APG | SGA
Out of Home Media

# Letter to Shareholders

## Strong operational performance and slight increase in net result.
## Slight downturn in revenues caused by reduced advertising inventory.
## Positive development in digital products.
## Successful establishment of new business units.

### In brief (adjusted for one-time effects)

– Sales revenue down slightly by 2.9% to CHF 146.0 million
– International sales account for 4.2% of Group sales
– EBITDA margin: 25.2% (prior-year period: 24.7%)
– EBIT margin: 20.7% (prior-year period: 20.7%)
– Net income up by 1.7%

### Financial highlights

| in CHF 1 000 | 1st half of 2017 | 1st half of 2016 | 1st half of 2016 adjusted for one- time effects[1] | Change | Change adjusted for one-time effects |
|---|---|---|---|---|---|
| **Sales revenue** | **146 023** | 150 446 | 150 446 | –2.9% | –2.9% |
| – Switzerland | **139 869** | 144 255 | 144 255 | –3.0% | –3.0% |
| – International | **6 154** | 6 191 | 6 191 | –0.6% | –0.6% |
| **Operating income** | **149 302** | 174 055 | 151 441 | –14.2% | –1.4% |
| **EBITDA** | **37 668** | 59 950 | 37 400 | –37.2% | 0.7% |
| – in % of operating revenue | **25.2%** | 34.4% | 24.7% | | |
| **EBIT** | **30 943** | 53 829 | 31 279 | –42.5% | –1.1% |
| – in % of operating revenue | **20.7%** | 30.9% | 20.7% | | |
| **Net income** | **25 189** | 42 749 | 24 776 | –41.1% | 1.7% |
| – in % of operating revenue | **16.9%** | 24.6% | 16.4% | | |
| **Cash flow** | **27 963** | 22 889 | 22 889 | 22.2% | 22.2% |
| **Free cash flow** | **–15 190** | 20 464 | –7 576 | –174.2% | –100.5% |
| **Investments in property, plant, and equipment** | **3 585** | 4 897 | 4 897 | –26.8% | –26.8% |
| – advertising plant | **1 956** | 2 148 | 2 148 | –8.9% | –8.9% |
| – other investments | **1 629** | 2 749 | 2 749 | –40.7% | –40.7% |
| **Net income per share, in CHF** | **8.40** | 14.25 | 8.26 | –41.1% | 1.7% |

EBITDA: Earnings before interest, taxes, depreciation of property, plant, and equipment, and amortization of intangible assets
EBIT: Earnings before interest and taxes

[1] Adjusted for the effects of real estate sales

Dear Shareholder:

## General business development

Business developments in the first half of 2017 can be described as positive. At CHF 146.0 million, sales revenues were slightly below last year's levels. However, this drop can be explained by a reduction in our Swiss advertising inventory due to the non-extension of contracts with the cities of Lucerne and Geneva, and the Zurich transport authority (VBZ), leading to a corresponding decline compared with the prior-year period. Despite this slight downturn in revenues, we managed to keep profitability at a high level through cost reduction and other measures, and once again increased the net result by 1.7% compared with the previous year. The Serbian operation also returned an attractive result for the first half of the year.

## APG|SGA Group

In the first half of 2017, APG|SGA achieved sales revenues totaling CHF 146.0 million and thus 2.9% below the prior-year period (CHF 150.4 million). At CHF 0.8 million, real estate revenues were 15.1% lower than the prior-year period. With the disposal of the Basel property in late June 2016, the rental return associated with the property also diminished. Other operating revenues saw a result of CHF 2.4 million, which is associated with the sale of no longer used property, plant, and equipment.

Charges for concessions and commissions represented 44.6% of adjusted operating revenues, a slight increase over the previous year. Personnel expenses declined by 3.5% over the prior-year period. Part of this decline is attributable to outsourcing of IT functions and process optimization. Operating and administrative costs were 3.9% lower than the previous year's period. Despite development costs for new business areas, strict cost management ensured that total expenses dropped further. Operating margins remained at about the same level as the previous year, reaching 25.2% EBITDA-margin and 20.7% EBIT-margin.

The net result for the first half of 2017 was CHF 25.2 million, which represents an increase of 1.7% over the prior-year period. As well as the strong operational result, this was also due to positive financial earnings.

## Cash flow

Cash flow for the first half of 2017 was CHF 28.0 million (prior-year period: CHF 22.9 million). Cash flow from operating activities was CHF –10.7 million (prior-year period: CHF 3.5 million). This result is strongly influenced by seasonal effects and is significantly lower in the first half of the year than the second. Investments in fixed assets amounted to CHF 3.3 million (prior-year period: CHF 4.9 million). Free cash flow amounts to CHF –15.2 million.

## Balance sheet

The balance sheet total fell by 30.7% from the balance at December 31, 2016, and amounts to CHF 189.7 million as at June 30, 2017. This decline is primarily attributable to dividend payments. Seasonal factors caused a reduction in short-term liabilities.

Intangible assets account for 12.3% of total assets. On June 30, 2017, the net cash position amounted to CHF 39.7 million. Compared with the balance sheet as at December 31, 2016, dividend payments and payments for concession charges primarily influenced this figure.

Equity amounted to CHF 95.6 million, representing an equity ratio of 50.4%.

## Swiss market

At CHF 139.9 million, net sales revenues were 3.0% lower than the previous year. This drop is primarily attributable to a high comparative base due to the non-renewal of contracts with the cities of Lucerne and Geneva, and the Zurich transport authority (VBZ). The development of sales revenues was particularly favorable for digital products and large-format products.

Among the customer segments, the sales mix between national and regional advertisers remains well balanced. Revenues for the “PosterDirect” booking tool, which meets the needs of both SME and private customers, increased by more than 31%. Both this and APG|SGA’s analog and digital outdoor advertising products – a unique, integrated service encompassing all communicative spaces – attracted new out-of-home media customers.

In addition, APG|SGA expanded its activities in the areas of mobile media, interactive and data collecting with the launch of the new “APG|SGA Interaction” segment brand in early February. This move was guided by the belief that mobile media will become an increasingly integrated component of the out-of-home media market, with increased mobile internet usage in the context of outdoor advertising enabling effective, combined appeal to target groups along the customer journey. Market feedback from this initiative was positive and there is already healthy demand for APG|SGA Interaction services. In April APG|SGA was awarded, along with the LINK Institute, the European Research Prize 2017 for their innovative online market research project using beacon technology. By bringing together poster sites, beacons and a specially developed app, the project was able to substantiate the marketing impact of poster campaigns.

In the contract portfolio area, APG|SGA managed to secure a number of key future prospects through public tender processes. Thus, APG|SGA will affirm its strong market position in Basel, as it has received the tender for all existing spaces in the formats F200, F12 and F4, more than 250 back-lit posters in the F200 format and the creation of 22 digital City ePanels. In mid-March, the Federal Supreme Court upheld the city of Lausanne’s decision to award poster concessions for management of a total of 1,980 poster spaces to APG|SGA for five years. In Lugano, APG|SGA secured the exclusive right to all analog and digital outdoor advertising products in the city until 2030. In Zurich, APG|SGA received the award for its preferred lots and the right to market a total of 1,150 commercial spaces in public property until mid-2023.

In Geneva, legal proceedings have started against the award of a tender to a local competitor. Unfortunately, there is little prospect of a decision in these appeal proceedings in the near future. Thus, it is all the more pleasing that APG|SGA won the award for the Place de Cornavin car park in the heart of Geneva, and is able to carry out a large-scale expansion of its services in the form of digital City ePanels and back-lit spaces in MetroShopping.

This will allow a consistent push to digitalization in prime locations. In January, 64 new Escalator ePanels went into operation at Zurich’s main railway station, as well as six Shopping ePanels in the city’s Neumarkt shopping center. This brings the total of Swiss shopping centers with APG|SGA digital advertising to 25. The steadily expanding network of SOCAR gas station sites also includes prime locations. Here APG|SGA has carried out a discerning selection process and will continue to expand the analog poster site network to attractive points of sale (POS) with Socar Energy Switzerland.

APG|SGA will also take part in the current SBB tender for the marketing of third-party advertising (from 2019). This tender covers an extension to the analog and digital spaces marketed by APG|SGA to date, and to both internal and external train space previously marketed by the SBB itself, along with its mobile and online portfolio.

In the transport vehicle advertising segment, as communicated on June 29, 2017, APG|SGA Traffic was awarded the tender of BERNMOBIL for marketing and management of all analog and digital interior and exterior spaces until end of 2022, a further chapter in its 100-year association with the capital Bern.

## International markets

APG|SGA's foreign operations are now confined solely to Serbia, where economic framework conditions have improved. This positive development has continued in 2017, with economic growth of 3.0% expected. (National Bank of Serbia, Macroeconomic Developments in Serbia, June 2017).

The APG|SGA company Alma Quattro d.o.o. generated revenues of CHF 6.2 million in the reporting period. This more or less corresponds to revenues for the prior-year period, when early elections had a particularly positive influence.

As part of the new concession contracts with the city of Belgrade, a roll-out of additional advertising vehicles in attractive locations is currently taking place.

Alma Quattro and the local IT company Tegetlab have established a joint venture to service Serbia's rapidly growing mobile marketing segment. TAQ d.o.o. now offers free wifi for residents and visitors to Belgrade. In return, targeted advertising is sold through the app, which allows customers to activate place and consumer-specific advertising. The customer can carry out all media buying and content creation activities online and receive real-time analysis on the effectiveness of its campaigns.

Alma Quattro has an impressive service portfolio that still offers room for expansion. Based on the strong market position and its efficient local organization, Alma Quattro has made a positive contribution to the company's overall success.

## Organization

At the General Meeting on Tuesday, May 23, 2017, all members of the Board of Directors were re-elected. This means the body continues to comprise Dr. Daniel Hofer (President), Robert Schmidli (Vice President), Xavier Le Clef, Stéphane Prigent and Markus Scheidegger. In operational management, too, the composition remains unchanged.

## Outlook

With its rapid reach development, contact accumulation and guaranteed high visibility, outdoor advertising is an important component of the communications mix. APG|SGA offers its advertising customers a unique, integrated portfolio of products and services that encompasses advertising space in every communication space. This range is supplemented by the rental of promotional spots for sampling and live communications, and planning and execution of mobile media campaigns. This allows APG|SGA to offer advertising customers and their agencies highly effective targeted marketing and new interactive advertising formats from a single source.

In the current year, APG|SGA is determined to prove its market strength and innovation leadership – both in analog and digital products. With the installation of further City ePanels in Basel, Lausanne (Metro m2), Geneva and other centers, APG|SGA is steadily expanding its reach in public spaces.

With these and other activities in the area of digital transformation, we will continue to successfully and sustainably develop the outdoor advertising market and our company in a dynamic competitive environment. Performance, quality, reliability and solidity are key factors that will continue to make APG|SGA a favored contract partner for cities, local authorities and private property owners.

We would like to thank you, our esteemed shareholders, for your great interest and valued support.

Dr. Daniel Hofer
Chairman of the Board

Markus Ehrle
Chief Executive Officer

# Consolidated balance sheet

## Assets

| in CHF 1 000 | 30.06.2017 | 31.12.2016 |
|---|---|---|
| Buildings and land | **36 030** | 36 822 |
| Advertising plant | **20 252** | 21 406 |
| Other property, plant, and equipment | **5 940** | 5 920 |
| **Property, plant, and equipment** | **62 222** | 64 148 |
| Deferred tax assets | **1 433** | 1 433 |
| Participations in joint ventures | **253** | |
| Other financial investments | **6 930** | 3 648 |
| **Financial investments** | **8 616** | 5 081 |
| Goodwill | **8 475** | 9 301 |
| Contractual advertising rights | **14 902** | 13 904 |
| **Intangible fixed assets** | **23 377** | 23 205 |
| **Non-current assets** | **94 215** | 92 434 |
| Inventories | **2 410** | 2 294 |
| Trade accounts receivable | **36 680** | 43 431 |
| Other accounts receivable | **6 689** | 2 030 |
| Deferred expenses and accrued income | **10 018** | 6 712 |
| Cash and cash equivalents | **39 707** | 126 817 |
| **Current assets** | **95 504** | 181 284 |
| **Total** | **189 719** | 273 718 |

## Shareholders' equity and liabilities

| in CHF 1 000 | 30.06.2017 | 31.12.2016 |
|---|---|---|
| Share capital | **7 800** | 7 800 |
| Capital reserves, premiums | **13 763** | 13 711 |
| Treasury shares | **–324** | –377 |
| Translation differences | **–1 956** | –2 474 |
| Retained earnings | **76 334** | 123 106 |
| **Shareholders' equity** | **95 617** | 141 766 |
| Financial liabilities | **1** | 179 |
| Provisions | **11 556** | 8 297 |
| Deferred tax liabilities | **5 528** | 6 117 |
| **Non-current liabilities** | **17 085** | 14 593 |
| Trade accounts payable | **4 656** | 20 288 |
| Taxes payable | **1 742** | 7 129 |
| Other accounts payable | **22 672** | 27 429 |
| Accrued liabilities and deferred income | **46 944** | 61 490 |
| Provisions | **1 003** | 1 023 |
| **Current liabilities** | **77 017** | 117 359 |
| **Liabilities** | **94 102** | 131 952 |
| **Total** | **189 719** | 273 718 |

# Consolidated income statement

| in CHF 1 000 | 1st half of 2017 | 1st half of 2016 | Change |
|---|---|---|---|
| Advertising revenue | **146 023** | 150 446 | –2.9% |
| Real estate revenue | **845** | 995 | –15.1% |
| Other operating income | **2 434** | 22 614 | –89.2% |
| **Operating income** | **149 302** | 174 055 | –14.2% |
| Fees and commissions | **–66 626** | –67 408 | –1.2% |
| Personnel expenses | **–31 667** | –32 816 | –3.5% |
| Operating and administrative costs | **–13 341** | –13 881 | –3.9% |
| **Operating result before depreciation and amortization (EBITDA)** | **37 668** | 59 950 | –37.2% |
| Depreciation of tangible assets | **–5 501** | –4 902 | 12.2% |
| Amortization of intangible assets | **–398** | –451 | –11.8% |
| Amortization of goodwill | **–826** | –768 | 7.6% |
| **Operating result (EBIT)** | **30 943** | 53 829 | –42.5% |
| Financial result | **609** | –31 | |
| Income from joint ventures | **–27** | | |
| **Ordinary result before income tax** | **31 525** | 53 798 | –41.4% |
| Income tax | **–6 336** | –11 049 | –42.7% |
| **Consolidated net income** | **25 189** | 42 749 | –41.1% |
| **Basic and diluted earnings per share, in CHF** | **8.40** | 14.25 | –41.1% |

# Consolidated statement of changes in equity

| in CHF 1 000 | Share capital | Capital reserves premiums | Treasury shares | Translation differences | Retained earnings | Total shareholders' equity |
|---|---|---|---|---|---|---|
| as at January 1, 2016 | 7 800 | 13 672 | –343 | –2 232 | 121 550 | **140 447** |
| Consolidated net income | | | | | 42 749 | **42 749** |
| Translation differences | | | | –102 | | **–102** |
| Distributions | | | | | –68 967 | **–68 967** |
| Purchase of treasury shares | | | –514 | | | **–514** |
| Sale of treasury shares | | 45 | 771 | | | **816** |
| Transaction costs charged to equity | | –5 | | | | **–5** |
| as at June 30, 2016 | 7 800 | 13 712 | –86 | –2 334 | 95 332 | **114 424** |
| | | | | | | |
| as at January 1, 2017 | 7 800 | 13 711 | –377 | –2 474 | 123 106 | **141 766** |
| Consolidated net income | | | | | 25 189 | **25 189** |
| Translation differences | | | | 518 | | **518** |
| Distributions | | | | | –71 961 | **–71 961** |
| Purchase of treasury shares | | | –613 | | | **–613** |
| Sale of treasury shares | | 58 | 666 | | | **724** |
| Transaction costs charged to equity | | –6 | | | | **–6** |
| as at June 30, 2017 | 7 800 | 13 763 | –324 | –1 956 | 76 334 | **95 617** |

# Consolidated statement of cash flows

| in CHF 1 000 | 1st half of 2017 | 1st half of 2016 |
|---|---|---|
| Consolidated net income | **25 189** | 42 749 |
| Depreciation and amortization | **6 725** | 6 121 |
| Changes in provisions | **–445** | –2 885 |
| Changes in deferred taxes | **–594** | –500 |
| Financial result with no cash impact | **–480** | 8 |
| Gain from sale of non-current assets | **–2 459** | –22 604 |
| Income from joint ventures | **27** | |
| **Cash flow** | **27 963** | 22 889 |
| Change in inventories | **–107** | –372 |
| Change in accounts receivable | **5 174** | 2 653 |
| Change in deferred expenses and accrued income | **–3 289** | –2 602 |
| Change in accounts payable and taxes payable | **–25 821** | –12 373 |
| Change in accrued liabilities and deferred income | **–14 587** | –6 697 |
| **Cash flow from operating activities** | **–10 667** | 3 498 |
| | | |
| Capital expenditures in property, plant, and equipment | **–3 585** | –4 897 |
| Capital expenditures in intangible assets | | –10 |
| Capital expenditures in financial assets | **–3 282** | |
| Capital expenditures in investments in subsidiaries | **–271** | –8 411 |
| Sale of property, plant, and equipment | **2 615** | 28 076 |
| Sale of financial investments | | 2 208 |
| **Net cash used in investing activities** | **–4 523** | 16 966 |
| | | |
| Purchase of treasury shares | **–613** | –514 |
| Sale of treasury shares | **722** | 811 |
| Repayment/Increase of non-current financial liabilities | **–179** | 219 |
| Dividends to APG SGA SA shareholders | **–71 961** | –68 967 |
| **Net cash used in financing activities** | **–72 031** | –68 451 |
| | | |
| Currency translation effect on cash and cash equivalents | **111** | –6 |
| **Change in cash and cash equivalents** | **–87 110** | –47 993 |
| | | |
| Cash and cash equivalents as at January 1 | **126 817** | 138 988 |
| Cash and cash equivalents as at June 30 | **39 707** | 90 995 |

# Notes to the consolidated financial statements

## Reporting principles of APG|SGA SA

This interim financial report includes the unaudited semi-annual financial statements for the reporting period ended on June 30, 2017. The consolidated semi-annual financial statements were prepared in compliance with interim financial statement requirements as per Swiss GAAP ARR 31 *Complementary Recommendation for Listed Companies*, which permits condensed reporting and disclosures in comparison to the annual financial statements, and with the listing rules of the SIX Swiss Exchange.

The Swiss GAAP ARR adaptations related to sales (framework as well ARR 3 and ARR 6) have been applied as from January 1, 2016 for the first time and have no impact as far as APG|SGA is concerned.

APG|SGA does not report any segment earnings in its financial reports, because its direct competitors in Switzerland and in Serbia also do not publish any segment earnings. Disclosing them would put APG|SGA at a significant competitive disadvantage due to the low level of diversification abroad.

The preparation of the consolidated financial statements requires that management makes estimates and assumptions that influence the disclosed assets, liabilities, contingent assets and liabilities on the closing date as well as income and expenditure for the reporting period. The actual results may deviate from these estimates.

Our business is influenced by seasonal effects.

## Changes in the scope of consolidation and minority interests

In the first half of 2017, the scope of consolidation compared with the prior-year period was changed by the full consolidation of TAQ Belgrad for the first time, effective April 12, 2017. TAQ Belgrad is a joint venture in which our Serbian subsidiary Alma Quattro holds a 50% stake. This participation is recognized in the consolidated statements according to the equity method.

In the first half of the previous year, a year-on-year change in the scope of consolidation was brought about by the acquisition and full consolidation of AlpenPlakat SA for the first time, effective March 1, 2016. This acquisition increased goodwill by CHF 7.0 million. The other major balance sheet items relate to advertising media (CHF 1.2 million), cash and cash equivalents (CHF 0.3 million), accounts receivable as well as deferred expenses and accrued income (CHF 0.5 million), and current financial liabilities as well as accrued liabilities and deferred income (CHF 0.3 million).

## Change in shareholders' equity

On May 23, 2017, the General Meeting passed a resolution to distribute a gross dividend of CHF 24.00 per share for financial year 2016. The dividend was paid on all outstanding shares.

## Events after the closing date

These financial statements were approved by the Board of Directors on July 25, 2017.

# Agenda

**Financial media and analysts conference**
Wednesday, February 28, 2018, Zurich

**Publication of the annual report**
Friday, April 20, 2018

**General Meeting**
Thursday, May 24, 2018, Geneva

**Announcement of semi-annual results**
Friday, July 27, 2018

## Contacts

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**Explanation of financial terms**

**EBITDA**
Earnings before interest, taxes, depreciation of property, plant, and equipment, and amortization of intangible assets

**EBIT**
Earnings before interest and taxes

**Free Cash flow**
Cash flow from operations minus cash flow from investments

**Gearing**
Degree of debt, also called leverage: net debt in % of equity

**Net current assets**
Trade accounts receivable plus inventories minus trade accounts payable

**Net debt**
Debt-serviced borrowed capital minus interest-bearing current assets (cash and cash equivalents, marketable securities)

**Payout ratio**
Payout in % of net income

**P/E ratio**
Price/earnings ratio: ratio of share price to earnings per share

**ROE**
Return on equity: net income in % of average shareholders' equity

**ROIC**
Return on invested capital: operating income in % of average capital employed, without cash and cash equivalents, less interest-free liabilities

This letter to shareholders is available
in German, French and English.
The German version is legally binding.

APG|SGA
Out of Home Media

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**APG|SGA AG** is Switzerland's leading Out of Home media company. Listed on the SIX Swiss Exchange in Zurich, APG|SGA covers all aspects of Out of Home advertising: on the street, at the airport, in shopping centers and railway stations, in mountain regions and on public transport – from poster campaigns with the widest coverage, large poster spaces, special advertising formats and promotions to state of the art digital advertising media and mobile advertising. When communicating with customers, authorities and the advertising industry, APG|SGA represents sustainability, innovation and expertise.

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