Letter to Shareholders

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Solid, high-level operating performance.
Positive development in new business areas.
Strong growth in Serbia.
Increase in both cash flow and free cash flow.

In brief

- Sales revenue down slightly by 0.6% to CHF 145.1 million
- International sales account for 5.2% of Group sales
- EBITDA margin: 24.1% (prior-year period: 25.2%)
- EBIT margin: 19.5% (prior-year period: 20.7%)
- 9.7% drop in net income

Financial highlights

in CHF 1 000	1st half of 2018	1st half of 2017	Change
Sales revenue	**145 105**	146 023	–0.6%
– Switzerland	**137 629**	139 869	–1.6%
– International	**7 476**	6 154	21.5%
Operating income	**146 606**	149 302	–1.8%
EBITDA	**35 339**	37 668	–6.2%
– in % of operating income	**24.1%**	25.2%	
EBIT	**28 609**	30 943	–7.5%
– in % of operating income	**19.5%**	20.7%	
Net income	**22 746**	25 189	–9.7%
– in % of operating income	**15.5%**	16.9%	
Cash flow[1]	**28 293**	27 963	1.2%
Free cash flow	**1 380**	–15 190	
Investments in property, plant, and equipment	**2 159**	3 585	–39.8%
– advertising plant	**1 333**	1 956	–31.9%
– other investments	**826**	1 629	–49.3%
Net income per share, in CHF	**7.59**	8.40	–9.7%

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

[1] before changes to net current assets

Dear Shareholder:

General business development

In the first semester of 2018, sales revenues remained slightly below the previous year's levels at CHF 145.1 million. This fall is primarily driven by high volatility and specific developments in certain customer segments in the Swiss market. Alma Quattro, our subsidiary in Serbia, recorded a strong first half-year. Despite the slight drop in revenue at the group level, the company managed to keep profitability at a high level through cost reduction and other measures.

APG|SGA Group

In the first half of 2018, the APG|SGA Group achieved sales revenues totaling CHF 145.1 million, 0.6% below the previous year's levels. Income from real estate was CHF 0.8 million, 4.1% below the previous year. This fall was due to a slight rise in vacancy rates for commercial properties. Revenue from the sale of obsolete advertising vehicles was recorded under other operating income. In total, other operating income came to CHF 0.7 million for the first six months compared with CHF 2.4 million in the previous year's period. In the first half of 2018, APG|SGA thus achieved operating revenues of CHF 146.6 million, representing a fall of 1.8%.

Charges for concessions and commissions represented 45.7% of operating revenues, exceeding the previous year's level of 44.6%. Personnel expenses fell by 3.4% compared with the previous year's period. Operating and administrative costs were 2.5% higher than the previous year's period. This increase is attributable to development costs for automated booking and processing platforms, mobile media and additional costs in the area of digitalization. Operating margins experienced a fall over the previous year's period due to higher costs for concessions, amounting to 24.1% of EBITDA (previous year: 25.2%) and 19.5% of EBIT (previous year: 20.7%).

Net income for the first half-year of 2018 amounted to CHF 22.7 million, representing a fall of 9.7% over the previous year. This was due to the lower operational result and negative currency effects.

Cash flow

Cash flow (before changes to net current assets) for the first half-year of 2018 amounted to CHF 28.3 million, representing a slight fall of CHF 0.3 million compared with the previous year's period. Cash flow from operating activities amounted to CHF 4.4 million (previous year: CHF −10.7 million). In the previous year's period, this figure was brought down by cash flow from non-renewed concession contracts.

Cash flow from operating activities was subject to sharp seasonal fluctuations and is always significantly lower in the first half of the year than the second. Investments in the reporting period led to a cash outflow of CHF 3.0 million (previous year: CHF 4.5 million). Some of these investments (CHF 1.4 million) had been recognized in the balance sheet in previous years, but were manifested as a cash outflow only in the first half of 2018. This arose from contractual investment obligations related to concessions.

This cash flow resulted in a free cash flow for the first half of 2018 of CHF 1.4 million (previous year: CHF −15.2 million).

Balance sheet

The balance sheet total fell by CHF 70.3 million in the first half of 2018 to reach CHF 166.8 million.

Reduced investment activities saw non-current assets fall by CHF 4.7 million to CHF 91.4 million. Current assets fell by CHF 65.6 million due to the dividend payout and seasonal repayments of current liabilities. The cash position at June 30, 2018 was CHF 20.5 million.

Seasonal effects saw current liabilities fall by CHF 19.6 million to reach CHF 80.9 million. Shareholders' equity fell by CHF 48.8 million to reach CHF 71.6 million, largely due to the dividend payout. The equity ratio at June 30, 2018 amounted to 42.9%.

Swiss market

Net sales revenues for Switzerland in the first half of 2018 amounted to CHF 137.6 million, 1.6% below the previous year. Revenue development has been volatile in recent months and particularly influenced by specific market conditions in the sectors of internet mail order, automobiles and retail trade. Overall, the first semester more or less corresponds with key figures in the overall advertising market for traditional media. There were positive developments in sales revenues for digital advertising vehicles, promotional spaces, public transport advertising and mobile media. The ratio of national and local/regional advertisers remains balanced.

Advertisers and their agents value the integrated APG|SGA range of analog and digital outdoor advertising, which covers all communications areas, including promotional spaces and mobile media. In late February, APG|SGA Interaction launched "aymo", the most precise mobile targeting in Switzerland. The exclusive technology allows customers to deliver location-specific mobile targeting advertising – ideally in combination with posters – on Swiss mobile apps, resulting in a proven increase in the advertising impact of mobile and out-of-home media campaigns. Customer feedback and initial orders have been encouraging. The modulation options are currently undergoing further refinement, and various service tools for advertisers are subject to ongoing development. The partner network of mobile apps is continually being expanded.

APG|SGA continues to make targeted investments in its premium portfolio of digital advertising vehicles. In January 2018, for instance, APG|SGA successfully launched Switzerland's largest City ePanel network in Basel. Further City ePanel products will follow in other cities. As communicated in June 2018, APG|SGA did not take part in the city of Zürich's current tender for a batch of advertising screens and interactive city maps. In comparison with other cities, APG|SGA believed that the advertising opportunities of the tender do not meet the national and international standards required by the advertising market.

An expansion of digital products is also being planned for stations. In May 2018, the Federal Administrative Court handed down an interim decision that allows APG|SGA to conclude contracts with SBB and to continue its collaboration.

In other legal proceedings concerning the award of the city of Geneva's poster concession to a competitor, no decision has yet been made. However, a decision in these proceedings is expected later in 2018.

International markets

APG|SGA's foreign operations are now confined solely to Serbia. After a successful 2017, the Serbian subsidiary Alma Quattro made another highly promising start in the new year, supported by positive signals from the local economy, which managed growth of 4.6% in the first quarter of 2018. Inflation also slowed perceptibly. The Serbian dinar has consistently gained in value against the euro and the franc for more than a year now.

Local elections took place throughout the country in March 2018; however, the positive boost to revenues reflected in the annual result some years ago was negligible this year. Commercial advertising rather than political dominates now.

Last year was marked by the implementation of the new contract in Belgrade, and this has continued in 2018; new waiting rooms, disabled-accessible self-cleaning toilets, city maps, tourist signs and park bollards are all helping to improve the city's infrastructure. These improvements also brought new, attractive digital advertising spaces. A total of 11 exclusive latest-generation 84" LCD screens were installed in the "Knez Mihailova" pedestrian zone. They complement a unique network of digital advertising vehicles and sales have been highly promising this year.

The APG|SGA company in Serbia, Alma Quattro d.o.o., increased overall sales revenues in the reporting period by 21.5%, with revenue of CHF 7.5 million. In local currency, this represents an increase of 7.3%. Alma Quattro has an impressive service portfolio that still offers room for expansion. With a strong market position and efficient local organization, Alma Quattro has made a positive contribution to the company's overall success.

Organization

At the General Meeting on Thursday, May 24, 2018, 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, the composition also remains unchanged.

Since January 1, 2018, administrative activities have been centrally consolidated within the new "Operations" unit and carried out with the aid of newly developed IT solutions. This centralization and the accompanying automation will release pressure on front-line sales – and also acquisition management in future – from administrative tasks, in order that they can focus more closely on integral customer and partner support.

A comprehensive, interdisciplinary internal project is currently laying the groundwork to further increase the agility of the company. This relates to structures and processes, and the creation of framework conditions that allow the rapid integration and deployment of the latest technologies.

Outlook

Until a few years ago, the out-of-home medium was efficient yet a little static, but more recently it has been subject to positive development thanks to digitalization and an expansion of performance – supplementary products, customer-friendly tools and simplified processes. Out-of-home is perceived as modern, is trending positively worldwide and is gaining market share among traditional media. Despite short-term volatility, the long-term growth prospects for the advertising market are promising. APG|SGA is not complacent about its strong market position; rather, it is shaping these developments. With initiative, focus and years of perspective, it anticipates technological trends and aligns its product and service portfolio with the needs of its partners amid a dynamic advertising environment. Consistent optimization of analog products, substantial investment in the expansion of the digital portfolio and specific new business fields in the area of mobile advertising are just some of the measures that help to ensure the company remains among the market leaders.

And we would like to thank you, esteemed shareholders, for your trust and support, and the interest that you show in APG|SGA.

Dr. Daniel Hofer	Markus Ehrle
Chairman of the Board	Chief Executive Officer

Consolidated balance sheet

Assets

in CHF 1 000	30.06.2018	31.12.2017
Buildings and land	**34 439**	35 119
Advertising plant	**21 057**	23 328
Other property, plant, and equipment	**4 805**	5 281
Property, plant, and equipment	**60 301**	63 728
Deferred tax assets	**1 507**	1 507
Investments in joint ventures	**168**	210
Other financial investments	**7 256**	7 156
Financial investments	**8 931**	8 873
Goodwill	**6 823**	7 649
Contractual advertising rights	**15 368**	15 884
Intangible fixed assets	**22 191**	23 533
Non-current assets	**91 423**	96 134
Inventories	**2 735**	2 465
Trade accounts receivable	**37 541**	38 186
Other accounts receivable	**4 463**	4 152
Deferred expenses and accrued income	**10 141**	5 692
Cash and cash equivalents	**20 512**	90 490
Current assets	**75 392**	140 985
Total	**166 815**	237 119

Shareholders’ equity and liabilities

in CHF 1 000	30.06.2018	31.12.2017
Share capital	**7 800**	7 800
Capital reserves, premiums	**13 686**	13 746
Treasury shares	**−1 744**	−2 337
Translation differences	**−927**	−758
Retained earnings	**52 741**	101 865
Shareholders’ equity	**71 556**	120 316
Provisions	**9 183**	10 760
Deferred tax liabilities	**5 160**	5 550
Non-current liabilities	**14 343**	16 310
Trade accounts payable	**8 526**	15 654
Taxes payable	**230**	4 905
Other accounts payable	**22 749**	22 492
Accrued liabilities and deferred income	**48 445**	56 376
Provisions	**966**	1 066
Current liabilities	**80 916**	100 493
Liabilities	**95 259**	116 803
Total	**166 815**	237 119

Consolidated income statement

in CHF 1 000	1st half of 2018	1st half of 2017	Change
Advertising revenue	**145 105**	146 023	–0.6%
Real estate revenue	**811**	845	–4.1%
Other operating income	**690**	2 434	–71.7%
Operating income	**146 606**	149 302	–1.8%
Fees and commissions	**–67 002**	–66 626	0.6%
Personnel expenses	**–30 593**	–31 667	–3.4%
Operating and administrative costs	**–13 672**	–13 341	2.5%
Operating result before depreciation and amortization (EBITDA)	**35 339**	37 668	–6.2%
Depreciation of tangible assets	**–5 535**	–5 501	0.6%
Amortization of intangible assets	**–369**	–398	–7.4%
Amortization of goodwill	**–826**	–826	
Operating result (EBIT)	**28 609**	30 943	–7.5%
Financial result	**–98**	609	
Result from joint ventures	**–41**	–27	
Ordinary result before income tax	**28 470**	31 525	–9.7%
Income tax	**–5 724**	–6 336	–9.7%
Consolidated net income	**22 746**	25 189	–9.7%
Basic and diluted earnings per share, in CHF	**7.59**	8.40	–9.7%

Consolidated statement of changes in equity

in CHF 1 000	Share capital	Capital reserves premiums	Treasury shares	Translation differences	Retained earnings	shareholders' equity
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**
Equity transaction costs		–6				**–6**
as at June 30, 2017	7 800	13 763	–324	–1 956	76 334	**95 617**
as at January 1, 2018	7 800	13 746	–2 337	–758	101 865	**120 316**
Consolidated net income					22 746	**22 746**
Translation differences				–169		**–169**
Distributions					–71 870	**–71 870**
Purchase of treasury shares			–183			**–183**
Sale of treasury shares		–59	776			**717**
Equity transaction costs		–1				**–1**
as at June 30, 2018	7 800	13 686	–1 744	–927	52 741	**71 556**

Consolidated statement of cash flows

in CHF 1 000	1st half of 2018	1st half of 2017
Consolidated net income	**22 746**	25 189
Depreciation and amortization	**6 730**	6 725
Changes in provisions	**–222**	–445
Changes in deferred taxes	**–387**	–594
Financial result with no cash impact	**106**	–480
Gain from sale of non-current assets	**–721**	–2 459
Result from joint ventures	**41**	27
Cash flow	**28 293**	27 963
Change in inventories	**–273**	–107
Change in accounts receivable	**277**	5 174
Change in deferred expenses and accrued income	**–4 453**	–3 289
Change in accounts payable and taxes payable	**–11 531**	–25 821
Change in accrued liabilities and deferred income	**–7 924**	–14 587
Cash flow from operating activities	**4 389**	–10 667
Capital expenditures in property, plant, and equipment	**–2 159**	–3 585
Capital expenditures in intangible assets	**–1 437**	
Capital expenditures in other financial investments	**–139**	–3 282
Capital expenditures in investments in subsidiaries		–271
Sale of property, plant, and equipment	**726**	2 615
Net cash used in investing activities	**–3 009**	–4 523
Purchase of treasury shares	**–183**	–613
Sale of treasury shares	**710**	722
Repayment of non-current financial liabilities		–179
Dividends to APG SGA SA shareholders	**–71 870**	–71 961
Net cash used in financing activities	**–71 343**	–72 031
Currency translation effect on cash and cash equivalents	**–15**	111
Change in cash and cash equivalents	**–69 978**	–87 110
Cash and cash equivalents as at January 1	**90 490**	126 817
Cash and cash equivalents as at June 30	**20 512**	39 707

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, 2018. 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.

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 2018, the scope of consolidation compared with the prior-year period was not changed.

In the first half of the previous year, the scope of consolidation compared with the same period in 2016 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.

Change in shareholders' equity

On May 24, 2018, the General Meeting passed a resolution to distribute a gross dividend of CHF 24.00 per share for financial year 2017. 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 23, 2018.

Agenda

Financial media and analysts conference
Wednesday, February 27, 2019, Zurich

Publication of the annual report
Tuesday, April 16, 2019

General Meeting
Thursday, May 16, 2019, Geneva

Announcement of semi-annual results
Friday, July 26, 2019

Contacts

Markus Ehrle, Chief Executive Officer
T +41 58 220 71 73

Beat Hermann, Chief Financial Officer
T +41 58 220 77 47

Explanation of financial terms

Cash flow
Funds from operational business activities, without changes to net current assets

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

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

www.apgsga.ch
APG|SGA SA
Carrefour de Rive 1
CH-1207 Genève
investors@apgsga.ch

APG|SGA AG 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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