivalents. Cash and cash equivalents include petty cash, banks sight deposits and short-term money-market investments carried at market value with original maturity dates of three months or less.

Securities available for sale. Securities available for sale are carried at market value and comprise publicly-traded equities, bonds and money market investments with maturity dates of more than three months. Unrealised gains and losses are recognised as income and expense as incurred.

Trade accounts receivable. Trade accounts receivable are recorded at face value less any value adjustments required for doubtful accounts. No long-term trade accounts receivable exist.

Inventories. Inventories are valued at the lower of cost and net realisable value using either the weighted average method or the first-in, first-out (FIFO) method. Allowances are made for obsolete and slow-moving items. Unsettled commodity forward contracts relating to inventory purchases of certain production companies are not capitalised.

Property, plant and equipment. Property, plant and equipment including investment property are recorded at cost less accumulated depreciation. The fair values stated in the notes are based on current calculations of capitalised earnings values. Changes in fair value are not capitalised. Leasehold improvements are depreciated over the shorter of their estimated useful life and the remaining term of the lease. Repairs and maintenance are expensed as incurred while major renovations and improvements are capitalised as property, plant and equipment and depreciated over their estimated useful lives. Borrowing costs incurred during the construction of property, plant and equipment are expensed as incurred.
Depreciation is effected using the straight-line method based on the following estimated useful lives:

	Years
Buildings, for own use	20–40
Investment property	20–60
Machinery, equipment, installations and tools	6–10
Vehicles	5
IT hardware and software	3–5
Other intangible assets	3–10

Leases. Assets acquired under leasing agreements which effectively substantially transfer all the risks and benefits incidental to ownership from the lessor to the lessee are classified as finance leases. Finance leases are recorded at amounts equivalent to the estimated net present value of the future minimum lease payments, which approximate the fair value at the inception of the lease. The estimated net present value of the future minimum lease payments is correspondingly recorded as a finance lease obligation. Assets under finance leases are amortised over their estimated useful lives.
Operating lease payments are charged to income as incurred.

Impairment of non-current assets. Property, plant and equipment and other non-current assets, including goodwill and other intangible assets, are reviewed for impairment losses at least annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets whose carrying values exceed their recoverable amount are written down to an amount determined using discounted net future cash flows expected to be generated by the asset.

Net revenues and revenue recognition. Net revenues include all sales of goods and services, net of any revenue deductions including rebates, discounts and other agreed deductions as well as allowances for bad debts. Revenues are recognised when goods are delivered or handed over or services are rendered.

Share-based payments. Share-based payments are not shown on the income statement. The new IFRS 2 applicable from January 1, 2005 will result in current share-based payments being shown on the income statement from the 2005 business year onwards.

Provisions. Provisions are recorded when a present obligation resulting from a past event has been incurred, its amount can be reasonably estimated and it is probable that an outflow of resources will be required to settle the obligation.

Interest-bearing debt. Interest-bearing obligations are valued at amortised cost, with the difference between purchase price and repayment amount shown under financial expenses over the duration of the obligation on the basis of actual interest rates.

Retirement benefits. Valora contributes in accordance with local requirements to various defined-benefit and defined-contribution pension plans. The pension cost in each period is calculated on the basis of yearly actuarial valuations. Pension costs are accounted using the projected unit credit method. Any actuarial gains or losses exceeding the greater of 10% of the projected benefit obligation or the fair value of the plan assets are amortised using the corridor method, i.e. over the average remaining service lives of the insurees concerned.

Income taxes. Current income taxes are based on taxable income of the current year and are charged to income as incurred.
Deferred income taxes are determined using the liability method with the applicable current income tax rates applied on a comprehensive basis to all temporary differences. Tax savings resulting from tax losses carried forward applicable to future taxable income and other deferred income tax assets are only recognised to the extent that future realisation is probable.

Financial risk factors. The Valora Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group currently uses no derivative financial instruments to hedge certain exposures.

Foreign exchange risks. The Valora Group operates internationally and is thus exposed to foreign exchange risks arising from various currency exposures, primarily with respect to the euro and Swedish Krona. Valora Holding AG has a number of direct and indirect investments in foreign subsidiaries whose net assets are exposed to currency translation risks.

Interest rate risks. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has neither significant interest-bearing assets nor long-term fixed-term interest-incurring debt, except for the 4½% bond redeemable in 2005 and the syndicated credit facility (see note 19).

Credit risks. The Group's accounts receivable do not contain any significant individual credit risks or concentrations of credit risk.

Accounting for derivative financial instruments and hedging activities. Valora does not currently hold any hedges against interest or currency risks. All such hedges are effected in accordance with Group hedging policy guidelines, are centrally effected and administered, and are only concluded with top-quality financial institutions. No uncovered short transactions are executed.
Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently shown at fair value. The gains and losses resulting from the value adjustments entailed are recognised as income and expense.

Fair value estimation. The fair value of publicly-traded derivatives and trading and available-for-sale securities is based on quoted market prices on the balance sheet date. The fair value of interest-rate swaps is calculated at the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward-exchange market rates at the balance sheet date.

Earnings per share. Basic earnings per share are calculated by dividing net income by the weighted average number of outstanding shares of the parent company, Valora Holding AG.

2 Acquisitions and disposals of business units

Transactions in 2004. Disposals of subsidiaries. As part of its overall focus strategy to concentrate on its core business activities, the Valora Group pursued its previously announced intention to dispose of business units and real estate not required for business operations in the course of 2004. The results of these transactions, which are shown separately on the consolidated income statement, are presented in more detail below:

Gains on disposals of business units

Business units disposed of under the focus strategy

Business unit, country	Date control ceased	Segment
Dolmetsch AG, Switzerland	01.01.2004	Corporate
BSV Buch Rack-Jobbing, Switzerland	01.01.2004	Valora Wholesale
Again Production AB, Sweden	01.01.2004	Valora Trade
Merkur Confiserien, Switzerland	01.06.2004	Valora Retail
Merkur Kaffee, Switzerland	01.07.2004	Valora Trade
Schirmer Kaffee GmbH, Germany	01.10.2004	Valora Trade
Stutz FotoColor AG, Switzerland	01.10.2004	Valora Imaging
Color Media GmbH, Germany	01.10.2004	Valora Imaging
Kwadrant Sales Promotion BV, Netherlands	01.10.2004	Valora Imaging
Starfoto BV, Netherlands	01.10.2004	Valora Imaging
Dialab Oy, Finland	01.10.2004	Valora Imaging
Colorzenith S.r.l., Italy	01.10.2004	Valora Imaging
Distriforce Direct Mail, Switzerland	31.12.2004	Valora Wholesale
Nuxo Marketing, Switzerland	31.12.2004	Valora Trade

Balance-sheet amounts of business units disposed of

in CHF 000	
Current assets	62 060
Non-current assets	33 449
Current liabilities	– 24 561
Long-term liabilities	– 11 889
= Net assets disposed of	**59 059**
Cumulative translation adjustments of business units disposed of	– 1 380
Sale price	80 161
= Gains on disposals of business units	**22 482**
Purchase price payments received	80 161
Cash and cash equivalents sold	– 6 903
= Net cash inflow from disposals of business units	**73 258**

Gains on real estate disposals

in CHF 000	
Total carrying amount	93 896
Total sale price	161 625
Total gains on real estate disposals	**67 729**

Impairments and focus strategy costs

in CHF 000	
Impairments on buildings	11 606
Impairments on intangible assets	3 000
Project and consultancy costs	4 023
Of which included in prior-year accounts	– 6 100
Total impairments and focus strategy costs	**12 529**

The impairment on buildings relates to real estate not required for business operations which is available for sale under the focus strategy but had not yet been sold by the end of 2004. These are mostly properties in Germany, which have been written down to their net realisable value.

Acquisitions of subsidiaries. Valora Wholesale acquired 100% of Pressegrossvertrieb Salzburg GmbH on October 1, 2004. The company, which is active in the press wholesale business and delivers magazines to retail outlets throughout Austria, was included in the scope of consolidation from October 1, 2004 onwards, and contributed CHF 33.3 million in net revenues and net income of CHF 0.1 million to consolidated results for the year. If the acquisition had been effected on January 1, 2004 and the company’s results had thus been consolidated for the full financial year, consolidated net revenues would have amounted to CHF 3’101.9 million (PGV: CHF 145.1 million) and consolidated net income would have stood at CHF 41.8 million (PGV: CHF 7.3 million).

Balance sheet values of companies consolidated for the first time

in CHF 000	Fair value	Acquiree’s carrying amount
Current assets	35 673	35 196
Non-current assets	50 638	36 342
Current liabilities	– 33 113	– 32 601
Long-term liabilities	– 26 911	– 22 357
= Net assets acquired / shareholders’ equity	**26 287**	**16 580**
Goodwill acquired	4 894	
= Purchase price of subsidiaries acquired	**31 181**	
Cash purchase price	30 860	
Direct costs of acquisition	321	
Cash and cash equivalents acquired	– 673	
= Cash used in acquisition of subsidiaries	**30 508**	

Capitalised goodwill consists of non-capitalisable portions of the purchase price paid for entry into the Austrian market, the experience of the management acquired and their personal relations with publishing houses.

Valora also increased its shareholding in Charles Pettersen AS, Norway (in the Valora Trade division) from 90% to 100% during 2004. This entailed the acquisition of net assets worth CHF 1.1 million at a purchase price of CHF 2.2 million, generating additional goodwill of CHF 1.1 million.

Transactions in 2003. Acquisitions of subsidiaries. Valora acquired all the shares in Negozio Stazione SA, Muralto (in the Valora Retail division) effective January 1, 2003. Valora also increased its shareholding in Geschäftshaus Immobilien AG from 63% to 100% on the same date. The shareholding in Charles Pettersen AS, Norway was increased from 80% to 90% in the course of the year. And the remaining 24% shareholding in Stilke GmbH, Hamburg was acquired effective July 1, 2003.

Balance sheet values of companies consolidated for the first time

in CHF 000	
Current assets	128
Non-current assets	316
Current liabilities	– 306
Long-term liabilities	– 128
= Net assets acquired / shareholders' equity	**10**
Goodwill acquired	385
= Purchase price of subsidiaries acquired	**395**
Cash and cash equivalents acquired	– 17
= Cash used in acquisition of subsidiaries	**378**

Disposals of subsidiaries. Valora's entire shareholdings in Alimarca Dubai and Alimarca Spain SA (both within the Valora Trade division) were disposed of effective January 1 and July 1, 2003 respectively.

Balance sheet values of companies disposed of

in CHF 000	
Current assets	1 198
Non-current assets	996
Current liabilities	– 1 398
Long-term liabilities	– 1 435
= Net assets disposed of	**– 639**
Sale price	0
= Gains on disposals of subsidiaries	**639**
Cash and cash equivalents	– 123
= Net cash outflow from disposal of subsidiaries	**– 123**

3 Discontinuing operations

Valora announced on February 11, 2005 that the negotiations to incorporate its Valora Imaging division into a joint venture had failed. In view of this, the Board of Directors decided that the imaging business should be disposed of in 2005. The discontinuing operation comprises the consumer imaging segment of the Valora Imaging division, which is active in the mail-order business in Switzerland, Germany, France, Belgium and Finland. Following the disposal effective October 1, 2004 of the professional imaging segment as part of Valora's current strategy of focusing on its core business activities, the division consisted of the consumer imaging sector only at December 31, 2004.

Income statement of discontinued business activities

in CHF 000	**1.1.–31.12.2004**	1.1.–31.12.2003
Net revenues	131 669	155 100
Cost of goods	– 21 361	– 24 035
Gross margin	**110 308**	**131 065**
Personnel expenses	– 29 744	– 30 257
Other operating expenses	– 65 273	– 65 413
Depreciation and amortisation of operating assets	– 5 008	– 6 256
Other income, net	1 612	– 5 289
Amortisation of goodwill	– 130 017	– 143 297
Earnings before interest and taxes (EBIT)	**– 118 122**	**– 119 447**
Financial result	– 222	– 9 105
Loss before income taxes	**– 118 344**	**– 128 552**
Income taxes	– 636	– 4 275
Net loss	**– 118 980**	**– 132 827**

Net assets of discontinued business activities

in CHF 000	**31.12.2004**	31.12.2003
Current assets	33 032	44 519
Non-current assets	58 437	184 602
Current liabilities	– 28 682	– 39 062
Long-term liabilities	– 2 742	– 9 248
Net assets	**60 045**	**180 811**

Cash flow of discontinued business activities

in CHF 000	**1.1.–31.12.2004**	1.1.–31.12.2003
Net cash provided by operating activities (cash flow)	25 652	20 271
Net cash used in investing activities	– 11 893	– 374
Net cash used in financing activities	– 23 152	– 31 926
Translation adjustments on cash and cash equivalents	– 82	663
Total change in cash and cash equivalents	**– 9 475**	**– 11 366**

4 Personnel expenses

in CHF 000	2004	2003
Salaries and wages	450 505	464 091
Social security expenses and pension cost	70 192	72 380
Other personnel expenses	8 884	7 391
Total personnel expenses	**529 581**	**543 862**
Average number of employees (full-time equivalents)	8 440	8 995

5 Other operating expenses

in CHF 000	2004	2003
Rent	115 851	132 116
Repairs and maintenance	6 789	6 292
Real estate expenses	2 781	2 429
Energy	20 214	19 702
Insurance	5 012	5 152
Communication and IT	17 805	15 356
Advertising and sales	94 728	116 535
Shipping and dispatch	84 887	81 162
General administration	22 960	32 112
Capital and other taxes	2 127	2 938
Miscellaneous operating expenses	38 062	42 921
Total other operating expenses	**411 216**	**456 715**

The sizeable year-on-year decline in rental costs is due to the impact on the 2004 financial statements of the disposal of the Dolmetsch and Merkur outlets, the closure of sales outlets under the restructuring in Germany and the fact that the prior-year amount included the creation of restructuring reserves.

In addition to the impact of the sale of business units, advertising and sales costs were reduced through a change in the statement of such costs at Valora Trade Nordics.

Administration costs were reduced by the absence in 2004 of the refinancing and special audit costs included in the prior-year amount.

Miscellaneous operating expenses include payments for operating leases amounting to CHF 6.0 million (2003: CHF 5.0 million).

6 Other income, net

in CHF 000	**2004**	2003
Rental income	13 864	12 725
Gains (losses) on sales of non-current assets, net	63	– 155
Miscellaneous expenses	– 926	– 17 165
Miscellaneous income	11 498	4 800
Total other income, net	**24 499**	**205**

Other income was reduced largely by the absence of the non-recurring costs incurred in 2003. Miscellaneous income included CHF 8.0 million deriving from the release of provisions no longer required.

7 Financial expenses

in CHF 000	**2004**	2003
Interest on bank debts and mortgages	8 739	8 212
Interest on bonds issued	9 922	13 065
Amortisation of bond discount	599	739
Interest on finance leases	52	301
Foreign exchange losses, bank charges, commissions and other	772	1 025
Losses realised on sale of securities	0	5
Unrealised valuation losses of securities	3	231
Total financial expenses	**20 087**	**23 578**

8 Financial income

in CHF 000	**2004**	2003
Interest income	2 504	4 370
Gains realised on sale of securities	170	162
Foreign exchange gains and other	0	1 441
Total financial income	**2 674**	**5 973**

9 Income taxes

in CHF 000	**2004**	2003
Current income taxes	18 821	6 756
Deferred income taxes	– 17 090	– 24 690
Total income taxes	**1 731**	**– 17 934**
Income tax calculation		
Income (loss) before income taxes and minority interest	37 347	– 123 781
Applicable weighted average income tax rate (in %)	22.9%	26.6%
Income taxes at the weighted average income tax rate	8 549	– 32 841
Reconciliation to reported income taxes		
Non tax-deductible tax expenses	2 723	22 078
Tax-exempt income	– 4 714	– 1 345
Tax-deductible losses not yet deducted	– 12 777	– 49 581
Write-back of valuation allowances on deferred income tax assets, net	1 188	40 645
Changes in tax rates, prior period and other income tax effects, net	6 762	3 110
Total reported income taxes (as above)	**1 731**	**– 17 934**

10 Weighted average number of shares

The weighted average number of shares can be summarised as follows:

Shares	**2004**	2003
Number of shares at January 1	4 024 000	4 200 000
Average number of treasury shares including second trading line	– 359 994	– 264 912
Average number of shares	**3 664 006**	**3 935 088**

There were no dilutive effects for 2004 or 2003.

11 Cash and cash equivalents

in CHF 000	2004	2003
Petty cash and bank sight deposits	170 768	207 142
Short-term deposits and money market investments	120 877	2 786
Total cash and cash equivalents	**291 645**	**209 928**

12 Securities available for sale

in CHF 000	2004	2003
Shares, options and participation certificates	451	600
Fixed-interest-rate bonds and time deposits	2 796	3 238
Total securities available for sale	**3 247**	**3 838**

13 Trade accounts receivable

in CHF 000	2004	2003
Trade accounts receivable, gross	200 467	219 461
Allowance for bad and doubtful debts	– 7 687	– 7 532
Total trade accounts receivable, net	**192 780**	**211 929**

14 Inventories

in CHF 000	2004	2003
Raw materials and supplies	9 926	23 795
Finished goods	4 938	6 451
Merchandise	245 344	274 463
Total inventories	**260 208**	**304 709**

Inventories contain no items stated at net realisable value.

Some production companies within the Valora Group purchase raw materials and other goods by means of forward contracts in the course of their normal business activities. Such contracts are always physically exercised. The Valora Group held open forward commodity contracts with a contractual value of CHF 7.2 million (2003: CHF 19.6 million) and a latest settlement date of December 30, 2005 on the balance sheet date.

15 Other current assets

in CHF 000	2004	2003
Value-added tax, withholding tax and other taxes recoverable	7 162	7 285
Prepaid expenses and accrued revenue	11 927	12 562
Miscellaneous receivables and other	37 672	40 297
Total other current assets	**56 761**	**60 144**

16 Property, plant and equipment

At cost in CHF 000	Land	Buildings	Machinery & equipment	Construction in progress	Total
Balance at January 1, 2003	**69 573**	**365 153**	**564 772**	**8 547**	**1 008 045**
Acquisitions and divestitures	0	0	– 27	0	– 27
Additions	0	4 177	38 272	16 762	59 211
Disposals	– 855	– 11 347	– 39 219	0	– 51 421
Reclassifications	0	1 311	3 895	– 10 688	– 5 482
Translation adjustments	547	4 846	12 326	259	17 978
Balance at December 31, 2003	**69 265**	**364 140**	**580 019**	**14 880**	**1 028 304**
Acquisitions and divestitures	7 862	– 8 155	– 57 694	0	– 57 987
Additions	11	1 099	39 970	8 110	49 190
Disposals	– 36 036	– 94 395	– 20 943	– 415	– 151 789
Reclassifications	0	11 307	5 538	– 18 008	[1] – 1 163
Translation adjustments	– 83	– 693	– 1 551	– 54	– 2 381
Balance at December 31, 2004	**41 019**	**273 303**	**545 339**	**4 513**	**864 174**
Accumulated depreciation					
Balance at January 1, 2003	**0**	**– 95 050**	**– 395 393**	**0**	**– 490 443**
Acquisitions and divestitures	0	0	67	0	67
Additions	0	– 8 899	– 46 340	0	– 55 239
Impairments	– 410	– 3 428	0	0	– 3 838
Disposals	0	3 838	35 891	0	39 729
Reclassifications	0	0	685	0	685
Translation adjustments	– 11	– 1 284	– 8 491	0	– 9 786
Balance at December 31, 2003	**– 421**	**– 104 823**	**– 413 581**	**0**	**– 518 825**
Acquisitions and divestitures	0	7 196	44 548	0	51 744
Additions	0	– 8 483	– 38 445	0	– 46 928
Impairments	– 1 247	– 10 359	0	0	– 11 606
Disposals	0	36 535	17 225	0	53 760
Translation adjustments	4	170	1 146	0	1 320
Balance at December 31, 2004	**– 1 664**	**– 79 764**	**– 389 107**	**0**	**– 470 535**
Net book value					
At December 31, 2003	68 844	259 317	166 438	14 880	509 479
At December 31, 2004	**39 355**	**193 539**	**156 232**	**4 513**	**393 639**

[1] Reclassification to software and other intangible assets

The impairments on land and buildings are explained in note 2.

Land and buildings include investment property with an estimated market value of approximately CHF 45.2 million (2003: CHF 186.1 million) and the following at cost and net book values:

million CHF	At cost	Accumulated depreciation	Net book value
Balance at December 31, 2003	**155.5**	**– 32.7**	**122.8**
Additions	3.2	– 14.8	– 11.6
Disposals	– 110.5	28.2	– 82.3
Balance at December 31, 2004	**48.2**	**– 19.3**	**28.9**

Rental income from investment property amounted to CHF 12.6 million (2003: CHF 11.6 million), while the corresponding direct operating expenses totalled CHF 1.9 million (2003: CHF 1.7 million). Since the disposal of property under the focus strategy was effected at the end of 2004, the full year's income and costs from this investment property are included in the 2004 results.
Property, plant and equipment includes investment property valued at CHF 13.2 million (2003: CHF 66.8 million) and other assets of CHF 161.0 million (2003: CHF 159.6 million) which are pledged to secure mortgage loans.
Property, plant and equipment also includes CHF 1.2 million of land and buildings acquired under finance leases (2003: CHF 1.2 million) and CHF 1.9 million of machinery and equipment under finance leases (2003: CHF 1.3 million).

Fire insurance values of property, plant and equipment in CHF 000	**2004**	2003
Property	382 564	471 106
Plant and equipment	777 219	914 295
Total	**1 159 783**	**1 385 401**

17 Goodwill, software and other intangible assets

At cost in CHF 000	Goodwill from acquisitions	Software and other intangible assets	Total
Balance at January 1, 2003	**621 833**	**67 483**	**689 316**
Acquisitions and divestitures	0	– 810	– 810
Additions	4 775	5 512	10 287
Disposals	0	– 7 256	– 7 256
Reclassifications	0	5 482	5 482
Translation adjustments	0	1 089	1 089
Balance at December 31, 2003	**626 608**	**71 500**	**698 108**
Acquisitions and divestitures	4 894	23 591	28 485
Additions	1 554	10 281	11 835
Disposals	– 52 324	– 10 464	– 62 788
Reclassifications	0	1 163	[1] 1 163
Translation adjustments	– 3	– 174	– 177
Balance at December 31, 2004	**580 729**	**95 897**	**676 626**
Accumulated amortisation			
Balance at January 1, 2003	**– 150 154**	**– 52 150**	**– 202 304**
Acquisitions and divestitures	0	90	90
Additions	– 28 801	– 7 962	– 36 763
Impairments	– 172 359	– 2 459	– 174 818
Disposals	0	7 157	7 157
Reclassifications	0	– 685	– 685
Translation adjustments	0	– 860	– 860
Balance at December 31, 2003	**– 351 314**	**– 56 869**	**– 408 183**
Acquisitions and divestitures	0	1 214	1 214
Additions	– 18 102	– 7 726	– 25 828
Impairments	– 120 000	– 3 000	– 123 000
Disposals	51 461	10 403	61 864
Translation adjustments	0	126	126
Balance at December 31, 2004	**– 437 955**	**– 55 852**	**– 493 807**
Net book value			
At December 31, 2003	275 294	14 631	289 925
At December 31, 2004	**142 774**	**40 045**	**182 819**

[1] Reclassification from property, plant and equipment

The impairment on software and other intangible assets is explained in note 2. In view of the revised IAS 22/new IFRS 3 which entered into effect on January 1, 2005, goodwill will be frozen at its levels on December 31, 2004. No further goodwill amortisations will be effected unless value adjustments are required.

Impairments on goodwill in 2004. In view of the decision by the Board of Directors to dispose of the Group's Consumer Imaging business, the goodwill related to this item can no longer be based on its value in use but is based on its expected net selling price, which was estimated on the basis of the prices paid in the past in similar transactions and valuations of comparable companies (multiples).

Impairments on goodwill in 2003. The decline in demand, which seems to suggest longer-term changes in consumer behaviour, and the upheaval in the traditional photo development sector with the accelerated shift to digital photography resulted in a decline in volumes and a corresponding reduction in gross profit at the Valora Imaging division. These developments, along with the business's medium-term prospects, prompted Group Executive Management to reassess the value of the goodwill deriving from its Fotolabo acquisition. Based on the estimated future free cash flows expected to be generated by Valora Imaging, discounted with the weighted average cost of capital of the Valora Group of 7%, the goodwill concerned was deemed to have decreased in value from that previously stated. In view of this, the goodwill carrying amount was reduced through a goodwill impairment of CHF 125.1 million to the value in use of the consumer imaging business or the expected sale price of the professional imaging business.
A review of the other goodwill stated for the business segments Valora Retail, Valora Trade, Valora Wholesale and Corporate, based on estimated future free cash flows, discounted with the weighted average cost of capital of the Valora Group of 7%, resulted in additional impairments of CHF 47.3 million down to the corresponding values in use. Some CHF 24.5 million of this amount relates to the activities of Valora Retail in Germany, in the light of a reassessment of their future prospects in a difficult economic environment, and CHF 12.3 million relates to the trading activities of Valora Trade in Scandinavia, following a reassessment of future market perspectives.
The current amortisation period for goodwill amounts is not affected by the impairment effected. Future goodwill amortisation will thus be reassigned on a straight-line basis over the remaining amortisation period (15 years for Fotolabo).

18 Other long-term assets

in CHF 000	**2004**	2003
Net pension asset (see note 23)	54 574	54 574
Loans receivable	14 016	11 123
Investments in associates	3 573	3 323
Other investments	1 402	1 766
Total other long-term assets	**73 565**	**70 786**

Investments in associates include a 33% shareholding in Cevanova AG (Valora Retail), which operates the avec shops at rail stations in Switzerland, and a 45% shareholding in Borup Kemi Denmark (Valora Trade).

19 Debt

Bond payable in CHF 000	Gross	Discount	2004 net	2003 net
$4^{1}/_{2}$% bond payable 1999-2005	220 000	– 499	219 501	218 903

Long-term debt in CHF 000	2004	2003
Bank loans	129 710	0
Mortgage loans	38 017	34 251
Finance lease obligations	2 244	2 334
Other long-term debt	8 523	519
Total long-term debt	**178 494**	**37 104**

Bank loans derive solely from the syndicated credit facility obtained by Valora Holding AG. Under the credit agreement, the Valora Group has covenanted to remain within certain parameters in terms of its equity ratio and gearing for the duration of the facility.

	Amount	Maturity	Effective Interest rate
Facility A1	CHF 50 million	31.03.2009	3.3%
Facility A2	CHF 50 million	31.03.2009	3.5%
Facility B	CHF 30 million	31.03.2011	3.8%

The total facility cannot be prematurely withdrawn by the creditor. Facility A can be repaid by Valora before maturity; Facility B cannot.

Maturities at year-end were as follows in CHF 000	2004	2003
Within one year	1 041	65 546
Within 1-2 years	7 521	5 576
Within 2-3 years	31 633	28 302
Within 3-4 years	976	1 039
Within 4-5 years	100 602	1 334
After more than 5 years	37 762	853
Total	**179 535**	**102 650**
Current portion of long-term debt	– 1 041	– 65 546
Total long-term debt	**178 494**	**37 104**

Interest rates ranged from 1.10% to 4.00%. The weighted average interest rate amounted to 2.46% (2003: 3.39%).

Credit lines

in CHF 000	**2004**	2003
Used	440	143 529
Available	163 845	47 373
Total credit lines	**164 285**	**190 902**

20 Other current liabilities

in CHF 000	**2004**	2003
Value-added tax and other taxes owed	34 308	21 599
Social security payable	5 932	7 512
Accrual for overtime and unused vacation	6 445	6 311
Current portion of finance lease obligation	1 041	836
Pension cost payable	294	1 387
Warranties and similar accruals	866	1 137
Accrued expenses and deferred income	46 443	53 364
Miscellaneous current liabilities and other	28 364	40 829
Total other current liabilities	**123 693**	**132 975**

21 Provisions

in CHF 000	Guarantees	Litigation	Restructuring	Total
Balance at January 1, 2003	**14 170**	**0**	**0**	**14 170**
Amounts released to income	– 4 800	0	0	– 4 800
Charges	300	6 548	12 892	19 740
Balance at December 31, 2003	**9 670**	**6 548**	**12 892**	**29 110**
Uses	0	– 782	– 6 276	– 7 058
Amounts released to income	– 4 870	– 210	– 4 148	– 9 228
Charges	5 000	640	0	5 640
Translation adjustments	0	– 31	– 117	– 148
Balance at December 31, 2004	**9 800**	**6 165**	**2 351**	**18 316**
Current provisions	4 000	1 277	992	6 269
Long-term provisions	5 800	4 888	1 359	12 047
Total provisions	**9 800**	**6 165**	**2 351**	**18 316**

Guarantees. These include contractual guarantees relating to the sale of the Slumberland business and the Selecta IPO. These provisions are assigned to the Corporate business segment.
Changes in 2004: Further guarantees relating to the sale of the Slumberland business and the Selecta IPO expired in 2004. The corresponding provisions were released to income. The disposals of business units resulted in new guarantees, for which new provisions were effected amounting to CHF 5.0 million.
Changes in 2003: A CHF 4.8 million provision relating to Slumberland guarantees which was no longer required was released to income in 2003.

Litigation. A provision totalling CHF 6.5 million was effected in 2003 in Germany in connection with a fraud case and pending litigation in the Valora Retail division. This litigation is expected to be largely conducted in 2005. The conclusion of certain lawsuits prompted the release to income of part of these provisions in 2004. But additional provisions were also effected in the light of new knowledge.

Restructuring. Provisions totalling CHF 12.9 million were effected for restructuring action in 2003. Some CHF 9.7 million of this amount was for Valora Retail (Germany). Provisions of CHF 5.2 million were used in the restructuring of Retail Germany. Part of the restructuring provisions were released to income in view of the progress made.

22 Management and directors' remuneration

Board of Directors. The remuneration of the Board of Directors totalled CHF 0.4 million for the 2004 business year (2003: 0.4 million).

Group Executive Management. The members of Group Executive Management were awarded an aggregate remuneration of CHF 3.8 million for the 2004 business year (2003: CHF 2.8 million).

Details of the management and employee share ownership plans and further remuneration details are provided in note 25. A summary overview of compensations paid and shares assigned is provided in Section 5 of the Corporate Governance report.

23 Retirement benefits

The majority of Valora's employees are covered by employee benefit plans which are funded by the Group, by employee contributions and in certain countries by state authorities. Such plans can be set up as state or company-controlled institutions, as contracts with private insurance companies or as independent trust or pension funds. The benefits provided by such entities vary from country to country depending on the local legal and economic parameters, but are primarily based on employees' years of service and average compensation and generally cover the risks of old age, death and disability in accordance with local occupational pension fund law.

The pension expense of defined contribution plans is charged to income as incurred. The net periodic pension cost and pension obligation of defined benefit plans are calculated using actuarial methods and accounted using the projected unit credit method. Such valuations consider the years of contributions made by the employees and assumptions about future salary increases. The latest actuarial valuation was performed as at December 31, 2004. Current service cost is accrued and charged to income as benefits are earned. Gains and losses from changes in actuarial assumptions are credited or charged to income in equal amounts over the estimated remaining service lives of the insurees.

The underlying actuarial assumptions are based on the economic circumstances of the countries in which the benefit plans are located. Pension plan assets are invested in accordance with applicable local regulations. Valora contributes to employee benefit plans in accordance with applicable plan requirements.

Balance sheet presentation in CHF 000	2004	2003
Fair value of plan assets	624 583	583 545
Defined benefit obligation	– 504 468	– 515 537
Funded status	**120 115**	**68 008**
Unrecognised assets	– 68 183	– 35 298
Unrecognised actuarial loss	2 642	21 864
Net asset on balance sheet	**54 574**	**54 574**
Actual return on plan assets	37 369	31 260

Net periodic pension cost in CHF 000	2004	2003
Service cost	– 25 223	– 25 242
Interest cost	– 19 333	– 17 802
Expected return on plan assets	26 843	25 175
Net actuarial gain recognised	31 641	0
Adjustment due to IAS 19.58	– 32 885	– 1 602
Pension cost of the period	**– 18 957**	**– 19 471**
Less employees' contributions	8 185	8 079
Net periodic pension cost of defined benefit plans	**– 10 772**	**– 11 392**

Movements in net asset recognised in balance sheet in CHF 000	2004	2003
Net pension asset at beginning of year	54 574	54 574
Net periodic pension cost of defined benefit plans	– 10 772	– 11 392
Employer's contribution	10 772	11 392
Net pension assets at end of year (see note 18)	**54 574**	**54 574**

Principal actuarial assumptions	2004	2003
Discount rate	3.50%	3.75%
Expected rate of increase in future compensation levels	2.00%	2.00%
Expected long-term rate of return on plan assets	4.60%	4.60%
Expected rate of increase in future pension benefits	0.50%	0.50%

24 Deferred income taxes

Deferred income tax assets and liabilities relate to the following assets and liabilities:

Deferred income tax assets in CHF 000	**2004**	2003
Trade accounts receivable	33	177
Inventories	450	5
Other current assets	667	99
Property, plant and equipment	471	1 045
Investments and loans receivable	2	2
Intangible and other long-term assets	15 098	19 462
Tax losses carried forward, gross	149 808	150 384
Value adjustments to deferred income tax assets	– 116 487	– 130 780
Current liabilities	1 335	1 349
Long-term liabilities	202	378
Allocation of deferred income tax assets and income tax liabilities against same tax authorities	– 4 889	0
Total deferred income tax assets	**46 690**	**42 121**

Deferred income tax liabilities		
Trade accounts receivable	2 699	581
Inventories	3 264	3 001
Other current assets	362	40
Property, plant and equipment	13 348	16 425
Investments and loans receivable	0	1 065
Intangible and other long-term assets	3 713	288
Current liabilities	696	176
Long-term liabilities	10 412	16 989
Future profit distribution from subsidiaries	1 428	1 360
Allocation of deferred income tax assets and income tax liabilities against same tax authorities	– 4 889	0
Total deferred income tax liabilities	**31 033**	**39 925**

Tax-deductible losses carried forward amount to CHF 578 million. These will lapse as follows:

in CHF 000	**2004**	2003
Within one year	1 623	5
Within 2 years	378	1 974
Within 3 years	196	720
Within 4 years	87	410
Within 5 years	579	14 478
After more than 5 years	575 632	445 051
Total tax-deductible losses carried forward	**578 495**	**462 638**

The tax-deductible losses lapsing within five years shown for 2003 were largely used to offset gains from the disposal of real estate no longer required for business operations.

25 Employee and management participation plans

Employee shares. Under the rules covering employee share ownership plans, employees who have completed a specified number of years of service are entitled to purchase shares in Valora Holding AG each year at a preferential price which is 60% below the share's average stock market price for the month of November. The number of shares available for purchase at this preferential price depends on the employee's function within the company. All shares purchased in this way are subject to a vesting period of five years. A total of 9'020 employee shares were issued in 2004 at a price of CHF 106.00 each (2003: 9'918 employee shares at a price of CHF 105.00 each).

Management shares. Valora has, since April 23, 2003, offered a management share ownership plan to the members of Group Executive Management and other senior management staff. Such shares are only issued provided a year-on-year increase is recorded in earnings per share. The entitlement to such shares increases in direct proportion to the degree of such a year-on-year improvement, with the maximum number of shares awarded for an increase of 10% or more.
The shares awarded under this management share ownership plan are subject to a vesting period of five years. These shares are issued from the company's treasury stock. Since the earnings-per-share criteria specified were fulfilled between 2003 and 2004, a total of 3'670 shares will be issued under this plan to Group Executive Management and other senior management members in 2005. No such shares were issued in 2004, because the corresponding earnings-per-share criteria were not fulfilled between 2002 and 2003.

Special focus strategy incentive. In view of the special circumstances involved, a further results-related bonus plan was agreed on April 28, 2004 with certain members of Group Executive Management for the implementation of the present focus strategy. The participants in this plan will be entitled to a bonus if the Valora Group achieves a predetermined cumulative free cash flow for 2004 and 2005. The plan is designed to provide a particular incentive to maximise the income deriving from the divestitures effected under the focus strategy. The bonus will be paid from a threshold of 90% achievement of the free cash flow specified upwards, with a maximum bonus payment for 115% achievement or more. 80% of the bonus amount will be paid out in Valora shares and 20% in Valora share options. If the free cash flow target is 100% achieved, the total bonus payable will amount to a maximum of CHF 1.5 million. If the target is 115% achieved, a maximum bonus of CHF 4.5 million will be paid. Any existing entitlements deriving from the ordinary management share ownership plan will be duly considered in such bonus payments: the higher of the two amounts due will be paid to the management member concerned. The shares and options due under this bonus plan will be issued irrevocably on June 30, 2006. All the shares issued will be subject to a five-year vesting period. The accepted value of a Valora share was CHF 306.00. Every option, at an accepted fair value of CHF 41.00, entitles the holder to acquire a Valora share for CHF 306.00 at any time until December 17, 2008. By December 31, 2004, participants in the plan were entitled to a possible 11'611 shares and 21'659 options. In the event of a change of ownership before December 31, 2005, the maximum shares and options awardable will be awarded irrespective of the achievement of the corresponding free cash flow target, and the shares and options so issued will not be subject to any vesting period.

Management options. A management share option plan was established for members of the Board of Directors and Group Executive Management and, on a voluntary basis, for second-tier management staff. The plan was last utilised in 2002, when the persons entitled to do so acquired a total of 4'470'866 listed VALUE options at a price of CHF 0.51 per option. 50 options entitling the holder to acquire one registered share of Valora Holding AG at a price of CHF 350.00. These management options are subject to a vesting period of three years, and can then be exercised or sold between April 17, 2005 and May 18, 2005. The option premiums received were taken directly to consolidated shareholders' equity with no impact on the income statement. A total of 97'000 treasury shares are held as cover for this option issue. This corresponds to 2.7% of total share capital.

Coverage. Coverage of the number of shares required for the management share ownership plan, the additional special focus strategy incentive, the management share option plan and the employee share ownership plan is provided by the treasury stock held and the conditional capital (see the consolidated statement of shareholders' equity).

Severance payments. Any member of Group Executive Management serving for several years is entitled to a leaving settlement. For five years' service this leaving settlement amounts to 50%, for eight years' service 100% and for 12 years' service 150% of the average annual remuneration earned in the two preceding years. Leaving settlements of CHF 0.2 million (2003: none) were paid in 2004.

Management insurance. A management insurance scheme is offered to management members which provides insurance cover for old age, death and disability for parts of its insurees' salaries which are not covered by the Swiss state pension scheme and compulsory occupational pension plans.

26 Commitments and contingencies

Contingent liabilities in CHF 000	**2004**	2003
Sureties	52	702
Other contingent liabilities	619	640
Total contingent liabilities	**671**	**1 342**

Commitments in CHF 000	**2004**	2003
Long-term rental commitments	219 838	270 319
Operating lease commitments	10 454	11 189
Finance lease commitments	3 475	3 589
Commitments for future capital expenditures	630	2 112
Total commitments	**234 397**	**287 209**

Long-term rental commitments		
Payments made in the reporting period	125 474	131 526
Maturities		
Within one year	47 993	64 258
Within 1-2 years	43 107	52 344
Within 2-3 years	30 951	45 985
Within 3-4 years	27 399	35 640
Within 4-5 years	17 689	31 694
After more than 5 years	52 699	40 398
Total long-term rental commitments	**219 838**	**270 319**

Long-term rental agreements relate primarily to the long-term security of kiosk locations.

Operating lease commitments in CHF 000	**2004**	2003
Payments made in the reporting year	5 991	5 045
Maturities		
Within one year	4 555	5 152
Within 1-2 years	3 293	2 932
Within 2-3 years	1 665	1 761
Within 3-4 years	655	945
Within 4-5 years	257	259
After more than 5 years	29	140
Total operating lease commitments	**10 454**	**11 189**

Finance lease commitments in CHF 000	**2004**	2003
Payments made in the reporting year	1 075	823
Maturities		
Within one year	1 470	1 309
Within 1-2 years	1 427	1 117
Within 2-3 years	441	582
Within 3-4 years	86	505
Within 4-5 years	28	26
After more than 5 years	23	50
Total finance lease commitments	**3 475**	**3 589**
Less future interest charges	– 190	– 419
Total finance lease obligation (present value)	**3 285**	**3 170**
Less current portion of finance lease obligation (see note 20)	– 1 041	– 836
Long-term finance lease obligation (see note 19)	**2 244**	**2 334**

27 Derivative financial instruments

There were no open transactions with derivative financial instruments at December 31, 2004 or December 31,2003

28 Segment reporting

Segment information by division

Net revenues 2004 in CHF 000	Valora Retail	Valora Wholesale	Valora Trade	Valora Imaging	Corporate	Intersegment elimination	Total Group
From third parties	1 483 290	466 967	885 276	151 959	2 594	0	2 990 086
From other divisions	0	799 671	12 574	113	380	– 812 738	0
Total	**1 483 290**	**1 266 638**	**897 850**	**152 072**	**2 974**	**– 812 738**	**2 990 086**
Net revenues 2003							
From third parties	1 494 147	423 724	915 392	185 928	2 240	0	3 021 431
From other divisions	24	818 585	14 866	177	9 312	– 842 964	0
Total	1 494 171	1 242 309	930 258	186 105	11 552	– 842 964	3 021 431
Change (%)	– 0.7	2.0	– 3.5	– 18.3	–		– 1.0
Earnings before interest and taxes (EBIT)							
2004							
Earnings before interest and taxes (EBIT)	**25 539**	**14 491**	**61 982**	**– 123 923**	**76 107**		**54 196**
Goodwill amortisation	1 186	2 890	3 983	10 017	26		18 102
Goodwill impairments	0	0	0	120 000	0		120 000
Gains on disposals of business units	– 1 916	– 482	– 27 792	7 778	– 70		– 22 482
Gains on disposals of real estate	0	0	0	0	– 67 729		– 67 729
Impairments due to focus strategy	0	166	1 270	0	7 070		8 506
Focus strategy costs	0	0	0	0	4 023		4 023
Operating result before focus strategy and amortisation of goodwill	**24 809**	**17 065**	**39 443**	**13 872**	**19 427**		**114 616**
2003							
Earnings before interest and taxes (EBIT)	– 25 234	21 285	14 512	– 115 885	– 721		– 106 043
Goodwill amortisation	2 801	3 000	4 796	18 204	0		28 801
Goodwill impairments	30 547	1 765	14 954	125 093	0		172 359
Operating result before focus strategy and amortisation of goodwill	8 114	26 050	34 262	27 412	– 721		95 117

in CHF 000	Valora Retail	Valora Wholesale	Valora Trade	Valora Imaging	Corporate	Intersegment elimination	Total Group
EBIT for 2004 included the following non-cash expenses							
Depreciation	15 982	5 938	13 570	6 251	12 913		54 654
Increase (release) of provisions, net	– 3 460	200	5 440	0	– 5 768		– 3 588
EBIT for 2003 included the following non-cash expenses							
Depreciation	17 739	4 064	14 724	8 067	18 607		63 201
Impairments on non-current assets	0	0	2 459	0	3 838		6 297
Increase of provisions, net	12 474	0	1 236	0	1 230		14 940
Capital expenditures							
2004	**16 210**	**5 732**	**15 711**	**10 048**	**11 771**		**59 472**
2003	17 326	2 950	22 816	6 450	15 181		64 723
Segment assets							
December 31, 2004	**348 157**	**346 994**	**551 585**	**91 469**	**956 453**	**– 788 588**	**1 506 070**
December 31, 2003	362 319	341 153	507 183	253 694	1 184 940	– 938 534	1 710 755
Segment liabilities							
December 31, 2004	**264 804**	**249 860**	**426 854**	**31 424**	**697 780**	**– 788 588**	**882 134**
December 31, 2003	261 834	256 060	425 052	65 205	863 991	– 938 534	933 608

Transfer prices between subsidiaries and business segments are determined on an arm’s length basis.

Subsidiaries are charged management fees which are distributed on the basis of gross margins.

The restated 2003 net revenue and EBIT results for Valora Retail, Valora Wholesale and Corporate are due to the transfer of procurement activities from Corporate to Valora Wholesale and the transfer of Location Management for Valora’s own retail outlets from Corporate to Retail.

The apportionment of mail-order marketing costs at Valora Imaging was modified in 2004. The new apportionment method complies with an improved differentiation of costs and benefits. The modification had a non-recurring positive effect on the operating result (EBIT) of Valora Imaging of CHF 1.8 million. (If this modification had been effected in 2003, it would have led to a 2004 operating result (EBIT) for Valora Imaging of CHF – 125.5 million (2003: – 115.8 million)).

The segment liabilities of Valora Imaging have been restated for 2003. Loans by the Group to Valora Imaging which in economic terms represent equity are no longer shown as segment liabilities.

Segment information by region

Net revenues from third parties in CHF 000	Switzerland	Europe	Total Group
2004	**1 927 606**	**1 062 480**	**2 990 086**
2003	1 983 063	1 038 368	3 021 431
Change (%)	– 2.8	2.3	– 1.0
Capital expenditures			
2004	**37 496**	**21 976**	**59 472**
2003	36 652	28 071	64 723
Segment assets			
December 31, 2004	**1 157 452**	**348 618**	**1 506 070**
December 31, 2003	1 364 442	346 313	1 710 755

29 Transactions and balances with related parties

The real estate no longer required for business operations was offered in a bidding process to a selected group of candidate purchasers. The Valora occupational pension schemes (the Valora Company Pension Scheme and the Valora Patronal Financial Foundation) were also entitled to bid, and would have been chosen as the purchasers of these properties if they had offered at least the same purchase price as the highest outside bidder. The Valora occupational pension schemes submitted their offer as part of their long-term investment strategy. While the first portfolio of properties was sold to investment vehicles of the Credit Suisse Group, the Valora occupational pension schemes submitted the highest bid for the second portfolio and acquired this for CHF 28.6 million.

Apart form this, there were no transactions or balances with related parties.

30 Subsequent events

The Board of Directors resolved on February 10, 2005 that Valora's consumer imaging business should be sold.
The Capital Group Companies Ltd., Los Angeles announced on February 1, 2005 that it had reduced its shareholding in Valora Holding AG to less than 5%.

31 Significant subsidiaries of the Valora Group

Switzerland in CHF 000	Currency	Nominal capital in million	Share-holding in %	Corporate	Valora Retail	Valora Wholesale	Valora Trade	Valora Imaging
Valora Management AG, Bern	CHF	0.5	100.0	■				
Valora Finanz AG, Baar	CHF	0.2	100.0	■				
Valora Investment AG, Bern	CHF	0.3	100.0	■				
Ravita AG, Baar	CHF	0.1	100.0			■		
Merkur AG, Bern	CHF	20.0	100.0	■				
Kiosk AG, Muttenz	CHF	0.3	100.0	■				
Valora AG, Muttenz	CHF	29.4	100.0		■	■		
Distriforce AG, Wallisellen	CHF	0.1	100.0			■		
Melisa SA, Lugano	CHF	0.4	100.0			■		
Nuxo AG, Rapperswil	CHF	0.2	100.0				■	
Kägi Söhne AG, Lichtensteig	CHF	4.0	100.0				■	
Roland Murten AG, Murten	CHF	0.6	100.0				■	
Fotolabo Club SA, Ropraz	CHF	3.0	100.0					■
Cevanova AG, Bern	CHF	6.0	33.0		■			
France								
Merkur Holding France SA, St-Amarin	EUR	3.7	100.0				■	
Alimarca France SA, St-Amarin	EUR	0.6	100.0				■	
Cansimag France SA, St-Amarin	EUR	0.6	100.0				■	
Fotolabo Club SA, Algolsheim	EUR	2.3	100.0					■
Germany								
Valora MSS Holding GmbH, Hamburg	EUR	0.4	100.0	■				
Stilke GmbH, Hamburg	EUR	3.8	100.0		■			
Sussmann's Presse & Buch GmbH, Munich	EUR	0.1	100.0		■			
BHG Bahnhofs-Handels GmbH, Munich	EUR	0.5	100.0		■			
HD Presse & Buch GmbH, Hamburg	EUR	0.1	100.0		■			
Caffè Spettacolo GmbH, Berlin	EUR	0.3	100.0		■			
Valora Retail Services GmbH, Hamburg	EUR	0.1	100.0		■			
Kuroczik Alimarca GmbH, Dortmund	EUR	0.2	68.0				■	
Fotolabo Club GmbH, Breisach	EUR	0.1	100.0					■

As part of the Group's endeavours to establish Valora AG as a parent company in Switzerland, Transport und Presseservice TPS AG, Merkur Kaffee AG, Alimarca AG, Spiwag AG and Negozio Stazione SA were merged with Valora AG effective January 1, 2004.

Benelux in CHF 000	Currency	Nominal capital in million	Share-holding in %	Corporate	Valora Retail	Valora Wholesale	Valora Trade	Valora Imaging
Messageries Paul Kraus Shop S.à.r.l., Luxembourg	EUR	3.0	100.0		■			
Messageries Paul Kraus S.à.rl., Luxembourg	EUR	3.0	100.0			■		
Messageries du livre S.à.r.l., Luxembourg	EUR	1.5	100.0			■		
Transports et Garages Presse S.à.r.l., Luxembourg	EUR	0.1	100.0			■		
Fotolabo Club SA, Brussels	EUR	0.6	100.0					■
United Kingdom								
Valora Treasury Center Ltd, Guernsey	CHF	0.5	100.0	■				
Valora Holiding Finance Ltd, Guernsey	CHF	638.9	100.0	■				
Merkur Finance Ltd, Guernsey	CHF	42.8	100.0	■				
Alimarca Finance Ltd, Guernsey	CHF	30.5	100.0	■				
Austria								
Plagalim Holding AG, Neunkirchen	EUR	1.1	100.0				■	
K. Schweigl Handels GmbH + Co. KG, Neunkirchen	EUR	3.6	100.0				■	
Plagemann Lebensmittel GmbH + Co. KG, Neunkirchen	EUR	0.1	100.0				■	
Pressegrossvertrieb Salzburg GmbH, Anif	EUR	0.7	100.0			■		
Sweden								
Valora Invest AB, Oerkelljunga	SEK	0.5	100.0				■	
Alimarca Sweden AB, Stockholm	SEK	0.1	100.0				■	
Gillebagaren AB, Oerkelljunga	SEK	0.6	100.0				■	
Adaco AB, Stockholm	SEK	12.0	100.0				■	
Norway								
Alimarca Norway AS, Royken	NOK	0.1	100.0				■	
Charles Pettersen AS, Royken	NOK	5.7	100.0				■	
Denmark								
Consiva Holding A/S, Herlev	DKK	55.0	100.0				■	
Finland								
Oy Sunco AB, Helsinki	EUR	0.1	100.0				■	
IFI Oy, Kerava	EUR	0.3	100.0					■
Other countries								
Kaumy S.r.o., Fulnek, Czech Republic	CZK	0.1	50.0				■	

The consolidated financial statements of the Valora Group were approved by the Board of Directors of Valora Holding AG on March 23, 2005. The Board also recommends their approval to the General Meeting of Shareholders of April 27, 2005.

Report of group auditors

Report of the group auditors to the General Meeting of Valora Holding AG, Berne

As auditors of the group, we have audited the consolidated financial statements (income statement, balance sheet, cash flow statement, statement of changes in shareholders' equity and notes, pages 11 to 47) of the Valora Group for the year ended December 31, 2004. These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Andreas Baur Andreas Aebersold

Berne, March 24, 2005

Income statement

January 1 to December 31, in CHF 000	**2004**	**2003**
Income		
Dividend income	40 700	61 800
Interest income	4 292	7 675
Foreign exchange gains	1 074	947
Income from securities	54	9 320
Gain on sale of investment	25	22 450
Income from royalties	12 542	0
Other income	39 394	6 000
Total income	**98 081**	**108 192**
Expenses		
Interest expenses	– 15 943	– 16 242
Foreign exchange losses	– 151	– 178
Losses on securities	– 3 222	– 497
Write-downs of subsidiaries	– 1 554	– 35 313
General administration expenses	– 2 748	– 5 165
Other expenses	– 41 274	– 9 237
Total expenses	**– 64 892**	**– 66 632**
Net income for the year	**33 189**	**41 560**

Balance sheet before appropriation of available retained earnings

Assets **At December 31**, in CHF 000		**2004**	2003
Current assets			
Cash and cash equivalents		52 426	44 245
Securities		77 057	111 257
Prepayments		59	9
Short-term receivables	From third parties	267	202
	From Group companies	3 910	1 975
Loans receivable and advances made to Group companies		7 727	144 916
Total current assets		**141 446**	**302 604**
Non-current assets			
Investments		650 807	652 393
Loans receivable from Group companies		18 666	46 034
Discounts and capitalised issuance cost on bonds issued		499	1 097
Brands		111 025	118 925
Total non-current assets		**780 997**	**818 449**
Total assets		**922 443**	**1 121 053**

Liabilities and shareholders' equity

At December 31, in CHF 000		**2004**	2003
Liabilities			
Short-term bank debt / overdrafts / bonds payable		220 000	118 500
Current liabilities	Towards third parties	14 635	571
	Towards Group companies	0	16 107
Accrued expenses	Towards third parties	0	1
	Towards Group companies	2 892	3 597
Loans payable to Group companies		18 666	41 050
Syndicated credit loans		130 000	0
Bond payable		0	220 000
Accrued liabilities		54 725	58 595
Total liabilities		**440 918**	**458 421**
Shareholders' equity			
Share capital		35 700	42 000
Legal reserves	General reserve	140 663	140 663
	Reserve for treasury stock	77 607	85 036
Unrestricted reserves		148 557	313 965
Available retained earnings	Earnings brought forward	45 809	39 408
	Net income for the year	33 189	41 560
Total shareholders' equity		**481 525**	**662 632**
Total liabilities and shareholders' equity		**922 443**	**1 121 053**

Notes to the financial statements

A Basis of presentation

The financial statements of Valora Holding AG comply with Swiss law and regulations.

B Notes

1 Contingent liabilities. Contingent liabilities, which consist of sureties, subordination and comfort letters, guarantees and other contingencies relating to subsidiaries, totalled CHF 181.4 million on December 31, 2004 (2003: CHF 301.2 million). None of this amount was in relation to third parties.

2 Bond payable

in CHF 000	Interest rate	Due date	At 31.12.2004	At 31.12.2003
1999-2005 bond	4 1/2%	28.10.2005	220 000	220 000

3 Treasury stock held by the company and its subsidiaries

in CHF 000	Number of shares 2004	Net book value 2004	Number of shares 2003	Net book value 2003
Opening balance (at January 1)	**302 474**	**85 036**	**251 420**	**53 883**
Disposals				
Employees' shares	– 9 020	– 2 562	– 9 918	– 2 548
Stock market purchases and sales				
Capital reduction / Sales	– 630 000	– 179 137	– 182 031	– 36 795
Valuation adjustment		– 3 219		2 353
Purchases	636 703	176 939	243 003	68 143
Closing balance (at December 31)	**300 157**	**77 057**	**302 474**	**85 036**

Purchases were effected at market prices ranging between CHF 256.50 and CHF 319.25.

4 Net release of hidden reserves. There were no net releases of hidden reserves in the 2004 or 2003 business years.

5 Significant shareholders. In accordance with the Articles of Incorporation of Valora Holding AG, no shareholder may own more than 5% of the company's share capital without the approval of the Board of Directors. At December 31, 2004, 5% of the share capital comprised 178'500 registered shares. At December 31, 2004 The Capital Group Companies Inc., Los Angeles held 6.3% of the share capital of Valora Holding AG. On February 1, 2005 The Capital Group Companies announced that it had reduced its shareholding in Valora Holding AG to less than 5%. Board and Group Executive Management members and management currently own 0.05% (2003: 0.10%) of the registered share capital.

6 Significant subsidiaries of Valora Holding AG

Switzerland	**At 31.12.2004** Holding in %	At 31.12.2003 Holding in %
Valora AG, Muttenz	100.0	100.0
Valora Management AG, Bern	100.0	100.0
Valora Investment AG, Bern	100.0	100.0
Merkur AG, Bern	100.0	100.0
Kiosk AG, Muttenz	100.0	100.0
Valora Finanz AG, Baar	0.0	100.0
Ravita AG, Baar	0.0	100.0
Ravita International AG, Baar	0.0	100.0
Germany		
Valora MSS Holding GmbH, Hamburg	5.1	5.1
United Kingdom		
Valora Holding Finance Ltd, Guernsey	100.0	100.0

Valora Finanz AG, Ravita AG and Ravita International AG were transferred to the parent Valora AG.

7 Authorised and conditional capital

The General Meeting of Shareholders of May 11, 2000 approved the creation of conditional capital amounting to CHF 840’000. No conditional capital had been issued by December 31, 2004.

Proposed appropriation of available retained earnings

Proposal for the appropriation of available retained earnings

in CHF 000	**2004**	2003
Net income for the year	**33 189**	**41 560**
+ Earnings brought forward	45 809	39 408
Earnings at the meeting's disposal	**78 998**	**80 968**
The Board of Directors proposes		
No dividend payment for the 2004 financial year	0	– 35 159
Balance to be carried forward	**78 998**	**45 809**
Dividend distribution (in CHF)		
Gross dividend per share		9.00
less 35% withholding tax		– 3.15
Net dividend payment (in CHF)		**5.85**

The Board of Directors will recommend to the 2005 General Meeting of Shareholders that, instead of a dividend payment, the nominal value of the Valora share be reduced by CHF 9.00 and this amount be repaid to shareholders.

Report of statutory auditors

Report of the statutory auditors to the general meeting of Valora Holding AG, Berne

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes, pages 50 to 54) of Valora Holding AG for the year ended December 31, 2004.
These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.
Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
In our opinion, the accounting records, the financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.
We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Andreas Baur Andreas Aebersold

Berne, March 24, 2005

Corporate Gouvernance

1 Group structure and shareholders

1.1 Group structure. The operational structure of the Valora Group is presented on pages 8 and 9 of the Annual Report.

1.1.1 Listed companies within the scope of consolidation. The only listed company within the Valora Group is Valora Holding AG, which is domiciled in Bern. The company is listed on the Zurich and Bern exchanges (securities number 208 897, Telekurs VALN, Reuters VALZn). The company's market capitalisation for the last five years is presented on page 75 of the Financial Report.

1.1.2 Non-listed companies within the scope of consolidation. These companies are set out on pages 46 and 47 of the Financial Report, with the company name and domicile, their total share capital and the percentage thereof held by Group companies.

1.2 Significant shareholders. The company had knowledge at December 31, 2004 of the following shareholders holding more than 5% of total share capital.

Shareholder	No. of shares	Holding
The Capital Group Companies Inc., Los Angeles	225 765	6.32%

The Capital Group Companies Inc. announced on February 1, 2005 that it had reduced its holding in Valora Holding AG to under 5%.

There are no shareholders' agreements.

1.3 Cross-shareholdings. There are no cross-shareholdings with any other companies.

2 Capital structure

2.1 Capital structure at December 31, 2004. Ordinary capital of Valora Holding AG: CHF 35'700'000, comprising 3'570'000 registered shares each of CHF 10.00 nominal value. Conditional capital of Valora Holding AG: CHF 840'000, comprising 84'000 registered shares each of CHF 10.00 nominal value.

2.2 Conditional capital. The capital amounting to a maximum of CHF 840'000, comprising 84'000 registered shares each of CHF 10.00 nominal value, was approved by the General Meeting of Shareholders of May 11, 2000. These shares can be used at any time by the Board of Directors to cover the exercising of options granted to employees of the company or Group companies within the overall framework laid down by the Board of Directors, or for entitlements deriving from the management share ownership plan or the employee share ownership plan. Subscription rights are suspended for existing shareholders. No time limits have been resolved. None of this conditional capital had been issued by December 31, 2004.

2.3 Changes in capital. The Board of Directors resolved a two-tranche share buyback programme covering 15% of the company's nominal share capital on August 21, 2003. Shareholders voted at the Extraordinary General Meetings of Shareholders of November 26, 2003 and October 20, 2004 to delete these shares, concluding this share buyback programme. As a result of these actions, the share capital of Valora Holding AG showed the following developments:

	No. of shares	Share capital in CHF
Share capital at 31.12.2003 (and since 1997)	4 200 000	42 000 000
Capital reduction through deletion of first tranche of repurchased shares on 18.03.2004	– 176 000	– 1 760 000
Capital reduction through deletion of second tranche of repurchased shares on 28.12.2004	– 454 000	– 4 540 000
Share capital at 31.12.2004	3 570 000	35 700 000

The Extraordinary General Meeting of Shareholders of October 20, 2004 also approved a proposal by the Board of Directors to conduct a third share buyback programme covering a maximum of 270'000 shares, corresponding to 7.6% of the share capital on December 31, 2004. A total of 178'000 shares hat been repurchased via a second trading line by December 31, 2004, and the share buyback programme was concluded on February 11, 2005. The corresponding capital reduction will be proposed to the General Meeting of Shareholders of April 27, 2005. The changes in the reserves and the shareholders' equity of Valora Holding AG are shown in the balance sheet (page 52) and the notes to the financial statements of Valora Holding AG (page 53) in the Financial Report.

2.4 Shares and participation certificates. 3'570'000 registered shares each of CHF 10.00 nominal value. All shares entitle their holder to a dividend, apart from the shares held in treasury by Valora Holding AG. Each share entitles its holder to one vote. Shares currently unrecorded in the share register do not carry voting rights. There are no preferential shares or similar entitlements. The share capital is fully paid up.

2.5 Profit-sharing certificates. Valora has not issued any profit-sharing certificates.

2.6 Limitations on transferability and nominee registrations.

2.6.1 Limitation on transferability. The Board of Directors is empowered to refuse to acknowledge the voting rights of a shareholder if the acquirer's holding, together with the voting shares already registered in their name, exceeds the limit of 5% of all registered shares. In such an event, the shares exceeding the 5% threshold will be entered in the share register as non-voting shares. The same rules shall apply to consortia of shareholders. The Board of Directors may acknowledge the voting rights of an acquisition whose acquirer subsequently holds more than 5% of all registered shares, particularly in the case of:

- Share acquisitions in the event of a merger or pooling of business.
- Share acquisitions as a result of a non-cash contribution or a share exchange.
- Share acquisitions effected to cement a long-term collaboration or strategic alliance.

2.6.2 Exceptions in the year under review. No exceptions were made in the year under review.

2.6.3 Admissibility of nominee registrations. The Board of Directors can approve the registration of nominees to hold registered shares, by applying the relevant regulations or on the basis of agreements. The detailed provisions are specified in Article 4 of the Articles of Incorporation.

2.6.4 Procedure and conditions for cancelling statutory privileges and limitations on transferability. All such cancellations are subject to the approval of the General Meeting of Shareholders.

2.7 Convertible bonds and options. The company currently has no convertible bond issues outstanding. Apart from the management options specified below, Valora Holding AG and its Group companies had no options outstanding at December 31, 2004.

Details of outstanding management options and of the management share ownership plan and the employee share ownership plan are provided under note 25 on page 40 and 41 of the Financial Report.

3 Board of Directors

3.1 Members of the Board of Directors. Name, year of birth, nationality, education and professional background

Fritz Ammann, 1943, Swiss national, Chairman of the Board since January 2005, doctorate in economics from St. Gallen University, CEO duties in the trading (Metro, Austria; Spar, Germany), watchmaking (Omega and Swatch, Switzerland) and fashion (Charles Jourdan, France; Esprit, USA; Carrera Eyewear, Germany) fields.

Fritz Frohofer, 1939, Swiss national, businessman, active in the food sector and IT, various functions within the Valora Group since 1968 including head of corporate planning, head of market divisions and Group CEO from 1980 to 1998.

Andreas Gubler, 1957, Swiss national, doctorate in law, attorney-at-law, active in legal practices in Bern, Zurich and Washington D.C. and with Ernst & Young, member of the executive management of Asklia Holding, partner in the Gubler Walther Leuch law firm in Bern.

Peter Küpfer, 1944, Swiss national, Chairman of the Board until January 2005, certified auditor, various management functions within the Credit Suisse Group, independent business consultant.

Hanne de Mora, 1960, Norwegian national, graduate in economics from HEC Lausanne and MBA from IESE, served with Procter & Gamble and as a partner at McKinsey & Company, co-founder and CEO of a-connect ag, Zurich.

Beatrice Tschanz Kramel, 1944, Swiss national, journalist, editor-in-chief, head of communications at Ringier AG, Jelmoli AG and SAirGroup and member of executive management at Centerpulse.

The Board reconstituted itself at its first meeting of 2005 in January. Dr. Fritz Ammann assumed the chairmanship from Peter Küpfer, who will remain on the Board as an ordinary member until his current term of office expires in 2007.
None of the members of the Board of Directors has any operational management responsibility within or any significant business connections with the Group. Fritz Frohofer served as CEO of the Valora Group from 1980 to 1998.

3.2 Significant activities and interests in other publicly-listed companies

- Peter Küpfer: Member of the boards of directors of Swisscom, Julius Bär, Holcim, Unaxis.
- Andreas Gubler: Chairman of the board of directors of Micro Value AG.
- Hanne de Mora: Member of the boards of directors of Norwegian companies Telenor und Tomra.

3.3 Cross-involvements. There are no reciprocal Board appointments in other publicly-listed companies.

3.4 Elections and terms of office. The Board of Directors comprises at least three members. They are elected for a term of three years, after which they may be re-elected. To ensure rotation, the period of office as a Board member is limited: every member must retire at the latest after serving four full three-year terms. Members retire permanently from the Board on the date of the Ordinary General Meeting of Shareholders preceding their 70th birthday. This also applies to the Chairman of the Board. Any exceptions to the above are subject to the approval of the General Meeting of Shareholders.
The election and re-election of Board members is staggered as much as possible.

Board members' terms of office:

	Initially elected	Elected until
Fritz Ammann	2001	2007
Fritz Frohofer	1998	2007
Andreas Gubler	1999	2005
Peter Küpfer	1998	2007
Hanne de Mora	2003	2006
Beatrice Tschanz Kramel	2000	2006

3.5 Internal organisational structure and committees. There is no specific allocation of responsibilities among Board members. Board members are, however, selected to ensure that the Board as a whole has specific expertise in the finance, marketing, legal, trading, branded goods, communications and production fields. The Board of Directors meets five to seven times a year.

The Board's committees are composed as follows:

- Audit Committee: Hanne de Mora (chair), Fritz Frohofer, Andreas Gubler and Peter Küpfer.
- Nomination and Compensation Committee: Beatrice Tschanz Kramel (chair since January 2005), Fritz Ammann (chair until January 2005) and Peter Küpfer.

The duties and authorities of the above Board committees are specified in the Organisation Regulations. The committees have both preparatory and decision-making functions. The Board and its committees may also invite further persons, particularly the CEO, the CFO and representatives of the internal and external auditors, to attend their meetings.

3.6 Definition of areas of responsibility. The Board of Directors is responsible for approving corporate strategy and specifying the organisational structure, and bears overall responsibility for personnel matters. It establishes the guidelines for financial and investment policy, and approves long-term borrowings in excess of CHF 10 million, acquisitions and disposals of shareholdings and the purchase and sale of real estate whose transaction price exceeds CHF 2 million.
The CEO is responsible for the overall management of the Group. He coordinates the activities of the various divisions, chairs Group Executive Management and is the immediate superior of each Group Executive Management member.
Group Executive Management is responsible for preparing all the Group's business activities which lie within the remit of the CEO or the Board of Directors. The heads of the divisions are responsible for managing their division with the aim of ensuring its profitable and sustainable development. They are also responsible for establishing the management tools required for their division in addition to those specified in the relevant Group-level guidelines.

3.7 Information and control instruments vis-à-vis executive management. The Board of Directors is regularly provided, under the Valora Group's management information system, with monthly short-term income statements for the divisions and the Group, details of significant business events, internal auditors' reports, information on the shareholder structure and details of progress on the implementation of actions resolved by the General Meeting of Shareholders or itself. The Chairman of the Board is provided with a copy of the minutes of all Group Executive Management meetings. Any member of the Board of Directors may demand information from Group Executive Management on the Group's general business and operations and, with the approval of the Chairman of the Board, on specific business transactions. Any Board member may also demand the provision for their inspection of company books and files.

4 Group Executive Management

4.1 Members of Group Executive Management

Peter Wüst, 1953, Swiss national, graduate in business administration, senior management functions at Diethelm & Co. (international trading) and Jakob Rohner AG (textile trading), head of sales & marketing of The Nuance Group. Head of the Valora Sourcing & Marketing divison from March 1, 2003; CEO of the Valora Group since June 11, 2003.

Markus Voegeli, 1961, Swiss national, graduate in business administration, senior controlling and finance functions at Swissair in Switzerland. CFO of subsidiaries of The Nuance Group in Australia and of the Swissôtel Group in the USA. CFO and subsequently CEO of MediService AG, Zuchwil. CFO of the Valora Group since August 15, 2004.

Josef Jungo, 1957, Swiss national, graduate in humanities, senior management functions at IBM. Joined Valora in 1996, head of the k Group Switzerland division, head of the Valora Wholesale division and Deputy CEO.

Jürg Arquint, 1957, Swiss national, federal sales management diploma, consultant at Fides Treuhand, independent actvities in the travel and tourism sector, managing director of Also Holding, member of the executive managements of Globus and EPA. Developed own self-service video library chain. Head of the Valora Retail division since January 1, 2005.

Alex Minder, 1957, Swiss national, graduate in business administration, executive MBA, senior management positions at Bally International AG and Impuls Saatchi & Saatchi, managing director of Cadbury Switzerland. Head of the Valora Trade division since May 1, 2004.

André Hurter, 1958, Swiss national, doctorate in economics, senior management functions at Longines, IBM, Cap Gemini and Ernst & Young and executive vice president at TCS. Head of the Valora Imaging division since January 1, 2003.

Ruedi Keller, 1951, Swiss national, SIB diploma in financial controlling, IFKS higher business diploma, various management positions at Swissair in and outside Switzerland, head of economics at the Swissair Training Centre, head of strategic business development of The Nuance Group. Head of the Valora Management Services division since January 19, 2004.

Josef Jungo held executive positions with Valora Retail Switzerland prior to his appointment to Group Executive Management. None of the other members of Group Executive Management performed any function with Valora before assuming their Group Executive Management duties.

4.2 Other activities and vested interests. None of the members of Group Executive Management currently has any further activities in any management or supervisory body of any listed Swiss or foreign company, has any permanent management or consultancy function for any company outside the Valora Group, has any public function or holds any political office.

4.3 Management contracts. There are no management contracts between Valora Holding AG and any companies or individuals outside the Valora Group.

5 Compensations, shareholdings and loans

5.1 Content and method of determining compensations and of the shareholding programmes

5.1.1 Board of Directors. The Members of the Board of Directors receive an agreed emolument (a special emolument is paid to the Chairman). In accordance with a resolution passed by the Board of Directors on April 23, 2003, 60% of this emolument is paid out in cash and 40% is paid out in the form of Valora shares under the management share ownership plan. These shares are only awarded, however, provided the annual earnings-per-share result is an increase on the previous year. Such year-on-year calculations are based on the 12-month period between General Meetings. If the year-on-year EPS increase amounts to 5%, the value of the shares awarded will be equal to the ordinary emolument. The maximum entitlement will be paid in the event of year-on-year EPS growth of 10%. All such entitlements are calculated on a linear scale. All such shares awarded are subject to a five-year vesting period.

Board members receive no meeting attendance fees, and only have their actual travel expenses reimbursed. Board members' emoluments are set and regularly reviewed by the full Board of Directors.

5.1.2 Group Executive Management. The members of Group Executive Management are paid a fixed annual salary plus a results-related bonus. The latter is calculated on the basis of certain key indicators – the net Group result, the EBITA result of their division, the direct costs of their division and NWC – and the achievement of technical targets. A portion of the total results-related bonus, determined by the Board of Directors, is paid in the form of Valora shares under the management share ownership plan. These shares are only awarded, however, provided the annual earnings-per-share result is an increase on the previous year. The maximum entitlement will be paid in the event of year-on-year EPS growth of 10%. All such entitlements are calculated on a linear scale. All such shares awarded are subject to a five-year vesting period.

Members of Group Executive Management are also entitled to purchase Valora shares on favourable terms under the employee share ownership plan. The number of such shares which may be purchased is determined by the consolidated net profit of the Valora Group.

In view of the special circumstances involved, a further results-related bonus plan was agreed on April 28, 2004 with certain members of Group Executive Management for the implementation of the present focus strategy. The participants in this plan will be entitled to a bonus if the Valora Group achieves a predetermined cumulative free cash flow for 2004 and 2005. The plan is designed to provide a particular incentive to maximise the income deriving from the divestitures effected under the focus strategy. The bonus will be paid from a threshold of 90% achievement of the free cash flow specified upwards, with a maximum bonus payment for 115% achievement or more. 80% of the bonus amount will be paid out in Valora shares and 20% in Valora share options. If the free cash flow target is 100% achieved, the total bonus payable will amount to a maximum of CHF 1.5 million. If the target is 115% achieved, a maximum bonus of CHF 4.5 million will be paid. Any existing entitlements deriving from the ordinary management share ownership plan will be duly considered in such bonus payments: the higher of the two amounts due will be paid to the management member concerned. The shares and options due under this bonus plan will be issued irrevocably on June 30, 2006. All the shares issued will be subject to a five-year vesting period. The accepted value of a Valora share is CHF 306.00. Every option, at an accepted fair value of CHF 41.00, will entitle the holder to acquire a Valora share for CHF 306.00 at any time until December 17, 2008. By December 31, 2004, participants in the plan were entitled to a possible 11'611 shares and 21'659 options. The underlying shares are secured by existing treasury stock and conditional capital. In the event of a change of ownership before December 31, 2005, the maximum shares and options awardable will be awarded irrespective of the achievement of the corresponding free cash flow target, and the shares and options so issued will not be subject to any vesting period.

The Compensation Committee of the Board of Directors determines the total compensations to be paid and also determines the general thrust and alignment of results-related emoluments.

5.2 Compensations for acting members of governing bodies. All such compensations relate to services performed in 2004 (2003). Part of these compensations - especially variable components - will not be paid out until spring 2005.
Since there are no executive members of the Board of Directors, all the details relating to the Board of Directors are solely for non-executive Board members.

5.2.1 Board of Directors. The six members of the Board of Directors were remunerated as follows:

	2004	2003
Emolument (in CHF)	414 000	402 000
Shares (number)	none	none

5.2.2 Group Executive Management. The members of Group Executive Management were remunerated as follows:

	2004	2003
Salary including results-related bonus (in CHF)	3 846 000	2 808 000
Management shares (number)	3 020	none

5.2.3 Severance payments. Any member of Group Executive Management serving for several years is entitled to a leaving settlement. For five years' service this leaving settlement amounts to 50%, for eight years' service 100% and for 12 years' service 150% of the average annual remuneration earned in the two preceding years. Leaving settlements of CHF 0.2 million (2003: none) were paid in 2004.

5.3 Compensations for former members of governing bodies. No such compensations were paid.

5.4 Share allotments in the year under review.
Board of Directors: none — Group Executive Management: 3'020 shares

5.5 Share ownership on December 31, 2004.
Board of Directors: 756 shares — Group Executive Management: 883 shares

5.6 Options. This information is provided under note 25 on pages 40 and 41 of the Financial Report. Options held on December 31, 2004:
Board of Directors: 1'377'500 options — Group Executive Management: 196'100 options

5.7 Additional fees and remunerations. No additional fees or remunerations were paid.

5.8 Loans granted by governing bodies. There are no loans granted by governing bodies.

5.9 Highest total compensation. The highest total of all compensation paid to a member of the Board of Directors amounted to:

	2004	2003
Emolument (in CHF)	150 000	150 000
Shares (number)	none	none

6 Shareholders' participation rights

6.1 Voting-rights and representation restrictions. The relevant details are specified in Article 4 on page 3 of the Articles of Incorporation of Valora Holding AG of November 26, 2003.

6.2 Statutory quorums. The relevant details are specified in Article 12 on page 7 of the Articles of Incorporation of Valora Holding AG of November 26, 2003.

6.3 Convocation of the General Meeting of Shareholders. The General Meeting of Shareholders is convened in accordance with the relevant legal provisions. In addition to the public notice of the General Meeting, shareholders can also be invited by letter.

6.4 Agenda. The Articles of Incorporation do not contain any rules for the inclusion of items on the agenda of a General Meeting. To ensure that shareholders are informed of such inclusion in good time, any item to be included on the agenda of a General Meeting must be communicated to the company six weeks in advance of the General Meeting concerned.

6.5 Registrations in the share register. To participate at a General Meeting, a shareholder must submit their request for registration in the share register to the company at least three weeks in advance of the General Meeting concerned.

7 Changes of control and defence measures

7.1 Duty to make an offer. The company has no "opting out" or "opting up" clauses in its Articles of Incorporation.

7.2 Clauses on changes of control. Apart from the members of Group Executive Management entitled to participate in the focus strategy-based results-related bonus plan described under 5.1.2 above, there are no change-of-control clauses in favour of members of the Board of Directors and/or Group Executive Management or other management members.

8 Auditors

8.1 Duration of the mandate and term of office of the lead auditor. Pricewaterhouse-Coopers AG accepted the mandate as the company's statutory auditors at the 1942 General Meeting of Shareholders. The lead auditor, Andreas Baur, has been responsible for the mandate since 1999.

8.2 Auditing fees. The total costs of the auditing conducted by PricewaterhouseCoopers AG in 2004 amounted to CHF 1.2 million.

8.3 Additional fees. PricewaterhouseCoopers AG charged the companies of the Valora Group a total of CHF 1.5 million for additional services performed in 2004.

8.4 Supervisory and control instruments pertaining to the audit. The Audit Committee of the Board of Directors is responsible for supervising these activities.

9 Information policy

The company holds an annual results press conference every year for the media and financial analysts. All shareholders receive, together with the invitation to the General Meeting of Shareholders, a summary of the key figures from the Annual Report.
The company publishes a consolidated report (unaudited) on the first half-year at the end of August and distributes this to all shareholders. Telephone conferences are conducted if warranted by major developments or events.

Permanent sources of information:

- The www.valora.com website
- The Valora Group Annual Report
- Media releases

Media Relations: Stefania Misteli
Investor Relations: Hanspeter Staub (until June 30, 2005)

Shareholder data and capital structure

Shareholder data

		At 31.01.2005	At 31.01.2004
Structure	Significant shareholders	None	None
	10 largest shareholders	23.4% of shares	24.2% of shares
	100 largest shareholders	30.7% of shares	44.2% of shares
Origin	Switzerland	83.7% of shares	82.8% of shares
	Elsewhere	16.3% of shares	17.2% of shares

The CHF 35.7 million share capital of Valora Holding AG consists of 3.57 million registered shares each with a nominal value of CHF 10.00.
The Board of Directors resolved a two-tranche share buyback programme covering 15% of the company's nominal share capital on August 21, 2003. Shareholders voted at the Extraordinary General Meetings of Shareholders of November 26, 2003 and October 20, 2004 to reduce share capital through the deletion of 176'000 and 454'000 shares respectively, thereby concluding the first share buyback programme.

The Extraordinary General Meeting of Shareholders of October 20, 2004 also approved a proposal by the Board of Directors to conduct a further share buyback programme covering a maximum of 270'000 shares, or 7.6% of the share capital at December 31, 2004. A total of 178'000 shares had been repurchased via a second trading line by December 31, 2004, and the programme was concluded on February 11, 2005. The corresponding capital reduction will be proposed to the General Meeting of Shareholders of April 27, 2005.

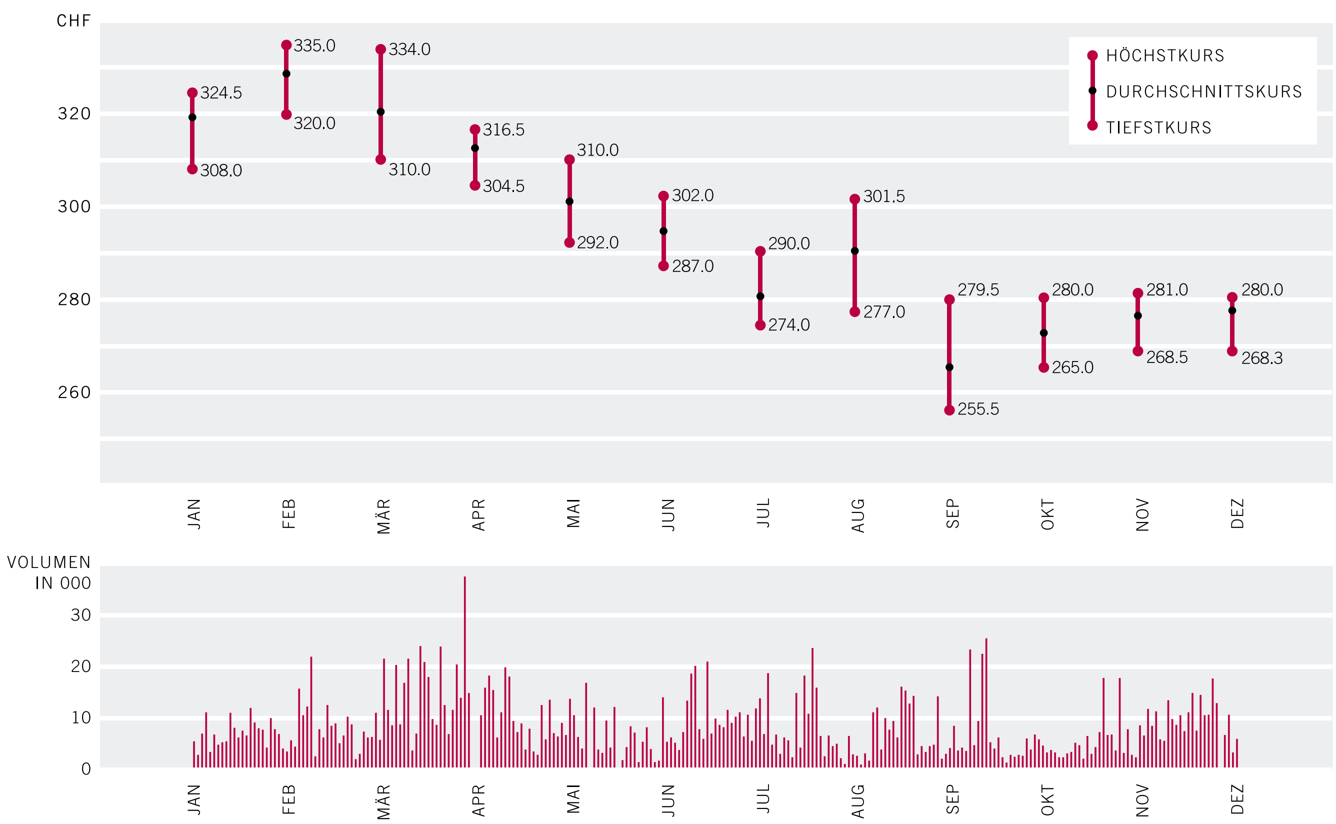
The company has held conditional capital up to a maximum of CHF 840'000 since the 2000 General Meeting of Shareholders. These shares are intended to cover existing option plans for the Board of Directors and management along with management and employee share ownership plans. No conditional capital had been issued by December 31, 2004.

The Articles of Incorporation of Valora Holding AG restrict the voting rights of any individual shareholder or groups of shareholders to 5%. The Board of Directors may authorise exceptions to this. Identical registration rules apply to both foreign and Swiss shareholders. The proposed CHF 9.00 reduction in nominal value is expected to be effected in mid-July 2005. The company has paid a dividend every year since 1920.

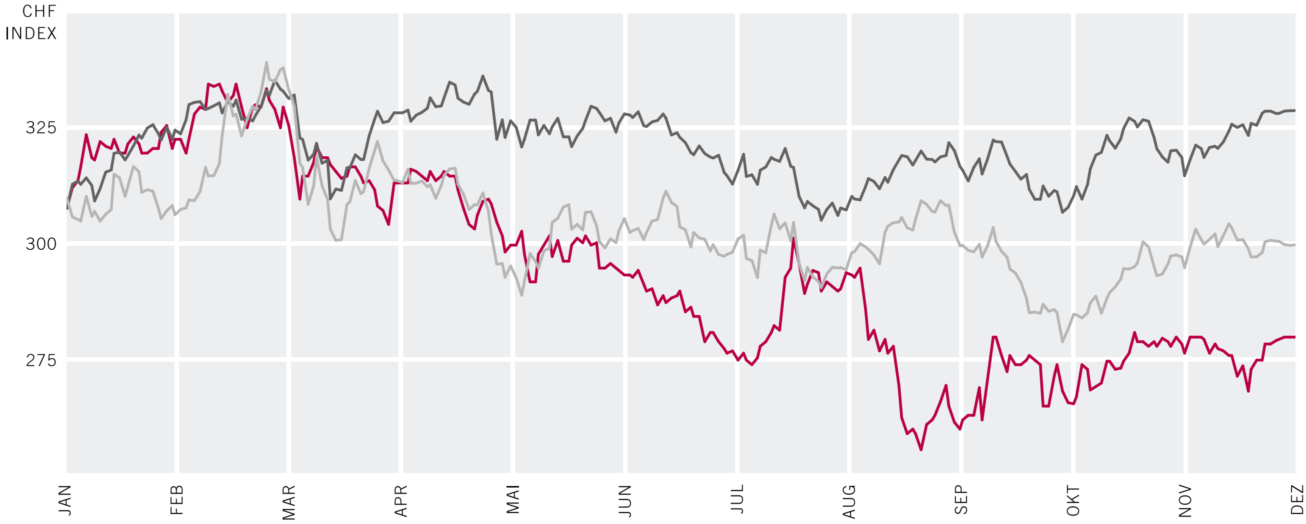
Valora share price development

The Valora share showed an overall negative trend in 2004. After opening at CHF 304 (last trade 2003: CHF 308) in January, the share price rose to an annual high of CHF 335 on February 23. The price then steadily declined to reach CHF 283 at the end of July. After rallying briefly to CHF 295, the share price showed a further continued decline following the publication of Valora's first-half results on August 26, reaching an annual low of CHF 256 on September 13. The share price then recovered somewhat, closing the year at CHF 280. These trends translate into an annual performance of -9%, substantially below the +7% reported by the Swiss Performance Index.

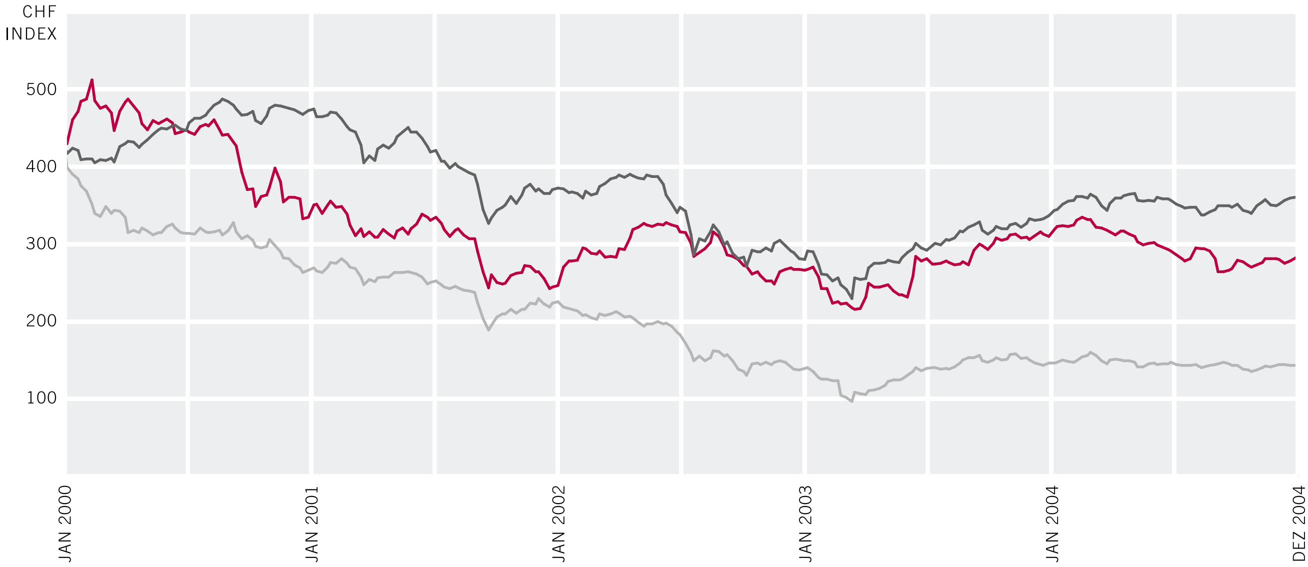
2004



Kursentwicklung Valora 2004



Kursentwicklung Valora 2000-2004



Valora SPI DOW JONES EURO STOXX RETAIL

Key share data and tax values

		2004	2003	2002	2001	[3] 2000
Key share data						
Share capital	CHF million	36	40	42	42	42
Total registered shares of CHF 10.00 nominal value	shares	3 570 000	4 024 000	4 200 000	4 200 000	4 200 000
Average number of shares outstanding	shares	3 664 006	3 935 088	3 976 107	4 091 900	4 127 478
Payout ratio	%	95.3	n/a	37.1	30.2	60.1
Nominal value reduction / Dividend per share	CHF	[1] 9.00	9.00	9.00	9.00	8.00
Number of shareholders		9 581	10 027	10 860	11 708	10 049
Share price (adjusted)						
High	CHF	335	316	336	366	530
Low	CHF	256	204	235	222	320
Share price at year-end	CHF	280	308	265	241.50	346.50
Market capitalisation	CHF million	1 026	1 212	1 054	988	1 430
EBIT per share [2]	CHF	14.79	– 26.95	31.47	40.32	36.67
Free cash flow per share [2] [4]	CHF	88.73	18.68	21.45	14.93	42.47
Earnings per share [2]	CHF	9.44	– 27.00	24.12	28.99	24.41
Equity per share [2]	CHF	169.62	196.70	239.75	226.70	204.43
P/E ratio [2]	at 31.12.	29.7	n/a	11.0	8.3	14.2

[1] Proposal
[2] Based on average number of shares outstanding
[3] Continuing operations
[4] Free cash flow: cash provided by operating activities less cash used in investing activities

Tax value of Valora shares	Securities no.	At 1.1.2005	At 1.1.2004	At 1.1.2003	At 1.1.2002	At 1.1.2001
Registered shares of CHF 10.00 nominal value	208 897	280.00	308.00	265.00	252.00	350.00
4½% bond payable 1999–2005	1 007 578	102.36%	104.25%	105.00%	100.75%	100.10%

Development of the Valora Group

	Net revenues in CHF million	Number of employees	Operating cash flow [6] in CHF million	Depreciation in CHF million	Net income in CHF million	Capital entitled to dividend in CHF million	Shareholders' equity in CHF million	Dividend per share of CHF 10.00 nominal value in CHF [1]
1905	0.1	72	–	–	–	0.5	–	–
1910	2.9	183	0.1	–	0.1	1.0	–	–
1920	10.0	255	0.3	0.1	0.2	3.0	3.3	1.00
1930	8.9	254	0.5	0.2	0.3	2.5	3.2	2.00
1940	10.8	293	0.5	0.1	0.4	2.5	3.6	1.75
1950	30.0	643	1.0	0.3	0.7	2.5	4.3	2.00
1960	47.3	970	1.2	0.3	0.9	4.0	6.9	2.50
1970	95.2	1 161	1.8	1.3	0.5	7.7	14.7	1.50
1980	196.9	1 068	5.6	4.6	1.0	10.0	21.4	2.00
1981	135.5	909	6.2	5.0	1.2	10.0	22.0	2.30
1982	141.4	917	6.6	5.3	1.3	10.0	22.6	2.50
1983	146.0	884	7.2	5.8	1.4	10.0	23.3	2.70
1984	154.6	937	9.5	7.8	1.7	10.0	34.7	3.00
1985	229.9	1 264	14.4	10.5	3.9	16.8	85.3	3.50
1986	262.5	1 433	17.9	12.9	5.0	22.7	85.3	4.00
1987	287.1	1 563	21.6	14.4	7.2	29.2	172.2	4.20
1988	358.3	1 812	29.9	19.7	10.2	34.2	188.2	4.60
1989	450.7	2 103	40.1	24.5	13.4	50.1	220.6	5.20
1990	1 706.7	7 602	110.1	60.4	44.3	76.7	548.0	5.80
1991	2 316.6	10 665	150.6	85.1	65.0	85.4	577.8	6.50
1992	2 527.6	11 111	168.4	94.3	70.7	91.6	636.0	7.00
1993	2 708.1	11 632	183.0	96.8	83.4	100.9	662.3	7.50
1994	2 917.5	13 353	202.3	103.8	93.6	102.1	707.9	8.00
1995	2 869.4	13 321	152.9	110.5	41.2	102.3	595.6	5.00
1996	2 895.6	13 266	183.0	109.8	72.1	102.6	589.5	6.00
1997	2 425.1	10 416	206.5	60.1	[4] 146.4	[5] 41.1	745.7	6.50
1998	2 551.2	10 145	155.5	63.1	92.5	41.2	775.5	7.00
Accounting policies revised to comply with International Financial Reporting Standards (IFRS) from 1999								
1999 [3]	2 290.9	8 117	172.5	56.0	82.0	41.2	841.3	8.00
2000 [3]	2 448.3	8 670	188.1	61.0	100.8	41.3	843.8	8.00
2001	2 633.6	9 206	213.3	64.0	118.6	40.9	927.6	9.00
2002	3 076.8	9 558	186.2	61.0	95.9	39.5	953.3	9.00
2003	3 021.4	8 995	164.4	69.5	– 106.3	39.1	774.0	9.00
2004	**2 990.1**	**8 440**	**242.0**	**69.3**	**34.6**	**32.7**	**621.5**	[2] **9.00**

[1] Unadjusted
[2] Proposed reduction in nominal value
[3] Continuing operations
[4] Including CHF 63.3 million non-recurring gain from IPO Selecta
[5] After CHF 15.00 reduction in nominal value per share
[6] Operating cash flow: net income + depreciation + goodwill amortisation

Five-year summary

		2004	2003	2002	2001	[1] 2000
Net revenues	**CHF million**	**2 990.1**	**3 021.4**	**3 076.8**	**2 633.6**	**2 448.3**
Change	%	– 1.0	– 1.8	+ 16.8	+ 7.6	+ 6.9
Earnings before interest and taxes (EBIT)	**CHF million**	**54.2**	**– 106.0**	**125.1**	**165.0**	**163.8**
in % of net revenues	%	1.8	n/a	4.1	6.3	6.7
Net income / net loss	**CHF million**	**34.6**	**– 106.3**	**95.9**	**118.6**	**100.8**
Change	%	n/a	n/a	– 19.2	+ 17.7	+ 22.9
in % of net revenues	%	1.2	n/a	3.1	4.5	4.1
in % of shareholders' equity	%	5.6	n/a	10.0	12.8	11.9
Net cash provided by (used in)						
Operating activities	CHF million	175.3	137.3	154.4	153.8	230.1
Investing activities	CHF million	149.8	– 63.8	– 69.1	[1] – 92.7	– 54.8
Free cash flow	**CHF million**	**325.1**	**73.5**	**85.3**	**[1] 61.1**	**175.3**
Financing activities	CHF million	– 243.0	– 108.1	– 72.7	– 237.6	– 1.6
Earnings / loss per share	**CHF**	**9.44**	**– 27.00**	**24.12**	**28.99**	**24.41**
Change	%	n/a	n/a	– 16.8	+ 18.8	+ 22.7
Free cash flow per share	**CHF**	**88.73**	**18.68**	**21.45**	**[1] 14.93**	**42.47**
Change	%	+ 375.0	– 12.9	+ 43.7	– 18.5	n/a
Cash and cash equivalents	**CHF million**	**291.6**	**209.9**	**239.0**	**227.2**	**225.2**
Shareholders' equity	**CHF million**	**621.5**	**744.0**	**953.3**	**927.6**	**843.8**
Balance sheet equity ratio	%	41.2	45.3	50.4	48.6	43.0
Number of employees		**8 440**	**8 995**	**9 558**	**9 206**	**8 670**
Change	%	– 6.2	– 5.9	+ 3.8	+ 6.2	+ 6.8
Net revenues per employee	**CHF 000**	**354**	**336**	**322**	**286**	**282**
Change	%	+ 5.4	+ 4.3	+ 12.6	+ 1.4	0.0
Number of sales points at December 31		1 531	1 615	1 660	1 680	1 631
Net sales per sales point [2]	CHF 000	969	925	909	–	–

[1] From continuing operations, in accordance with IFRS
[2] Net sales of Valora Retail only

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