APG | SGA
Out of Home Media

Letter to Shareholders

Downturn in revenues caused by reduced advertising inventory.
Profitability in operating business margins at a high level.
Financial situation very sound.
Dividend/special dividend totaling CHF 24 per share.

In brief (adjusted for one-time effects)

- Group-wide sales revenues fell by 4.7% to CHF 300.7 million.
  - Reduced advertising inventory caused sales revenues in Switzerland to fall by 5.1%
  - Positive market developments in Serbia resulted in a 5.9% rise in sales revenues
- Operative margins reached a high level:
  EBITDA margin: 24.5% (previous year 24.8%)
  EBIT margin: 20.1% (previous year 20.9%)
- Slight fall of 3.5% in net income to CHF 50.7 million.
- Free cash flow of CHF 37.6 million (previous year CHF 33.2 million).

Financial highlights

in 1 000 CHF	2017	2016	2016 adjusted for one-time effects[1]	Change	Change adjusted for one-time effects
Sales revenue	**300 693**	**315 361**	315 361	−4.7%	−4.7%
– Switzerland	**288 071**	**303 445**	303 445	−5.1%	−5.1%
– International	**12 622**	**11 916**	11 916	5.9%	5.9%
Operating income	**304 777**	**339 802**	317 188	−10.3%	−3.9%
EBITDA	**74 770**	**101 318**	78 769	−26.2%	−5.1%
– in % of operating revenue	**24.5%**	**29.8%**	24.8%		
EBIT	**61 330**	**88 846**	66 297	−31.0%	−7.5%
– in % of operating revenue	**20.1%**	**26.1%**	20.9%		
Net income	**50 720**	**70 523**	52 551	−28.1%	−3.5%
– in % of operating revenue	**16.6%**	**20.8%**	16.6%		
Cash flow	**60 204**	**59 314**	63 956	1.5%	−5.9%
Free cash flow	**37 560**	**56 626**	33 228	−33.7%	13.0%
Investments in property, plant, and equipment	**10 963**	**14 034**	14 034	−21.9%	−21.9%
– advertising plant	**8 144**	**7 680**	7 680	6.0%	6.0%
– other investments	**2 819**	**6 354**	6 354	−55.6%	−55.6%
Net income per share, in CHF	**16.92**	**23.51**	17.52	−28.0%	−3.4%

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 effect of property sale

Dear Shareholder:

General business development

The 2017 financial year for APG|SGA can once again be described as successful. Although sales revenues in Switzerland fell below those of the previous year due to non-renewal of concession contracts, the ongoing portfolio showed positive revenue development. It is pleasing that operating business margins have remained at a high level thanks to a diverse range of measures. The previous year was also marked by the securing of major tenders and the targeted expansion of our contractual and product portfolio, particularly in the area of digital advertising assets.

APG|SGA Group

Group-wide sales revenues fell by 4.7% to CHF 300.7 million during the 2017 financial year. The main reason for this reduction in revenue was reduced advertising inventory resulting from non-renewal of concession contracts in Switzerland. Although sales revenues fell by 5.1% in the Swiss domestic market, the international segment recorded a considerable rise of 5.9%.

Real estate revenues were 9.6% lower year-on-year. This decline was due to the sale of a Basel property in June 2016. In the previous year, other operating income benefited from the one-off positive effect of CHF 22.6 million from the sale. Revenue from sales of advertising media in business year 2017 amounted to CHF 2.4 million.

Expenses for fees and commissions were reduced by 5.2% in the reporting year. This reduction is partially explained by a 4.4% reduction in personnel expenses in the reporting year due to further process optimization. Another factor was the outsourcing of the IT computing center. The 5.5% increase in operating and administrative costs in the reporting year was driven by set-up costs in new business areas and expenses for the IT computer center outsourcing partner. In the last year, there was increased investment in the strategically important digital range. This consequently led to increased depreciation in fixed assets. Despite reduced sales revenues, margins remained at a high level. The business year 2017 saw an EBITDA margin of 24.5% (previous year, adjusted: 24.8%) and an EBIT margin of 20.1% (previous year, adjusted: 20.9%).

The euro exchange rate had a positive influence on results in the reporting year. Despite high cash reserves, no negative interest was paid in a demanding interest rate environment. Net income for financial year 2017 amounted to CHF 50.7 million, which on an adjusted basis represents a reduction of 3.5% compared with the previous year.

Cash flow

For financial year 2017, a cash flow of CHF 60.2 million was achieved. This represents an increase of 1.5% compared with the previous year. Net cash flow from operating activities amounted to CHF 47.8 million. Following investment in fixed assets of CHF 11.0 million, capital expenditure in intangible assets of CHF 1.1 million and financial investments of CHF 3.8 million, income from the sale of property, plant, and equipment of CHF 2.8 million and intangible assets of CHF 2.8 million, free cash flow stood at CHF 37.6 million. The cash flow margin in the reporting year was 19.8% (previous year 17.5%).

Balance sheet

The balance sheet total fell by 13.4% to CHF 237.1 million, with cash and cash equivalents representing the primary driver behind the decrease. The net cash position at the end of the reporting year was CHF 90.5 million, CHF 36.3 million lower than at the close of 2016. This decrease was primarily caused by the dividend payment. Intangible assets account for 9.9% of the balance sheet total. The high net cash position, the low level of intangible assets and an equity financing level of 50.7% are further indicators of a strong balance sheet.

Swiss market

Net sales revenues in Switzerland of CHF 288.1 million were 5.1% down on the previous year. This fall is largely due to the reduction of advertising inventory caused by non-renewal of three concession contracts in 2016 – with the Zurich transport authority (VBZ), and the cities of Lucerne and Geneva. Adjusted for this inventory reduction, sales revenues in Switzerland would have risen by 1.4% in 2017.

Within APG|SGA, the development of sales revenues in digital and large-format products was particularly positive. The split of revenue between national and regional advertising vehicles remained well balanced. Most sectors performed well. Exceptions included significant declines in political advertising – which is cyclical in any case – and in the gastronomy and clothing sectors due to structural market changes.

Advertisers and their agents value the integrated APG|SGA range of analog and digital outdoor advertising, which covers all communications areas and which has also included the promotional space business since 2016. In early February 2017 came the launch of the APG|SGA Interaction segment brand, which covers the areas of mobile media advertising and data collection. This is driven by the conviction that mobile media is an increasingly integral component of the out-of-home market; in the context of outdoor advertising, growing mobile internet use enables effective, combined target group appeal along the customer journey. In addition to successful initial sales, APG|SGA Interaction spent its first year building partnerships, driving concrete product range and tool developments, comprehensively training its sales staff and hosting numerous customer information events in every region of Switzerland.

As the APG|SGA range continues to expand, so too does the competitive environment, and relieving the administrative burden on the sales organization and focusing on integrated customer support will become increasingly important. As we further optimize our internal structures and processes, administrative activities are being centrally consolidated and will in future be managed by the new Operations unit, with the aid of newly developed IT solutions. We will continue to provide customers with access to new self-service tools.

A key pillar of business for APG|SGA is the large number of contracts with both private and public property owners, which enable us to offer the advertising market a range of optimal, high quality space. In this area, APG|SGA once again managed to renew numerous contracts and secure a number of key future prospects through public tender processes.

APG|SGA will remain in a strong position in the city of Basel until 2028, where it has been awarded all existing space in F200, F12 and F4 formats, more than 250 backlit posters in the F200 format and the creation of 22 digital City ePanels. These new digital products will be available to advertising customers from early 2018. In Lausanne, the Federal Supreme Court confirmed the city of Lausanne’s decision to award the poster concession for management of a total of 1,980 poster spaces to APG|SGA in mid-March.

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 targeted batches, representing the right to manage a total of 1,150 commercial spaces on public property until mid-2023. In the city of Geneva, legal proceedings in the award of a tender to a competitor are still ongoing. A decision in this appeal procedure is expected in 2018. It was therefore even more pleasing that APG|SGA won the tender for the Parking Place de Cornavin in a top location in the center of Geneva, allowing it to further drive a major expansion to its range in the form of digital City ePanels and backlit spaces in MetroShopping.

This allows a consistent push to digitalization in prime locations. In January, a total of 64 new Escalator ePanels went into operation in Zurich's main railway station. Since fall, 12 additional Escalator ePanels have been available in Métro m2 in Lausanne, joining the city's range of 12 City ePanels, five Rail ePanels and two City Boards. Through another successful tender for the second largest shopping center in Switzerland, the Mall of Switzerland, a total of 19 Shopping ePanels were installed. This brings the total of Swiss shopping centers with APG|SGA digital advertising to 27. Another attractive location for advertising space is the steadily expanding SOCAR service station network. Here, APG|SGA won a selection process and will work with Socar Energy Switzerland to continue to expand the analog poster site network.

In the city of Winterthur, however, a competitor managed to beat APG|SGA on purely quantitative criteria, and has been managing various analog advertising space on public property since January 1, 2018. Nonetheless, APG|SGA remains in a strong market position in Winterthur and is able to offer advertisers a compelling range, thanks to high quality digital and backlit spaces, as well as numerous attractive private property spaces.

In the public transport segment, APG|SGA Traffic was awarded the rights to market and manage all analog and digital indoor and outdoor advertising space in a tender for BERNMOBIL. APG|SGA Mountain secured long-term extensions to its partnerships with a number of major mountain rail and cableway companies, encompassing destinations such as Pizol, St. Moritz-Corvatsch, Pilatus, Meiringen-Hasliberg and Verbier.

Another focus of APG|SGA activities in the reporting year was the conception and creation of a submission for the tender covering third-party advertising space on SBB property throughout Switzerland, launched at the beginning of the year. And the good news came in November 2017: APG|SGA had seen off competitors in the public selection process and was awarded the contract by SBB for all lots of analog and digital third-party advertising space and the exclusive marketing of outdoor and indoor advertising on trains. Since then, one of the unsuccessful applicants has lodged an appeal regarding SBB's tender with the Federal Administrative Court. As a result, the contractual negotiations and the implementation of concepts have been postponed until the court reaches a decision. The marketing business from ongoing contracts with SBB is not affected and APG|SGA is committed to driving this business forward.

International markets

APG|SGA's foreign operations are now confined solely to Serbia. During the reporting period, economic framework conditions improved in Serbia and the Alma Quattro subsidiary there developed positively.

In the reporting year, sales revenues increased by 5.9% to CHF 12.6 million. Margins increased significantly, thanks to economies of scale and structural optimization.

The new concession contract with the city of Belgrade based on a public-private partnership model was signed in the first quarter of 2017, and implementation is underway. Alma Quattro is the exclusive partner of the Serbian capital in the areas of street furniture and advertising on public property. In addition to existing advertising vehicles, this has also brought with it new and highly attractive advertising sites. The rollout of digital advertising media in the city center was implemented in December 2017. The first weeks of sales revenues for digital advertising media were highly promising.

Alma Quattro is in an excellent position in the Serbian market. A robust service portfolio and long-term agreements provide the foundation for a successful future.

Organization

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

Dividend

The Board of Directors takes the view that, based on the positive annual statement, strong balance sheet and consistently high net cash position, a doubling of the dividend is again warranted in the interests of a shareholder-friendly dividend policy.

The Board of Directors therefore proposes to the General Meeting that an ordinary dividend of CHF 12 and a special dividend of CHF 12 be paid for the financial year 2017. This corresponds to a total payment of CHF 24 (gross) per share.

Outlook

The ongoing digitalization of our daily lives and associated long-term changes in media consumption have led advertisers to reassess their advertising investments and adapt them to the new market conditions. In this context, out-of-home advertising will be able to further expand its position as the only truly mass medium and shows a positive dynamic. With the expansion of digital out-of-home products and new planning, booking and format options, the medium has outstanding prospects in inter-medial competition.

APG|SGA considers itself to be ideally positioned for both inter-medial and intra-medial competition. We are the only provider that has a comprehensive integrated portfolio of analog and digital products that covers all communication areas in all regions of Switzerland that is both secure in the long term and supplemented by the promotional space business. With additional products from APG|SGA Interaction, which effectively link mobile advertising with out-of-home campaigns, as a reliable partner to the advertising industry we are in a position to offer effective targeted marketing along the entire customer journey from a single source.

As a pure player in out-of-home advertising, we are convinced that we can offer the greatest added value to advertisers, cities, municipalities and private property owners – now and in the future. With more than 550 specialists in Switzerland and Serbia, we offer outstanding professional expertise, reliability and innovation dedicated to the dynamic, successful and sustainable further development of the medium. With the new contracts, expansion of technology and other initiatives in the reporting year, we have laid a solid foundation for further positive development. We are determined to secure our market position and continue to actively demonstrate our role as an innovation leader in the current year.

The Board of Directors and Executive Board wish to thank all employees for their commitment and impressive work, and the pleasing results they achieved. We would like to thank you, our esteemed shareholders, for your interest and the trust you have shown in APG|SGA over the past year.

Dr. Daniel Hofer
Chairman of the Board

Markus Ehrle
Chief Executive Officer

Consolidated balance sheet

Assets

in 1 000 CHF	31.12.2017	31.12.2016
Buildings and land	**35 119**	36 822
Advertising plant	**23 328**	21 406
Other property, plant, and equipment	**5 281**	5 920
Property, plant, and equipment	**63 728**	64 148
Deferred tax assets	**1 507**	1 433
Investments in joint ventures	**210**	
Other financial investments	**7 156**	3 648
Financial investments	**8 873**	5 081
Goodwill	**7 649**	9 301
Contractual advertising rights	**15 884**	13 904
Intangible fixed assets	**23 533**	23 205
Non-current assets	**96 134**	92 434
Inventories	**2 465**	2 294
Trade accounts receivable	**38 186**	43 431
Other accounts receivable	**4 152**	2 030
Deferred expenses and accrued income	**5 692**	6 712
Cash and cash equivalents	**90 490**	126 817
Current assets	**140 985**	181 284
Total	**237 119**	273 718

Shareholders' equity and liabilities

in 1 000 CHF	31.12.2017	31.12.2016
Share capital	**7 800**	7 800
Capital reserves, premiums	**13 746**	13 711
Treasury shares	**−2 337**	–377
Translation differences	**−758**	–2 474
Retained earnings	**101 865**	123 106
Shareholders' equity	**120 316**	141 766
Financial liabilities		179
Provisions	**10 760**	8 297
Deferred tax liabilities	**5 550**	6 117
Non-current liabilities	**16 310**	14 593
Trade accounts payable	**15 654**	20 288
Taxes payable	**4 905**	7 129
Other accounts payable	**22 492**	27 429
Accrued liabilities and deferred income	**56 376**	61 490
Provisions	**1 066**	1 023
Current liabilities	**100 493**	117 359
Liabilities	**116 803**	131 952
Total	**237 119**	273 718

Consolidated income statement

in 1 000 CHF	2017	2016	Change
Advertising revenue	**300 693**	315 361	−4.7%
Real estate revenue	**1 650**	1 827	−9.6%
Other operating income	**2 434**	22 614	−89.2%
Operating income	**304 777**	339 802	−10.3%
Fees and commissions	**−134 587**	−141 898	−5.2%
Personnel expenses	**−62 446**	−65 341	−4.4%
Operating and administrative costs	**−32 974**	−31 245	5.5%
Operating result before depreciation and amortization (EBITDA)	**74 770**	101 318	−26.2%
Depreciation of tangible assets	**−11 018**	−9 982	10.4%
Amortization of intangible assets	**−770**	−897	−14.1%
Amortization of goodwill	**−1 652**	−1 593	3.7%
Operating result (EBIT)	**61 330**	88 846	−31.0%
Financial result	**1 966**	−113	
Result from joint ventures	**−90**		
Ordinary result before income tax	**63 206**	88 733	−28.8%
Income tax	**−12 486**	−18 210	−31.4%
Consolidated net income	**50 720**	70 523	−28.1%
Basic and diluted earnings per share, in CHF	**16.92**	23.51	−28.0%

Consolidated statement of changes in equity

in 1 000 CHF	Share Capital	Capital reserves, premiums	Treasury shares	Translation differences	Retained earnings	Shareholders' equity
as at January 1, 2016	7 800	13 672	–343	–2 232	121 550	**140 447**
Consolidated net income					70 523	**70 523**
Translation differences				–242		**–242**
Distributions					–68 967	**–68 967**
Purchase of treasury shares			–814			**–814**
Sale of treasury shares		47	780			**827**
Equity transaction costs		–8				**–8**
as at December 31, 2016	7 800	13 711	–377	–2 474	123 106	**141 766**
Consolidated net income					50 720	**50 720**
Translation differences				1 716		**1 716**
Distributions					–71 961	**–71 961**
Purchase of treasury shares			–2 722			**–2 722**
Sale of treasury shares		58	762			**820**
Equity transaction costs		–23				**–23**
as at December 31, 2017	7 800	13 746	–2 337	–758	101 865	**120 316**

Consolidated statement of cash flows

in 1 000 CHF	2017	2016
Consolidated net income	**50 720**	70 523
Depreciation and amortization	**13 440**	12 472
Changes in provisions	**−402**	−1 124
Changes in deferred taxes	**−679**	−125
Financial result with no cash impact	**−1 137**	211
Gain from sale of non-current assets	**−1 828**	−22 643
Result from joint ventures	**90**	
Cash flow	**60 204**	59 314
Change in inventories	**−143**	−212
Change in accounts receivable	**3 912**	−3 653
Change in deferred expenses and accrued income	**1 034**	−511
Change in accounts payable and taxes payable	**−11 952**	5 279
Change in accrued liabilities and deferred income	**−5 252**	1 460
Cash flow from operating activities	**47 803**	61 677
Capital expenditures in property, plant, and equipment	**−10 963**	−14 034
Capital expenditures in intangible assets	**−1 070**	−10 944
Capital expenditures in investments in subsidiaries	**−284**	−8 411
Capital expenditures in other financial investments	**−3 508**	
Sale of property, plant, and equipment	**2 755**	28 338
Sale of intangible assets	**2 827**	
Net cash used in investing activities	**−10 243**	−5 051
Purchase of treasury shares	**−2 722**	−814
Sale of treasury shares	**800**	819
Increase of financial liabilities		183
Repayment of financial liabilities	**−189**	
Dividends to APG SGA SA shareholders	**−71 961**	−68 967
Net cash used in financing activities	**−74 072**	−68 779
Currency translation effect on cash and cash equivalents	**185**	−18
Change in cash and cash equivalents	**−36 327**	−12 171
Cash and cash equivalents as at January 1	**126 817**	138 988
Cash and cash equivalents as at December 31	**90 490**	126 817

Notes to the consolidated financial statements

Reporting principles of APG|SGA SA

This report comprises the audited annual financial statements for the reporting period ended on December 31, 2017. Since the beginning of 2013, the consolidated financial statements have been prepared in accordance with Swiss GAAP ARR (Accounting and Reporting Recommendations).

The preparation of the consolidated annual financial statements requires management estimates and assumptions that influence reported assets, liabilities, contingent liabilities and contingent assets as at the closing date, as well as income and expenses for the reporting period. The actual results may differ from these estimates.

Changes in the scope of consolidation and minority interests

In the reporting year, the scope of consolidation compared with the prior-year period was changed due to 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 investment is recognized in the consolidated statements according to the equity method.

In the previous year, a year-on-year change in the scope of consolidation was brought about by the acquisition and first full consolidation of AlpenPlakat AG, 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, deferred expenses and accrued income (CHF 0.5 million), and current financial liabilities, accrued liabilities and deferred income (CHF 0.3 million).

Events after the closing date

These financial statements were approved by the Board of Directors on February 23, 2018.

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

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

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

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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 SA is Switzerland's leading Out of Home media company. Listed on the SIX Swiss Exchange, 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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