REVIEW OF GROUP RESULTS

With an EBIT of CHF 89.8 million, 2018 was a strong financial year for Valora once again confirming the communicated expectations. The convenience and food service provider's EBIT increased by +13.7% year-on-year and the EBIT margin improved by +0.3 percentage points to 4.2%. Owing to the profit contribution by the franchise company BackWerk acquired in autumn 2017, organic growth and positive currency effects, EBITDA improved by +16.7% or CHF +22.3 million to CHF 156.0 million.

External sales increased by +11.3% to CHF 2,731.0 million and net revenues grew by +6.0% to CHF 2,122.1 million, which corresponds to growth in local currency of +9.4% and +4.6% respectively. Net profit from continuing operations increased by +12.2% to CHF 64.1 million and Group net profit grew by +3.2% to CHF 59.0 million. At CHF 49.0 million, the Group's free cash flow was down on the previous year, mainly due to increased investment activity and the one-off proceeds posted in 2017 on the sale of the property in Geneva that was taken over as part of the Naville acquisition. The Group's return on capital employed (ROCE) improved by +0.5 percentage points on the first half of 2018 to 8.2%, which is slightly below the previous year (8.6%) because of the acquisition-related increase in capital employed.

Retail CH maintained profitability at the previous year's high level, with operational improvements making up for the book gain posted in 2017 from the sale of the Naville property. The market unit developed innovative concepts in 2018 and refined all sales formats – avec, k kiosk and Press & Books. These updated formats were also included in the offer submitted to the SBB for the tender of rental spaces. Retail CH also expanded its product range in 2018 with forward-looking ultra-fresh food offers, regional products, alternative nicotine products and services. Retail DE/LU/AT had a challenging financial year with the expected ongoing market-driven decline in high-margin print media. Cost initiatives and projects, such as the further promotion of alternative nicotine products (e.g. e-smoke) were pursued with increased focus and already helped to improve the EBIT margin compared to the one posted for the first half-year, even though these initiatives are still in the start-up phase.

In the Food Service division, the gross expansion of BackWerk is progressing as planned. The BackWerk network was streamlined by closing down less lucrative locations and franchisee efficiency was enhanced further. Focusing on sustainability and profitability, Ditsch made considerable progress in optimising its network. The expansion of capacity for pretzel production for the B2B business and own formats is also progressing well: after doubling the capacity of the current line at Ditsch USA in 2018, projects to expand production capacity in the US by another line and to add two more production lines in a new, separate building at Ditsch Germany in Oranienbaum are planned for 2019.

Valora has also taken important steps to optimise its long-term financing structure. It took advantage of the attractive market conditions to place two Schuldschein issues in 2018, whereby the second transaction was closed on 11 January 2019. In October 2018, the hybrid bond was redeemed and partly refinanced with the second Schuldschein issue. The latter for the first time contained a CHF tranche – a novelty on the market.

With the new organisational structure which entered into force in January 2019, Valora is even better prepared for the future. The organisation is structured into the two market- and customer-focused Retail and Food Service divisions comprising the decentralised sales formats and Group-wide Shared Services, which allows better transfer of cross-divisional and Group-wide know-how and a joint sourcing strategy. The new structure also supports the exploitation of anticipated synergies from the BackWerk acquisition. The Board of Directors and Group Executive Management are convinced that they have positioned Valora Group perfectly for success and further growth in 2019 with this new organisational structure and the initiatives launched in 2018.

A NET REVENUES

Net revenues (NR) in CHF million	2018	2018 share in %	2017 [1]	2017 share in %	Change	Change in local currency
Valora Retail CH	1 187.1	55.9 %	1 189.4	59.4 %	–0.2 %	–0.2 %
Valora Retail DE / LU / AT	566.3	26.7 %	522.3	26.1 %	+8.4 %	+4.4 %
Valora Retail	1 753.4	82.6 %	1 711.7	85.5 %	+2.4 %	+1.2 %
Food Service	362.6	17.1 %	286.4	14.3 %	+26.6 %	+23.5 %
Other	6.0	0.3 %	3.4	0.2 %	n.a.	n.a.
Total Group	**2 122.1**	**100.0 %**	**2 001.6**	**100.0 %**	**+6.0 %**	**+4.6 %**
Switzerland	1 293.5	61.0 %	1 290.1	64.5 %	+0.3 %	+0.3 %
Elsewhere	828.5	39.0 %	711.5	35.5 %	+16.5 %	+12.1 %

[1] restated according to IFRS15.

Valora posted an increase in external sales of +11.3 % to CHF 2,731.0 million. Net revenues rose by +6.0 % to CHF 2,122.1 million, driven by BackWerk's contribution, positive currency effects, growth of Food Service and a higher number of own outlets of Retail DE/LU/AT.

At CHF 1,187.1 million, net revenues for **Retail CH** were on a par with the previous year (CHF 1,189.4 million), with same-store revenues rising for the first time again (+0.4 %) after a multi-year contraction. The closure of a net number of 9 sales outlets since December 2017 resulted in a slight drop in revenues (–0.2 %).

Net revenues for **Retail DE/LU/AT** rose by +8.4 % to CHF 566.3 million in the 2018 financial year, corresponding to +4.4 % in local currency. This growth is primarily due to a higher number of own outlets in Germany, while same-store revenues were more or less the same as the previous year (–0.2 %). In Germany, the market-driven decline in print media (–7.7 %) was compensated by ongoing sales growth, in particular for tobacco and alternative nicotine products but also for food, non-food and services.

The **Food Service** division posted an increase in net revenues of +26.6 % to CHF 362.6 million, corresponding to +23.5 % in local currency. This growth was mainly driven by the contribution by the franchise company BackWerk, which was acquired and consolidated for the first time in November 2017. In 2018, a net number of 8 new BackWerk outlets was opened, bringing the gross number to 26 locations. Revenue growth was also strong for the B2B business (+5.9 % in local currency). While the network of sales outlets excluding BackWerk was reduced by 12 locations, mostly owing to the network streamlining by Ditsch, the same-store retail business continued to do well for the Food Service formats in Switzerland (+2.7 %) and for Ditsch in Germany (+1.4 %).

B GROSS PROFIT

Gross profit in CHF million	**2018**	**2018 share in %**	**2018 % of NR**	2017	2017 share in %	2017 % of NR[1]	Change	in local currency
Valora Retail CH	465.6	48.2 %	39.2 %	457.8	52.5 %	38.5 %	+ 1.7 %	+ 1.7 %
Valora Retail DE / LU / AT	201.0	20.8 %	35.5 %	189.0	21.7 %	36.2 %	+ 6.4 %	+ 2.4 %
Valora Retail	666.6	69.0 %	38.0 %	646.8	74.2 %	37.8 %	+ 3.1 %	+ 1.9 %
Food Service	292.8	30.3 %	80.7 %	222.0	25.5 %	77.5 %	+ 31.9 %	+ 28.8 %
Other	6.0	0.6 %	n.a.	3.4	0.4 %	n.a.	n.a.	n.a.
Total Group	**965.4**	**100.0 %**	**45.5 %**	**872.2**	**100.0 %**	**43.6 %**	**+ 10.7 %**	**+ 9.1 %**

[1] restated according to IFRS15.

Gross profit increased by + 10.7 % to CHF 965.4 million. The increase of + 9.1 % in local currency is explained by BackWerk's contribution and the growth posted for all operational areas. The gross profit margin improved by + 1.9 percentage points to 45.5 %.

Gross profit for **Retail CH** rose by + 1.7 % to CHF 465.6 million. Higher promotion income and positive product mix effects resulted in a margin improvement of + 0.7 percentage points to 39.2 %. In addition, fresh logistics costs are no longer charged to the cost of goods, but to the operating costs.

At **Retail DE/LU/AT,** gross profit grew by + 6.4 % or + 2.4 % in local currency to CHF 201.0 million as a result of the rise in revenues mentioned in Section A. Owing to product mix effects, the gross profit margin is 35.5 % compared to 36.2 % in the previous year. The gross profit margin was + 0.3 percentage points better in the second half than in the first half of the year.

The gross profit for **Food Service** improved by + 31.9 % or + 28.8 % in local currency to CHF 292.8 million, driven by the rise in revenues mentioned in Section A. The gross profit margin also rose by + 3.2 percentage points to 80.7 %. The improvement results from the attractive margin profile of BackWerk as well as the organic advancements achieved in spite of persistently high prices for dairy raw materials.

C OPERATING COSTS, NET

Net operating costs in CHF million	2018	2018 share in %	2018 % of NR	2017	2017 share in %	2017 % of NR[1]	Change	Change in local currency
Valora Retail CH	–411.6	47.0%	–34.7%	–403.4	50.9%	–33.9%	+2.0%	+2.0%
Valora Retail DE/LU/AT	–189.2	21.6%	–33.4%	–173.3	21.8%	–33.2%	+9.2%	+5.2%
Valora Retail	–600.9	68.6%	–34.3%	–576.7	72.7%	–33.7%	+4.2%	+3.0%
Food Service	–258.7	29.5%	–71.3%	–195.8	24.7%	–68.3%	+32.1%	+29.0%
Other	–16.0	1.8%	n.a.	–20.8	2.6%	n.a.	–22.8%	–23.5%
Total Group	**–875.5**	**100.0%**	**–41.3%**	**–793.2**	**100.0%**	**–39.6%**	**+10.4%**	**+8.8%**

[1] restated according to IFRS15.

At CHF –875.5 million, net operating costs are up +8.8% in local currency on the previous year, mainly because of the operating costs of BackWerk.

The net operating costs of **Retail CH** were CHF –411.6 million compared to CHF –403.4 million the year before. The increase of +2.0% is essentially due to the non-recurring book profit from the sale of the Naville property in Geneva in 2017. In addition, fresh logistics costs are no longer charged to the cost of goods, but to the operating costs. Positive effects from process improvements had the opposite outcome.

Retail DE/LU/AT incurred costs of CHF –189.2 million. The increase of +5.2% in local currency is explained on the one hand by the higher number of own outlets, and on the other hand, investments in the network of sales outlets also resulted in higher depreciation. The cost initiatives implemented in the second half of the year had a positive effect, as a result of which the cost ratio was up +1.4 percentage points on the first half-year. The total cost ratio of –33.4% for 2018 is more or less the same as in the previous year (–33.2%).

The **Food Service** division posted net operating costs of CHF -258.7 million, compared to CHF –195.8 million the year before. The rise of +29.0% in local currency is primarily driven by the operating costs incurred by BackWerk, while volume-driven higher costs and reorganisation expenses also contributed to the increase. Because of the cost and revenue structure of BackWerk, the cost ratio of –71.3% is higher than the year before (–68.3%); without BackWerk, the operating cost ratio would have improved by +0.4 percentage points.

Other business cut its net operating costs by –22.8% to CHF –16.0 million. The reduction in costs mainly derives from the project costs for the BackWerk acquisition included in the previous year's statements.

D OPERATING PROFIT (EBIT)

Operating profit (EBIT) in CHF million	**2018**	**2018 share in %**	**2018 % of NR**	2017	2017 share in %	2017 % of NR[1]	Change	Change in local currency
Valora Retail CH	54.0	60.1 %	4.5 %	54.4	68.9 %	4.6 %	–0.9 %	–0.9 %
Valora Retail DE/LU/AT	11.7	13.1 %	2.1 %	15.7	19.8 %	3.0 %	–25.1 %	–28.6 %
Valora Retail	65.7	73.2 %	3.7 %	70.1	88.7 %	4.1 %	–6.3 %	–7.3 %
Food Service	34.1	38.0 %	9.4 %	26.2	33.2 %	9.2 %	+30.1 %	+27.3 %
Other	–10.0	–11.1 %	n.a.	–17.3	–21.9 %	n.a.	n.a.	n.a.
Total Group	**89.8**	**100.0 %**	**4.2 %**	**79.0**	**100.0 %**	**3.9 %**	**+13.7 %**	**+12.0 %**

[1] restated according to IFRS15.

Valora raised EBIT by +13.7 % to CHF 89.8 million. BackWerk's EBIT contribution and the operating growth posted by Food Service and Retail CH more than compensated for the challenging financial year faced by Retail DE/LU/AT.

Retail CH generated EBIT of CHF 54.0 million, which is more or less on a par with the high level of the previous year. After adjusting the 2017 result by the book profit on the Naville property in Geneva (CHF 2.9 million), operating growth amounts to CHF +2.4 million or +4.6 %. The EBIT margin of 4.5 % is also in line with the previous year (4.6 %), and in operational terms equals an increase of +0.2 percentage points.

Retail DE/LU/AT posted EBIT of CHF 11.7 million compared to CHF 15.7 million in the previous year. Persistently negative revenues on printed media and the related product mix developments burdened the result. Sales outlets that are still in the start-up phase also affected the result. Implemented cost initiatives and projects partly cushioned developments in the second half of the year. The EBIT margin recovered in the second half-year by +1.7 percentage points compared to the first half of the year, which translates into 2.1 % profitability for 2018 (previous year: 3.0 %).

The **Food Service** division saw EBIT increase by +30.1 % to CHF 34.1 million; in local currency terms, growth was +27.3 %. This stems from organic growth as well as from BackWerk, the latter including amortisation of CHF –5.8 million on the acquired intangible assets. The division's EBIT margin also improved by +0.3 percentage points to 9.4 %.

Other business improved its result by CHF +7.3 million to CHF –10.0 million. The previous year included project costs for the BackWerk acquisition, in addition the positive performance of bob Finance helped to improve the result.

E FINANCIAL RESULT, TAXES AND NET RESULT

In the 2018 financial year, net profit from continuing operations increased by +12.2% to CHF 64.1 million and group profit grew by +3.2% to CHF 59.0 million.

At CHF –9.9 million, the financial result is up CHF +0.6 million year-on-year (2017: CHF –10.6 million). Lower interest and other financial expenses (CHF +3.5 million) more than made up for higher currency losses caused by the development of the EUR/CHF exchange rate (CHF –2.9 million).

Tax expenses increased because of higher EBT and revaluations of deferred taxes from CHF –11.3 million in the previous year to CHF –15.9 million in the 2018 financial year, resulting in a tax rate of 19.9% (previous year: 16.6%).

Together with the EBIT development described in chapter D, these effects resulted in an increase in net profit from continuing operations of +12.2% or CHF +7.0 million to CHF 64.1 million.

The loss from discontinued operations of CHF –5.1 million includes the full value adjustment for the earn-out components pertaining to the sale of the former Trade division and the reversal of a warranty provision. As a result, Group profit rose by +3.2% or CHF +1.8 million to CHF 59.0 million.

F LIQUIDITY, CASH FLOW AND KEY FINANCIAL DATA

Key financial data in CHF million	**2018**	2017
EBITDA	**156.0**	**133.7**
Cash flow from operations	116.0	114.2
Free cash flow / before purchase / sale of subsidiaries	**49**	**82**
Free cash flow per share in CHF	**12.47**	**23.93**
Group net profit	**59.0**	**57.1**
Earnings per share in CHF	**13.98**	**15.27**
Shareholder's equity	613.8	737.9
Total equity in % of total assets	46.3 %	52.4 %
Net debt	358.6	246.1

At CHF 49.0 million, Valora's free cash flow was down on the previous year, mainly due to increased investment activity and the one-off proceeds posted in 2017 on the sale of the Naville property. Both the equity ratio (46.3 %) and the debt ratio (2.3x EBITDA) improved after adjusting the prior-year ratios for the effects of the redeemed hybrid bond.

Valora generated free cash flow of CHF 49.0 million compared to CHF 82.0 million in the previous year. Earnings before interest, taxes, depreciation and amortisation (EBITDA) rose by CHF +22.3 million or +16.7 % to CHF 156.0 million. Net working capital normalised compared to its low levels reported on 31 December 2017. In addition, because of the non-recurring proceeds earned on the sale of the Naville property in 2017 and increased investment activity, in particular for the expansion of pretzel production capacity, net investment expenses are higher than in the previous year.

At 46.3 %, the equity ratio as at 31 December 2018 is down on the previous year (52.4 %) owing to the refinancing of the hybrid bond recognised in equity. As a result, net debt amounts to CHF 358.6 million (previous year: CHF 246.1 million). After adjusting the prior-year ratios for the effects of the redeemed hybrid bond, the equity ratio increased by +2.4 percentage points and the adjusted debt ratio improved by –0.2x EBITDA to 2.3x EBITDA in the 2018 financial year.

G RETURN ON CAPITAL EMPLOYED

ROCE [1] in %	**31.12.2018**	31.12.2017	Percentage-point change
Valora Retail CH	29.5 %	28.1 %	+ 1.3 %
Valora Retail DE / LU / AT	6.7 %	9.8 %	– 3.1 %
Valora Retail	18.3 %	19.8 %	– 1.5 %
Food Service	5.2 %	5.9 %	– 0.6 %
Total Group [2]	**8.2 %**	**8.6 %**	**– 0.4 %**

[1] Capital employed is the average measured over the preceding 13 months. EBIT is the aggregate operating profit for the preceding 12 months.
[2] Consolidated EBIT includes Corporate costs and consolidated capital employed includes operating cash and cash equivalents relating to continuing operations.

The Group's ROCE improved by + 0.5 percentage points on the first half of 2018 to 8.2 %, which is slightly below the previous year (8.6 %) because of the acquisition-related increase in capital employed.

The return on capital employed (ROCE) is the ratio of the EBIT generated over the past 12 months to the average capital invested. Valora's ROCE was 8.2 % on 31 December 2018, down slightly by – 0.4 percentage points on the figure for 31 December 2017 because of the acquisition-related increase in capital employed. The ROCE improved by + 0.5 percentage points compared to 30 June 2018.

Retail CH improved its ROCE by + 1.3 percentage points to 29.5 % by reducing the capital employed by 5.4 % and maintaining EBIT profitability at the previous year's high level.

Retail DE/LU/AT reported ROCE of 6.7 % as at 31 December 2018. This is lower than the year before (9.8 %) owing to the decline in EBIT development and the higher capital employed for investments in the sales outlet network.

The **Food Service** division's ROCE is 5.2 % compared to 5.9 % for the 2017 financial year. The division's ROCE is currently lower due to the increase in capital employed for the BackWerk acquisition and the start of the expansion of capacity for pretzel production. The potential of these strategic investments will be exploited further in the coming years with the realisation of the BackWerk synergies, further expansion and the putting into operation of the expanded production capacities.