

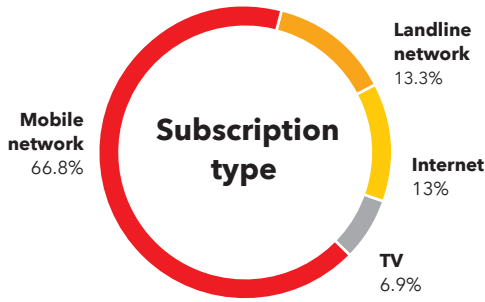
**Sunrise**

# **Annual Report 2018**

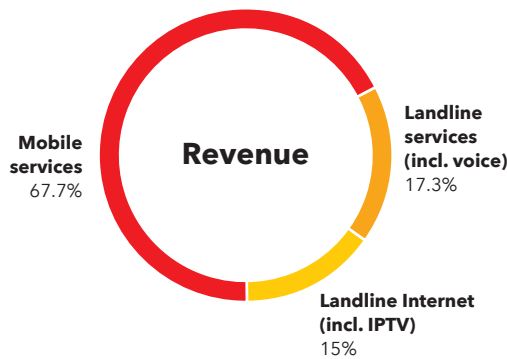


# Facts & Figures

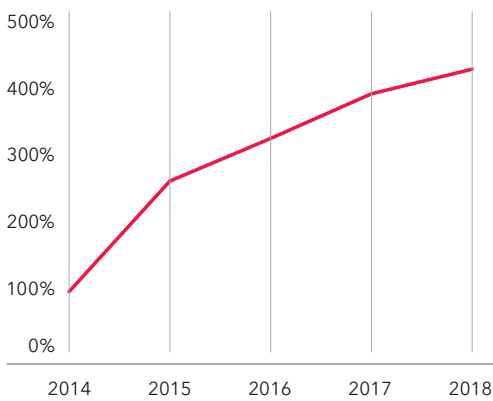
## Customers by subscription type



## Revenue by subscription type



## Company NPS Evolution



— NPS improvement versus index 2014

# 3.525

million

### Customers

With more than 3.5 million customers, Sunrise is the leading privat owned telecom provider in Switzerland, both in the mobile and landline network sectors. Additionally, Sunrise is the third largest provider of landline network, Internet and TV services.

# 1,671

### Employees

27.8% of the total number of 1,671 Sunrise employees (1,611 FTEs) are women. Approximately 13% of Sunrise employees work part-time. Sunrise trains 140 apprentices in five apprenticeship programs.

# 98

### Offices and retail stores

With 92 retail locations, Sunrise has a presence in all regions of Switzerland. The Company is headquartered in Zurich and has additional business offices in Prilly, Geneva, Bern, Basel and Lugano.

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# Message to Shareholders



**Peter Kurer**  
Chairman of the Board (right)

**Olaf Swantee**  
Chief Executive Officer (left)

## **Dear Shareholders,**

Fiscal year 2018 was a very successful year for Sunrise. We were able to achieve a gross profit and adjusted EBITDA growth, supported by improved B2B financials and our appealing offers for mobile and landline customers. The total shareholder return on Sunrise stock amounted to +2% in 2018, which surpassed the performance of its peer index. Thanks to a number of initiatives Sunrise implemented, our customers continue to enjoy better and better service quality. As an example, only Sunrise customers can rely on support in the area of fiber connections from a personal advisor on a dedicated onboarding team. In addition, our customers have the best service experience industry-wide at our shops in regard to short wait times and highly professional and proficient advice - according to the connect Shop Test 2018. Such achievements have helped Sunrise expand its position as the leading competitor in the Swiss telecommunications market during the past year, thus also strengthening its position as an agile, refreshing, customer-focused, and innovative alternative to Swisscom, the government-controlled market leader.

## **Solid results thanks to superior quality and competitive rates**

Mounting competition did not keep Sunrise from gaining market share by growing its net customer base to a total of 3.5 million subscriptions. This growth was supported by an increase of 134,800 new subscriptions in the mobile postpaid sector (+8.5%). Compared to the previous year, the Internet sector also grew by a total of 35,100 new subscriptions (+8.3%). And as in the previous year,

once again Sunrise Smart TV turned out to be a strong growth driver with an increase of 30,200 subscriptions (+14.1%). Overall, strong customer growth compensated for the ongoing price pressure in the market. Revenue increased by 1.2% year over year with an immaterial impact of the initial application of IFRS 15 as of January 1, 2018. The revenue growth was mainly based on customer growth in mobile postpaid, landline Internet and TV as well as on higher hardware revenue. Adjusted EBITDA 2018 represents a flat year-over-year development. The higher network service fees, following the disposal of Swiss Towers AG, the subsidiary, in August 2017, had a negative impact on adjusted EBITDA. Excluding those higher network service fees, adjusted EBITDA rose by 3.4% year over year.

#### **Sunrise share performance in 2018**

The Sunrise stock price decreased by –3% in 2018 and increased by +27% since the IPO in February 2015. By comparison, in 2018 the Swiss Performance Index (SPI) reported a decrease of 9%, and the STOXX Europe 600 Telecommunications Index (€) decreased by 8%. Combined with the dividend paid in April, our shareholders earned a total return (share price change and dividend) of 2%.

#### **2018 dividend**

At the Annual General Meeting, the distribution of a higher ordinary dividend of CHF 4.20 per share (compared to last year) will be proposed. This corresponds to a total dividend of approximately CHF 189 million and an attractive dividend growth of 5% over the previous year.

#### **First-class infrastructure and a high level of security**

As in previous years, Sunrise won several awards in 2018: The Swiss business magazine BILANZ confirmed once again in its independent survey, the largest annual customer survey in the Swiss telecom market, that Sunrise remains the best universal provider for residential customers and small and medium-sized enterprises. Furthermore, the BILANZ Telekom Rating 2018 confirmed that Sunrise is far ahead of its main competitors in terms of quality, innovation, and support in the areas of mobile telephony, Internet, landline voice, and TV.

In the mobile network test conducted by connect, Europe's largest trade journal, the Sunrise network was rated "outstanding" for the third consecutive time. It is the most reliable network for data and, thanks to its excellent coverage, indisputably offers the best voice services. A minute score difference of 0.1% (1 point on a 1,000-point scale) prevented Sunrise from winning the third consecutive test and thus scoring a hat trick. Nevertheless, as "The Unlimited Company" and leading challenger, Sunrise is demonstrating what intense competition can make possible: Its award-winning network is one of the best in the world.

Having attained an excellent geographic coverage of more than 96% of Switzerland, Sunrise currently offers the highest 4G area coverage in Switzerland and supplies the Swiss population with top-quality mobile broadband services. This also means that Sunrise offers mobile broadband Internet connections in areas where satisfactory Internet access is not available over the landline network. At up to 900 Mbit/s (4G+), the Sunrise mobile network already offers near fiber-optic network speeds "over the air" for 80% of the Swiss population.

Early in 2018, Sunrise entered into a new fiber optics access agreement with SFN (Swiss Fibre Net AG) and IWB (Basel Industrial Works) and also renewed its

**5G will let us  
bring  
broadband  
connections  
to customers  
with no  
access to fiber  
connections.**

**Olaf Swantee**  
Chief Executive Officer



partnership with SIG (Geneva Industrial Services). In doing so, Sunrise continues to secure future-oriented and long-term autonomy regarding important digital infrastructures in all three regions of Switzerland. With the fiber optics partnerships, Sunrise is gaining long-term independence in the largest cities and metropolitan areas and is seizing the best opportunity available to deliver its services over fiber-optic cables all the way to homes and businesses. Later in the year, Swisscom and Sunrise agreed to renew the existing commercial agreement for landline access. Based on roughly similar economic terms, the agreement will be valid from January 1, 2019 to June 30, 2022. It will allow Sunrise to continue using Swisscom broadband access, including FTTH and xDSL, to deliver connectivity, Internet, voice and TV services. The contract extension is in line with the Sunrise strategy of underpinning Internet growth with FTTH partnerships in urban areas, with mobile broadband and with the Swisscom agreement.

An external audit again confirmed the certification of the Sunrise information security management system (ISMS). This makes Sunrise the first and only telecom provider in Switzerland to satisfy the technical infrastructure and operational process requirements of the stringent ISO 27001 certification standard on a company-wide basis. Business customers, in particular, consider this an essential indicator of quality.

#### **5G - the fifth generation of mobile communications**

In June, only six months after setting a world record under laboratory test conditions, Sunrise put the first end-to-end standardized Swiss 5G network into operation. 5G is the technology that will facilitate future applications such as self-driving vehicles, the Internet of Things, networking infrastructures with hardware and people, and real-time control of critical production processes, just to name a few examples. Until these visions become reality, however, Sunrise believes that "5G for People" offers the greatest potential. With "5G for People", residential customers will be able to use 5G to replace ADSL/VDSL and benefit from UHD TV, surfing with up to 1 Gbit/s. For business customers, 5G-based

**Sunrise has achieved organic growth in both EBIDTA and profit and is proposing a 5% dividend increase for 2018.**

**Peter Kurer**  
Chairman of the Board

mobile broadband solutions could be particularly important, as they can be obtained as “managed services” using wireless networks instead of fixed-line connections. “5G for People” benefits business and residential customers, especially those outside of densely populated areas, since these locations usually do not have fiber optic connections. Consequently, Sunrise, as the Swiss 5G pioneer, launched its second 5G network and the world’s first standardized 5G network at a ski resort – at Laax on Crap Sogn Gion mountain (2252 m above sea level).

### **Increased focus on the under-30 segment**

Along with our attention to network quality, innovative converged offers for residential customers and the business customer segment, we have also been directing more attention to younger customer groups. The youth segment is an important growth segment. Our well-suited response to the digital lifestyle of today's young people was the addition of dedicated services in the relaunched subscriptions area. With these new offers for people under 30, we also launched a new Sunrise Young advertisement campaign. Young people and trainees at Sunrise were heavily involved in the campaign development. While this was an initial step to strengthen the Sunrise position in the young segment, we will go further based on the insight we have gained from our “smartphone youth study.” A key element of it will be the new “Sunrise Young Voices” program. With this program, Sunrise will learn how to better meet the needs of young people in order to offer a unique service that meets their digital lifestyles. The program will include regular exchange meetings of young customer groups and Sunrise managers involving the highest management level.

### **Expansion of the business customer sector**

Sunrise continues to expand its services for business customers as well. Few companies will be capable of managing the radical changes the digital revolution has brought about without any outside help. Strategic partnerships with global leaders were a crucial contributor to customer growth as well. Together with its partners Cisco, Microsoft, Alcatel, Lucent Enterprise, ngena, Huawei, Apple and Samsung, Sunrise introduced cloud-based apps and the most technologically advanced cloud-based Internet, VPN, as well as WLAN services to its customers. Thanks to having the best network in Switzerland, Sunrise provides the best combination of mobile and connectivity services with its “Unlimited Mobile Workspace,” which includes landline calling in cloud-based apps with chat, e-mail, video, and file and desktop sharing features. This service allows the Company’s business customers to work securely and conveniently from their mobile offices and reduces their costs by up to 65%.

The Company’s partnership with the FreeMove Alliance, where leading providers unite to offer their customers coordinated services throughout the world, has become an important competitive advantage. In cooperation with FreeMove, Sunrise has been able to win several international companies like Swiss International Airlines and Honeywell as customers with its topnotch network quality and exemplary service management.

### **Looking ahead**

2018 was a very successful year for us. Our goal, however, remains unchanged: We aim to become the most recommended telecommunications provider in Switzerland. There are tremendous challenges ahead of us. We will not be deterred, however, and plan to impress our customers with innovative products

and an even higher level of service quality. On behalf of both our shareholders and customers, we will continue to go the extra mile.

**A sincere "thank you"**

Despite the challenging market environment, we had many successes in 2018. This shows that we are on the right path with our customer-oriented quality strategy. We will leverage our success to promote the targeted development of Sunrise as a company. Our achievements are due in no small part to our employees and partners – they are the factors that make our Company's success happen. At this point, we would like to thank all of them very much for their tremendous commitment. We would also like to say "thank you" to our customers for their trust in us, and to our shareholders for their loyalty.



Peter Kurer  
Chairman of the Board



Olaf Swantee  
Chief Executive Officer



# Financial and Operational KPIs

Strong customer growth in mobile postpaid, Internet, and TV resulted in a revenue increase of 1.2% to CHF 1,876 million in 2018. Adjusted EBITDA had a stable development compared to the prior year. Excluding the higher network service fees related to the disposal of Swiss Towers AG, adjusted EBITDA rose by 3.4%. Sunrise achieved a net income of CHF 107 million in 2018. This represents a year-over-year decrease, as the 2017 net income benefited from a CHF 420 million gain on the disposal of Swiss Towers AG.

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## **6** Financial and Operational KPIs

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# Financial KPIs

CHF million January 1 - December 31	2018 as reported	2018 without IFRS 15	2017 <sup>1</sup>	Change reported figures (%)
<b>Revenue</b>				
Mobile services	1,271	1,271	1,231	3.2
– Thereof mobile postpaid	802	805	768	4.5
– Thereof mobile prepaid	96	96	122	(21.3)
– Thereof mobile hardware	279	277	256	9.3
– Thereof other	93	93	85	9.1
Landline services (incl. voice)	325	325	378	(14.0)
– Thereof landline voice	126	126	137	(8.3)
– Thereof hubbing	96	96	128	(25.6)
– Thereof other	104	104	113	(7.9)
Landline Internet and TV	280	279	245	14.5
<b>Total revenue</b>	<b>1,876</b>	<b>1,876</b>	<b>1,854</b>	<b>1.2</b>
Service revenue excl. hubbing & mobile hardware	1,501	1,503	1,470	2.1
<b>Gross profit</b>	<b>1,219</b>	<b>1,223</b>	<b>1,193</b>	<b>2.2</b>
% margin	65.0%	65.2%	64.3%	
% margin (excl. hubbing & hardware revenue)	81.2%	81.3%	81.1%	
<b>EBITDA</b>	<b>602</b>	<b>596</b>	<b>592</b>	<b>1.7</b>
<b>EBITDA adjusted</b>	<b>601</b>	<b>595</b>	<b>601</b>	<b>(0.1)</b>
% margin	32.0%	31.7%	32.4%	
% margin (excl. hubbing & hardware revenue)	40.0%	39.5%	40.9%	
<b>Net income</b>	<b>107</b>	<b>102</b>	<b>505</b>	<b>(78.8)</b>
<b>Cash flow</b>				
Reported EBITDA	602	596	592	1.7
Change in NWC	(49)	(42)	32	(251.4)
Net interest	(30)	(30)	(39)	(23.2)
Tax	(50)	(50)	(31)	60.5
CAPEX	(303)	(303)	(315)	(3.8)
Other financing activities	(21)	(21)	(20)	7.3
<b>Equity free cash flow</b>	<b>149</b>	<b>149</b>	<b>219</b>	<b>(32.2)</b>
Other <sup>2</sup>	(2)	(2)	(159)	(98.7)
<b>Total cash flow</b>	<b>147</b>	<b>147</b>	<b>60</b>	<b>143.1</b>
<b>Net debt</b>	<b>1,194</b>		<b>1,147</b>	<b>4.1</b>
Net debt/adj. EBITDA (LTM)	2.0×		1.9×	
Net debt/pro forma adj. EBITDA (LTM) <sup>3</sup>	2.0×		2.0×	

<sup>1</sup> The Company has initially applied IFRS 15 and IFRS 9 using the partial retrospective method. Under this method, the comparative information is not restated.

<sup>2</sup> 2018 consisted mainly of dividend payment of CHF –180 million, cash inflow due to the refinancing of CHF 185 million, sale of property, plant and equipment of CHF 10 million, movement in pension and provisions of CHF –9 million as well as repayment of capital leases of CHF –7 million.

<sup>3</sup> Based on pro forma adjusted EBITDA taking into account annualized network service fees related to the Tower disposal.

# Operational KPIs

January 1 - December 31	2018 as reported	2018 without IFRS 15	2017 <sup>1</sup>	Change reported figures (%)
<b>ARPU (CHF)</b>				
<b>Mobile blended</b>	<b>31.8</b>	<b>31.9</b>	<b>31.7</b>	<b>0.4</b>
Postpaid	40.3	40.5	41.6	(3.1)
– Thereof origination	37.5	37.6	38.3	(2.2)
– Thereof termination	2.8	2.8	3.3	(13.7)
Prepaid	11.5	11.5	12.7	(9.2)
<b>Landline blended</b>	<b>69.0</b>	<b>68.9</b>	<b>68.1</b>	<b>1.3</b>
Landline voice	22.9	22.9	26.4	(13.1)
Internet	36.1	36.0	35.3	2.1
TV	26.1	26.0	26.1	(0.1)
Internet and TV	49.7	49.5	47.7	4.1
<b>Subscription base (in thousand)</b>				
<b>Mobile</b>				
Postpaid	1,728.8		1,594.0	8.5
– Primary	1,406.5		1,313.3	7.1
– Secondary	322.3		280.6	14.9
Prepaid (3-month rule)	627.5		755.6	(17.0)
Prepaid (12-month rule)	1,067.6		1,281.5	(16.7)
<b>Landline</b>				
Landline voice	468.2		440.9	6.2
Internet	457.3		422.2	8.3
TV	243.7		213.5	14.1
<b>LTM Churn (%)</b>				
Postpaid	13.8		13.3	3.7
Landline	13.8		15.6	(11.7)
<b>Employees</b>				
FTEs	1,611		1,645	(2.1)
Apprentices	140		122	14.8

<sup>1</sup> The Company initially applied IFRS 15 and IFRS 9 using the partial retrospective method. Under this method, the comparative information is not restated.

# Operational and Financial Review

The successful multi-brand strategy as well as the improved quality of its mobile network and the enhanced customer experience have strengthened the Company. Sunrise has become the leading market challenger and is gaining customers across all segments.

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# Operational and Financial Review

## 1 Business Activities

Sunrise is the second-largest integrated communications provider in Switzerland. It brings mobile voice and data, landline voice, landline Internet and IPTV services to residential customers, business customers and other carriers across Switzerland using an integrated nationwide landline network and the best Swiss mobile network.

### 1.1 Residential Customers

Sunrise offers its residential customers mobile calling, landline, Internet and TV services from a single source. Mobile voice and data services are available on both a postpaid and prepaid basis. Sunrise offers are tailored to meet its customers' needs for unlimited, high-speed access to the Internet at home and on the go, while also providing competitive, easy-to-use products, and various convergence options with no limits to digital access.

### 1.2 Business Customers

Sunrise business customers can select from a comprehensive range of products and services, from mobile offers and landline voice, Internet and data solutions, to systems integration and management of services. Sunrise meets the specific needs of its customers with a portfolio of standardized products for small businesses, as well as customized, scalable and secure offers for large enterprises.

### 1.3 Wholesale

Wholesale operations provides mobile voice and data as well as Internet services to national and international carriers. Sunrise offers voice hubbing services based on excess capacity on the proprietary landline network.

## 2 Sunrise Strategy

In line with its past strategy, Sunrise continued to position itself as The Unlimited Company. It aims to become the most recommended telecommunications provider in Switzerland, while concurrently gaining market share and leveraging its strong position in the mobile market and its positive momentum in the Internet, TV, and B2B areas.

The successful multi-brand strategy as well as the improved quality of its mobile network and the enhanced customer experience have strengthened the Company. Sunrise has become the leading market challenger and is gaining customers across all segments. Going forward, its plan of action is to further strengthen the following five key strategic components with the goal of becoming the most recommended telecommunications provider in Switzerland.

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### Focus on innovation and convergent products

Launch innovative products for home and on the go and strengthen the Unlimited Promise even more in the digital era

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Every year, Sunrise has demonstrated that keeping a watchful eye on innovation and customer preferences is a key to its success.

In 2018, Sunrise enhanced its existing Sunrise Freedom and Sunrise Freedom Young subscriptions to include more roaming services, and new streaming and social media services at stable prices. For example, its subscriptions for customers under 30 meet the needs of young people even better and

continue to be unrivaled in its features. In the coming year, the Company's objective is to take further steps toward the Unlimited Promise by introducing new unlimited offers for a simpler everyday digital life.

Innovation is not only reflected in products, but also in the way Sunrise interacts with its customers by leveraging digitalization, eliminating complexity and increasing customer satisfaction and loyalty. One example is the My Sunrise app, for which Sunrise added options for automatic user feedback on mobile network performance. Once customers have installed the app and agree to help Sunrise continue to improve its mobile network, the app will send performance information, such as location, signal strength, and connection speed automatically. The information gathered will help Sunrise forge ahead and continue to work toward "zero defects," making the best mobile network in Switzerland even better for its customers.

As an important step in the digitalization and simplification process, Sunrise has streamlined and expedited the cancellation process. Since May 28, 2018, customers have been able to cancel all Sunrise subscriptions conveniently over the phone or via Sunrise Chat. Customers have access to a dedicated toll-free cancellation hotline or can communicate with the cancellation department via the chat feature on the website.

Sunrise has repeatedly earned top rankings as the best full-service provider for residential customers and small and medium-sized enterprises in the BILANZ rating, the largest annual independent customer survey in the Swiss telecommunications market. These recurring distinctions are some of the signs that the Sunrise strategy is showing positive results.

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## **Best-in-class customer service**

Deliver a best-in-class customer service experience to become the most recommended telecommunications provider

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With a Service team of over 1,000 agents covering the entire Sunrise product portfolio, the Company is committed to delivering an outstanding customer experience. It has continued its strategy of the last two years of placing increased focus on service across the entire organization. Its number-one priority is the pragmatic and customer-focused approach of enhancing its customer service level.

With its continuous focus on the Net Promoter Score (NPS), on contact resolution and customer feedback, Sunrise identifies customer pain points and barriers to an exceptional customer experience. These pain points are a key component of the service transformation plan. They are reviewed weekly with the Executive Leadership Team and select other leaders on the newly established Service Steering Committee.

The evolution of the service operating model delivers the best structure for providing support to customers. Phone lines staffed with subject-matter experts were recently introduced to ensure that customers always get assistance from the most qualified agent. Applying this approach more broadly, the implementation of a benchmark model ensures consistency across the front-line staff with regard to all customer inquiries.

To meet customer expectations and offer a multichannel experience, Sunrise has also been enhancing its digital service capabilities by rolling out new tools and systems, including messaging for support, IVR enhancements and an automated chat solution. All initiatives focus on making information customers need available to them through their preferred channels and as effortlessly as possible.

The best example is the expansion of the Company's customer service team with a specialized Fiber Welcome Team to assist customers wanting to switch to a Sunrise fiber optic connection. Customers are assigned a personal contact who provides direct customer support during the entire switching process. Not only does this help Sunrise drastically simplify the switch, but it also boosts customer satisfaction even further. Thanks to this team of specialists, the number of technical requests handled through first-contact resolution has increased by more than 60%.

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## **Maintain a state-of-the-art infrastructure**

Leverage the superior frequency spectrum position and continue to invest to maintain a competitive advantage and capitalize on future growth opportunities

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Since launching the network program together with its technology partner Huawei in 2012, Sunrise has invested more than CHF 1.6 billion; the vast majority of this investment has been funneled into its mobile network.

Sunrise will continue to leverage and maintain a state-of-the-art mobile and landline network infrastructure to continue to provide customers with a reliable high-speed network throughout Switzerland and to ensure a best-in-class customer experience while also capitalizing on future growth opportunities in convergence and data.

In the landline area, Sunrise will build on its own infrastructure and backbone transmission to provide customers with innovative, fast, high-quality voice and data transmission. It will continue to provide high-speed access in Switzerland by leveraging the latest VDSL developments with G.fast, as well as fiber coverage through partnerships with Swisscom, local utilities, and Swiss Fibre Net AG, the joint venture of local energy providers in Switzerland.

After achieving great success in the internationally recognized quality benchmark test conducted by connect in 2016 and 2017, the Sunrise mobile network was rated "outstanding" in 2018 for the third consecutive time. It is the most reliable network for data and, thanks to its excellent coverage, indisputably offers the best voice services. This recognition confirms once more that the Company's strong focus on quality is paying off.

Sunrise will focus on "5G for People" as the area with the greatest potential and will present its commercial activities in 2019. 5G makes it possible to deliver the fiber optics bandwidth over a mobile network using only a 5G Wi-Fi hotspot and a 5G mobile network connection. In particular, "5G for People" benefits business and residential customers outside cities and densely populated urban areas, where fiber-optic connections are typically not available.

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## **Accelerate brand development and significantly increase quality perception**

Further invest in brand building to highlight the Company's values and to strengthen all relevant consideration drivers

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Past investments in marketing that supported the Company's brand positioning generated strong momentum for the Sunrise brand and all brand drivers. This momentum was further accelerated when Roger Federer was named the Sunrise Brand Ambassador in 2014. Since then, Sunrise has been able to significantly improve its brand esteem and recognition.

In 2018, a new shop concept was launched with the customer as its focal point. Sunrise broke away from the classic concept of customers stepping in, pulling a ticket, standing in line and talking to the employee behind a desk. Customers entering a Sunrise shop now can move around freely and touch and try out everything. They can experience all products and hardware live - Sunrise does not have a single dummy left in its state-of-the-art shops. Employees are nearby, make recommendations to customers, and answer questions. Shop acoustics allow conversations at a pleasant volume. The shop concept helps employees focus fully on the customer. The sales process is easy and pleasant for the customer.

As a state-of-the-art telecom provider, Sunrise also focuses on digitalization in its shops. The Sunrise ID Checker lets shop employees quickly and easily identify subscription customers digitally and via an app. Long scans or even paper copies are no longer needed. Moments later, customers have their digital documents in their My Sunrise online account. Digitalization has also introduced new forms of communication: Instead of posters and printed posters, which were displayed in shop windows and hung on different days, modern electronic displays are now used.

Throughout 2019, Sunrise will continue to implement and anchor its brand values and strengthen the relevant drivers of consideration by enhancing its communication across all relevant communication touchpoints.

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## Grow B2B

Grow the business market share by offering high-quality digital communication services to large and small business customers

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Sunrise serves large companies with tailored, scalable and secure telecom solutions that include professional services and support for its customers on their journey toward digitalization and during their transition to making maximum use of cloud-based services.

For small companies, Sunrise continuously invests in expanding its portfolio of standardized, straightforward products and in strengthening direct and partner sales channels to increase its market reach.

To make an attractive, innovative, and flexible workplace available to its business customers, Sunrise aligns its products and services entirely with its goal of an "Unlimited Mobile Workplace."

The services are provided through its own expert resources. Sunrise will enhance these offers through strategic and selective cooperation with leading partners such as the FreeMove alliance and ngena, where leading providers unite to offer their customers coordinated services throughout the world.

## 3 Customers

Sunrise continues to put a significant focus on improving the customer experience, a key principle of its business strategy. Processes are in place to survey customers and gather feedback from them after each contact. This information is then used to enhance methods of working across all channels and touchpoints. These efforts resulted in a number of awards for Sunrise in 2018. The BILANZ Telecom Rating recognized Sunrise as the best universal provider for residential customers offering the best TV and mobile telephony services. In addition, Sunrise finished first in the connect Shop Test 2018, providing the best customer service experience in its shops.



### 3.1 Net Promoter Score

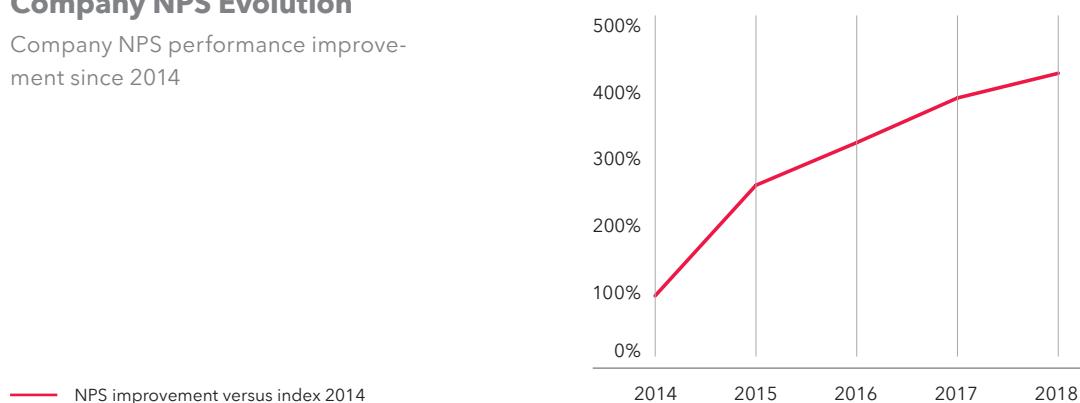
In 2013, Sunrise launched a company-wide, multi-year program dedicated to achieving a substantial improvement in the customer experience across multiple customer touchpoints. The enduring nature of this program, the Net Promoter Score (NPS) program, is proof of its success.

The NPS program has allowed Sunrise to continuously identify areas with improvement potential and ensure the successful implementation of enhanced customer service. NPS is a powerful and easy-to-understand metric for measuring customer loyalty and satisfaction. It is obtained through a simple customer survey administered immediately after customers have defined interactions with Sunrise and is supported by follow-up measures.

As a result, Sunrise has significantly improved its Company NPS score (from a baseline of 330% in 2016 to 434% in 2018, against an index of 100% in 2014).

#### Company NPS Evolution

Company NPS performance improvement since 2014



Sunrise offers support across all products and services including sales, administration, dealer support, and technical support for both mobile and landline products. Its Customer Services organization provides services through dedicated call centers, written correspondence and an online chat service both in-house and through outsourced partners.

To meet soaring customer expectations in an increasingly digital world, Sunrise has been focusing on significantly improving its digital capabilities during the past few years. At this time, the Company continues to implement digital initiatives to further increase its market share and profits.

## 4 Market Environment

The Swiss telecommunications market is a highly competitive market with one of the highest levels of service quality in the world.

### 4.1 Economic Environment

The Swiss economy continues to be robust following its remarkable over-performance in 2018.

Swiss GDP growth was at around 3% in 2018, the strongest growth rate since 2010 (the 2017 growth rate was 1.7%); nevertheless, the GDP is expected to grow at a lower rate in 2019 (IMF World Economic

Outlook, October 2018, projection for 2019). The solid performance of 2018 was due to a combination of factors difficult to repeat in 2019 such as major international sporting events that were celebrated in 2018 and a favorable trade balance. The probability of a recurrence of these conditions in 2019 is poor amid the latest wave of Swiss franc appreciation.

In 2017, inflation turned positive after two years of deflation, and consumer prices continued to increase in 2018 at a rate of 1.1%, compared to 0.5% in 2017 (IMF World Economic Outlook, October 2018, projection for 2019). Although almost half of the 2018 increase is due to higher oil prices, price increases have also accelerated in other consumption areas.

## 4.2 Industry and Competitive Environment

Swisscom is the largest Swiss mobile network operator (MNO) followed by its challengers Sunrise and Salt. Each of the three MNOs has its own nationwide network infrastructure with a spectrum license granted until 2028. At the beginning of 2019, a spectrum auction took place, where a total bandwidth of 475 Mhz was awarded in a single transaction.

In addition to the MNOs, there are branded wholesale resellers on all three mobile networks, as well as MVNOs (mobile virtual network operators) that use the MNOs' infrastructure to provide their services. The market share structure in Switzerland has remained quite stable over the past few years. Following the previous years' trend, 2018 was a highly competitive year in terms of mobile prices with aggressive promotions from every provider throughout the year. The competition in the budget market continued to increase. In this context, Sunrise has emerged as a strong challenger whose mobile postpaid subscriber base increased in 2018, and who has shown faster growth in the Internet sector than its main competitors.

### 4.2.1 Mobile Networks

Mobile networks in Switzerland enjoy a high standard of quality. connect, the independent network tester, rated the Sunrise network as "outstanding" for the third consecutive time. It is the most reliable network for data and, thanks to its excellent coverage, indisputably offers the best voice services. A minute score difference of 0.1% (1 point on a 1,000-point scale) prevented Sunrise from winning the third consecutive test and thus scoring a hat trick. Nevertheless, as "The Unlimited Company" and leading challenger, Sunrise is demonstrating what intense competition can make possible: Its award-winning network is one of the best in the world.

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#### The best network for mobile calling

Sunrise has the only network that has been rated "outstanding" three times in succession. Sunrise undoubtedly offers the best network for mobile calling, thanks to its excellent coverage.



### 4.2.2 Landline Services and TV

Landline broadband Internet connections can be established via several different access technologies, including fiber, VDSL, and cable modem. Swisscom is the leader in the Swiss broadband Internet market, followed by UPC and Sunrise. Wholesale offerings and fiber unbundling has made access lines available to providers including Sunrise and Salt. Salt entered the Swiss landline market in March 2018 offering an

ultrafast broadband service based on optical fiber and a triple-play product at very aggressive prices, increasing the competition in the landline segment.

In Switzerland, landline voice services run primarily over the digital access lines of the phone network and the access lines of cable network operators. Swisscom is the largest provider of landline voice telephony in Switzerland, followed by UPC and Sunrise.

The two leaders in the Swiss television market, serving slightly more than half the market, are Swisscom and UPC. The rest of the market remains fragmented among local cable companies, satellite and digital terrestrial television providers. In the past few years, UPC has been losing market share to providers of IPTV (mainly Swisscom and Sunrise). Sunrise entered the TV market in 2012 and has been steadily gaining market share since then by leveraging a high-quality TV offer with extensive content. This offer was reached by pursuing strategic partnerships with content providers.

To meet the increasing demand for higher bandwidth services and IPTV, Sunrise entered into an agreement with Swisscom that grants Sunrise access to all fiber- and copper-based access technologies, including VDSL and G.fast. Additionally, Sunrise has partnerships with the three biggest utilities (Basel, Geneva and Zürich), Swiss Fibre Net AG and a joint venture of smaller local energy providers in Switzerland.

## 5 Products, Services and Sales Channels

Based on the Company's values of bold, intuitive and positive, Sunrise focuses on its customers' needs and satisfaction to delight them with innovative and high-quality products and services. This has created effortless and engaging customer experiences, making a difference every day in the success Sunrise enjoys in a challenging environment.

### 5.1 Convergent Offer: Sunrise One

With Sunrise One, Sunrise positioned itself as The Unlimited Company.

Sunrise One combines mobile, landline, Internet, and TV services in one convergent offer that comprises Sunrise Mobile (swiss unlimited, swiss neighbors or europe&US) and Sunrise Home Unlimited. Sunrise One is very attractive compared to equivalent packages offered by competitors.

Keeping in mind that convergence is a key market trend, Sunrise offers its customers different types of convergence. Customers can either create their own package offering the best of both worlds with the Home (landline) and Freedom (mobile) subscriptions and benefit from the Sunrise Advantage (a 10% discount on all basic fees every month), or they can select Sunrise One, the convenient combo package.

In response to the increasing demand for unlimited Internet by itself, Sunrise launched Sunrise One light in November 2018. It combines mobile, landline, and Internet services in one convergent offer, always with the highest possible connection speed.

### 5.2 Mobile Offerings

Sunrise mobile service offers include mobile voice and data, mobile Internet, and other value-added services such as international calls, roaming, extra SIM, hardware insurance, network browsing protection, as well as access to Sunrise TV products via mobile hardware. Sunrise also offers mobile phones and tablets, plus other hardware and accessories.

### 5.3 Sunrise Freedom

The Sunrise Freedom portfolio launched in 2014 targets the mass market. In May 2016, Sunrise refined its Freedom portfolio to better satisfy the growing demand for mobile data and roaming, and in March 2018 Sunrise relaunched its Freedom offer. The best features, the essence of Sunrise Freedom, remain the following: subscription changes are possible any time; there is no minimum contract duration; and hardware from CHF 1.00 upfront payment with a hardware plan. Additionally, more calls, and more surfing at faster speeds, as well as more roaming have been included.

"Freedom swiss start" and "Freedom swiss calls" are the new entry-level offers with more value for the money compared to previous equivalent rate plans. "Freedom europe&US" includes international calls and even more roaming.

As an innovation, Sunrise launched "Freedom swiss neighbors." This subscription includes roaming in neighboring countries (France, Germany, Austria, Italy, and the Principality of Liechtenstein) and is the best offer for Swiss tourists and cross-border commuters.

### 5.4 Sunrise Freedom Young

In September 2010, Sunrise launched the MTV mobile rate plans that provide attractive products to customers up to the age of 30. In March 2018, MTV mobile Freedom became Sunrise Freedom Young following the same flexible principle as Sunrise Freedom. It offers lower monthly fees and more data for high-speed surfing on 4G+, in addition to existing popular benefits such as a 50% discount on the SBB half-fare and unlimited national WhatsApp messaging. Additionally, thanks to a partnership with TIDAL, the global music and entertainment platform, six months of HiFi music streaming is included in the Sunrise Young portfolio at no charge.

In November 2018, additional services at constant prices were added to the Freedom Young portfolio, making it perfect for the digital lifestyle of young people. Unlimited data for WhatsApp use abroad (Roaming Region 1) and unlimited data for Snapchat in Switzerland have been added as new features.

The Freedom Young swiss data and Sunrise One Young light subscriptions are new in the Young portfolio and have been aligned with the needs of young customers.

Freedom Young swiss data is the first mobile subscription completely tailored to the usage preferences of digital natives. It offers unlimited 4G+ data usage (up to 700 Mbit/s) for CHF 45.00 per month. Sunrise One Young light offers unlimited Internet and a mobile subscription at home, as well as unlimited surfing on the go - all for CHF 99.00 a month, and always at the highest possible connection speed.

The Forever Young guarantee from Sunrise allows customers to keep their Young subscription even after they turn 30 - at the same price and with all the benefits of a Young subscription (except the SBB discount).

### 5.5 Roaming and International

Being sensitive to the diversity of the Swiss population, Sunrise uses different approaches to accommodate its customers' wide range of international needs.

In the last few years, Sunrise launched and enhanced a comprehensive, attractive and competitive range of products and services targeting both regular and occasional roamers. While the former can select one of the Freedom rate plans including roaming, occasional users benefit from the broad portfolio of roaming options (Sunrise travel days, travel data options and travel talk options) and pay only when they need it. The Sunrise Roaming Cockpit allows customers to keep costs under control.

With its new Freedom subscriptions launched in March 2018, Sunrise replaced the previous standard tariff for data roaming in Region 1 with the travel day pass data tariff, a new standard tariff for data

roaming (100 MB for CHF 1.90 per day). The travel day pass data tariff allows customers to roam at the lowest standard tariff for data roaming in 46 countries and offers cost protection.

Taking a further step toward the Unlimited promise, Sunrise suspended the monthly 4 GB limit, from June 1 to September 30, 2018 and offered unlimited surfing abroad for the Freedom swiss neighbors and Freedom europe&US mobile subscriptions at no extra charge. Additionally, Sunrise doubled the data volume of the travel data roaming option from 2 GB to 4 GB while keeping the price unchanged.

### **5.6 Prepaid Offerings**

Sunrise offers prepaid voice and data services under a wide range of brands (Sunrise, ALDI SUISSE mobile, yallo, Ortel and Lebara) to appeal to different market segments and their diverse needs. With all brands, the Company offers a wide range of customized options, including calling, SMS messages, data and roaming, as well as combinations thereof, for a monthly fee. As smartphone penetration and data usage increase, prepaid is declining, and there is a shift from prepaid to postpaid subscriptions.

### **5.7 Mobile Internet**

Sunrise has a mobile Internet offer that fulfills the Unlimited promise with different prices per month for different speeds, thus giving customers easy and carefree surfing options with no data limits.

### **5.8 Hardware and Accessories**

Sunrise offers its customers a broad range of mobile hardware and related accessories sourced from a number of well-known suppliers and distributors, including Apple, Samsung, and Huawei. The Company continuously seeks to improve the quality and range of its mobile hardware and accessory portfolio by embracing new technology developments and mobile hardware features.

As the Unlimited Company, Sunrise went the extra mile for its customers by betting on the latest Samsung and Apple highlights, the smartwatches.

Sunrise was one of the first two telecommunications companies in Europe to offer the Samsung Galaxy Watch and one of only eight telecom providers in Europe to offer the Apple Watch Series 4 (GPS + Cellular) with talk and surf functionality.

With the Sunrise extra SIM watch, customers can use their mobile number on their LTE/Cellular smart-watch and tap into voice and data from their Freedom rate plan without needing a second SIM card.

Sunrise took another step forward by offering customers the option to purchase accessories by adding them to their installment plans and paying them off in convenient monthly installments.

### **5.9 Innovative Services**

Since April 2016, Sunrise has been offering its customers a direct carrier billing option, called Sunrise Pay, as a payment method for Google Play. Over the past few years, Sunrise has continued its efforts to onboard various partners and services to expand this innovative solution.

Since June 2018, Sunrise customers have also been able to pay for purchases from the App Store, and for Apple Music, iTunes, and iBooks, directly through their mobile phone account. With the launch of this service, Sunrise took a dynamic new step toward the development of its financial services and customer service. Sunrise has two innovative and unique programs in Switzerland that meet the diverse needs of Apple hardware customers.

The Sunrise Smartphone Upgrade option allows customers with a subscription to trade in their iPhone 8, iPhone 8 Plus, or iPhone X for an iPhone Xs or iPhone Xs Max after a one-year subscription. The new phone also comes with a 24-month hardware plan, and any unpaid installments for the previous iPhone are waived.

With the Smartphone Recycling Plan, Sunrise customers getting the latest iPhone can sign up for a hardware plan and pay for it in smaller monthly installments over 30 rather than 24 months. If the iPhone is returned after 24 months, customers receive the six outstanding monthly installments free of charge and can buy new hardware.

## 5.10 Landline Voice, Internet, and IPTV Offers

Sunrise provides Internet access and landline voice and television services based on the Internet Protocol (IP) to both residential and business customers.

### 5.10.1 Internet and IPTV

With Sunrise Home, customers can select the combination of Internet, digital TV and landline that best suits their needs and make changes to adjust their package quickly and at no charge. In addition, they can opt for Sunrise One.

As a result of the expansion of its high-speed coverage throughout Switzerland during 2018, Sunrise is now able to offer its customers more speed at the same price.

To allow a seamless transition following a new Internet order, Sunrise launched the quick-start option for a one-time fee of CHF 65.00 in June 2018. It consists of a “plug and play” solution with a preconfigured LTE USB stick inserted in the Sunrise Internet Box and includes unlimited surfing in Switzerland with no speed restrictions for 60 days. Once the Internet Box is automatically connected to the fiber optics line, the stick can be used as a backup solution.

Since launching Sunrise TV in 2012, Sunrise has transformed television into a completely new experience every year. One of the key elements of IPTV is the content, and Sunrise is continuously expanding its partnerships with Europe’s largest pay-TV providers.

In 2016 and 2017, Sunrise entered into partnerships with Sky, Teleclub, and Netflix making the Company the leading challenger in sports. In July 2018, Sunrise launched Sky Show and was the first provider in Switzerland to include the new Sky Show app on its TV Box. As a launch special, Sunrise offered Sky Show for twelve months at no additional charge to new customers switching to Sunrise Home with Sunrise TV.

In addition to the Sky Show app, Sunrise TV offers yet another innovation: Customers with an Apple Watch can now control their Sunrise TV Box remotely from their smartwatch. Whether they want to adjust the volume, select or record a program – in combination with the Sunrise Smart TV app, customers can now control everything conveniently from their Apple Watch.

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## BILANZ rating

In the annual survey conducted by the business magazine “Bilanz,” Sunrise again earned first place as a universal provider. In addition, Sunrise took first place in the category Mobile Telephony for Business Customers and was ahead of Swisscom and UPC in the Digital TV category. Each provider was evaluated on innovation, quality, price, flexibility, and customer service. This result strongly reflects not only the improvements Sunrise made in the areas of network quality and customer interaction, but also its ability to keep the quality over the years.



### **5.11 Sales Channels**

Sunrise distributes its products and services through direct and indirect channels.

Direct distribution occurs through self-branded company stores, self-branded mobile centers, websites, web chats, mobile apps, direct mail, and phone sales via call centers (inbound and outbound). As of December 31, 2018, Sunrise had 92 self-branded points of sale.

In 2018 Sunrise continued to freshen up the look of its shops, implementing a modern and flexible design that gives the brand a clear and distinct appearance and increases foot traffic. The shop enhancements will continue in 2019.

Sunrise was the winner of the connect Shop Test 2018. According to connect, Sunrise provides the best service at its shops. Short wait times, highly professional and proficient advice: This is what sets Sunrise apart from the competition and resulted in Sunrise earning this distinction.

Indirect channels range from nationwide chains such as Mobilezone (the largest independent telecommunications retailer in Switzerland), Swiss Post, MediaMarkt, Interdiscount, and Fust to regional Sunrise Premium Partners and dealers. Indirect channels provide approximately 2,500 points of sale throughout Switzerland.

The continuous improvements Sunrise has made in the structure and performance of [www.sunrise.ch](http://www.sunrise.ch) with an emphasis on sales and service demonstrate the Company's unmistakable focus on its online shop. New features have been added like the "World of Apple", a specific landing page for Apple fans where they can discover new Apple hardware options, find valuable user advice and many suggestions for an exciting Apple lifestyle. As a result of these continuous enhancements and the further improvement of the self-care section, digital transactions increased substantially by approximately 17% in 2018.

Sunrise has dedicated account management teams for its medium and large enterprise customers, while small business customers are primarily supported by sales partners (indirect channels) and the Company's own retail stores.

### **5.12 ISO-Certified Services**

In October 2018, an external audit reconfirmed the ISO 27001 certification of the Sunrise Information Security Management System (ISMS). Sunrise was the first telecom provider in Switzerland to have its entire organization – both its company-wide technology infrastructure and operational processes – certified to the ISO 27001 standard. This certification ensures the highest levels of quality and security for Sunrise customers, therefore protecting their personal information and communication.

### **5.13 Digital Experience**

The Company's digitalization strategy is an important element of this innovation and encompasses all brands. Not only did Sunrise improve its website, but it also digitalized a great many processes and drove change within the Company. Extensive enhancements have been made to the digital platform, enabling new tools for deeper analytics, for a full digital performance marketing experience (like artificial intelligence), as well as micro-segmentation for targeted campaigns.

In addition to the regular webchat, Sunrise introduced the video chat in 2018 which offers the great customer experience that is reflected in its exceptional NPS results.

Sunrise focuses on numerous digital initiatives aimed at simplifying and improving its customers' online experience. Examples are the Sunrise ID checker and the new Roaming Cockpit.

The digital strategy approach has also been reflected internally with the introduction of the cross-functional work approach in the Sunrise Digital Hub with its so-called "squads."

## **5.14 yallo, Lebara and Ortel**

### **5.14.1 Prepaid and Postpaid Offers**

Since the relaunch of yallo postpaid in March 2015 and the brand refresh in March 2017, the portfolio has evolved to better meet the needs of the budget market, which is growing as a result of increasing smartphone penetration and data consumption in this segment. Specifically, yallo launched a new prepaid rate plan in February 2018 with a nearly unbeatable data package capable of accommodating even extremely quality-conscious customers who value data usage yet shy away from restrictive contracts.

In the postpaid line of products, yallo added new higher-priced XL rates to its attractive online rate portfolio in September 2018. This strategic move aims to boost customer value, both in acquisition and within the postpaid base: yallo super fat XL and yallo fat XL target customers whose lifestyles involve more frequent travel within Europe, more international calls and increased use of roaming data.

Going one step further, yallo launched yallo Home Internet in February 2018. Home Internet is a flexible, ultra-fast mobile Internet solution positioned as an alternative to the traditional landline connection. This product was designed as a combination between the yallo Home Box and the yallo Go!XL tariff and is available at a monthly price of CHF 39.00.

Lebara entered the mobile subscription business for the first time in February 2018 with its launch of "Lebara Europe." This brand-new postpaid rate offers unlimited national and international calls in Switzerland and to 29 European countries as well as unlimited mobile Internet in Switzerland with 6 GB of high-speed data for CHF 39.00 per month. Two World options covering international calls to an even wider range of countries round off the offering geared toward this more ethnic target group.

Throughout 2018, efforts to phase out the Ortel brand culminated in a large-scale shift of Ortel customers to Lebara. All remaining Ortel customers were successfully migrated to the Lebara brand by mid-November 2018.

### **5.14.2 Roaming**

yallo knows its customers and the priority they put on roaming. To meet this need, it introduced several attractive roaming offers in July 2018. Not only were yallo mobile subscription customers able to benefit from 100 MB of free data volume in the European zone (which also includes Russia, Canada, and the US), but the promotional prices for big roaming data options were even available until the end of August.

At the same time, yallo and Lebara introduced their new Roaming Cockpit, which allows customers to buy roaming options, monitor their costs, and manage their roaming settings.

### **5.14.3 Sales Channels**

The yallo, Lebara and Ortel brands have a comprehensive and target segment-specific distribution network with approximately 1,500 points of sale. Additionally, yallo and Lebara are offered through several indirect channels including nationwide chains such as Mobilezone (the largest independent telecommunications retailer in Switzerland), Swiss Post and Interdiscount.

In 2017, yallo expanded the distribution of its brand to the mass market through its new online shop. That milestone marked a shift in the company's strategy in 2018 with a stronger focus on digital channels. This realignment is now bearing fruit with digital sales currently accounting for a substantial portion of total sales.

Following in yallo's footsteps, Lebara launched its own online shop in May 2018.



## 6 B2B

Sunrise is the leading challenger in the area of communications services for large and small businesses in Switzerland.

Explicitly designed for business customers, Sunrise B2B offers a comprehensive range of services focusing on the "Unlimited Mobile Workplace." Products range from mobile to connectivity (Internet, multi-site and inhouse networking and landline voice) and Work Smart services with cloud-based apps and system integration.

It is the Company's objective to be the most recommended telecommunications provider in Switzerland by consistently providing high-quality services and a high level of ease of doing business.

### 6.1 Portfolio

Sunrise offers a complete range of mobile, connectivity and Work Smart services that are tailored to small and medium-sized enterprises as well as large companies.

#### 6.1.1 Mobile

Sunrise business mobile provides communications solutions for mobile calling and high-speed data needs. Its flat rates are tailored to the needs of the mobile workforce that requires 24/7 accessibility - both in Switzerland and during business travel abroad.

#### 6.1.2 Mobile M2M/IoT

As the number of interconnected hardware continues to rise, efficient machine-to-machine (M2M)/Internet of things (IoT) management is becoming increasingly important. Sunrise services are designed to facilitate communication between machinery and hardware - without direct human intervention. Sunrise helps small and medium-sized enterprises use their machines and construction vehicles more efficiently. Multiple features are integrated into the M2M management platform allowing employees to view all hardware-related connection information in real time. This facilitates the optimization of business processes and increases efficiency.

#### 6.1.3 Work Smart

Sunrise offers a wide range of scalable solutions for efficient communication and collaboration. It supports company-internal flexibility and productivity and simplifies employees' day-to-day lives. Unified communication offers all the features of traditional voice solutions plus messaging and presence technology, online meetings, telephony and video conferencing. It is valued for providing high levels of availability as well as flexibility and scalability for core business tasks.

#### 6.1.4 Connectivity

With its connectivity services, Sunrise provides complete IP solutions for linking company locations and ensures that users have the fastest possible access to the Internet. It offers connectivity between locations throughout Switzerland and abroad.

### 6.2 Sales Channels

Sunrise has dedicated account management teams for its medium and large enterprise customers, while small business customers are mainly supported by sales partners (indirect channels) and the Company's own retail stores.

## 6.3 References

### Swiss International Air Lines

Switzerland's airline settles for nothing but the best. This is why around 1,500 SWISS employees make calls and surf the Internet on the best network in Switzerland.

### Zurich Airport

Zurich Airport is Switzerland's aviation hub, and Sunrise - being the leading carrier - is their hub for mobile and landline voice and data communication.

### Cornèr Bank

All mobile communications for Cornèr Bank's several hundred employees run over the Sunrise network.

### P&G

Sunrise provides a fully convergent solution for mobile and landline telephony to P&G's 2,000 users.

### Nestlé

The 6,500 end users at Nestlé benefit from a fully managed mobile phone service that includes a dedicated platform specifically designed to meet Nestlé's needs.

### Calanda, a Heineken company

Easier, faster, and more efficient: Thanks to extra SIM surf&talk from Sunrise, Calanda employees can use up to five hardware with a single number.

## 7 Network

In 2018, Sunrise continued its long-term strategy toward providing a defect-free network and therefore globally acclaimed, exceptional quality. After achieving great success in the internationally recognized quality benchmark test conducted by connect in 2016 and 2017, the Sunrise mobile network was rated "outstanding" for the third consecutive time. It is the most reliable network for data and, thanks to its excellent coverage, indisputably offers the best voice services. This confirms once more that the Company's strong focus on quality is paying off.

### 7.1 High-Quality Technologies

Sunrise provides mobile services over its own network using GSM/GPRS/EDGE/UMTS/HSPA and 4G/4G+ technologies. In the landline sector, Sunrise leverages more than 630 points of presence in its fully-invested local loop unbundled network, covering over 85% of households in Switzerland. It benefits from a more than 12,400 km long, state-of-the-art fiber optic network spanning Switzerland. As a result of its long-term agreement with Swisscom and a strategic collaborative partnership with Swiss Fibre Net AG, a joint venture of Swiss energy providers and local utilities, the Company has access to the most advanced, next-generation copper- and fiber-based access technologies such as vectoring, fiber-to-the-street, fiber-to-the-building, and fiber-to-the-home.

### 7.2 Investment in the Network

Sunrise has continued to invest in the quality, availability and security of its network and has remained committed to its strategy of expanding 4G+ technology and driving network quality to a new record value in industrial standards. By the end of 2018, Sunrise reached a record-breaking level of 96% in 4G area coverage, while at the same time expanding its 4G+ population coverage to a level above 80%. Key drivers for this strategy continued to be the sustained rapid growth in data traffic, which currently doubles every 16 months, and the demand for mobile and landline broadband services.

The success of this clear quality-driven strategy is paying off, not only in the continued growth of our residential customer base, but also very visibly in the successful acquisition of well-known, quality-centric top brands such as Swiss International Airlines, UBS, Tesla, and many more.

### 7.3 Sunrise is the 5G Pioneer

Together with its long-term technological partner Huawei, Sunrise demonstrated as early as in late 2017 that it had been working on the future of mobile communications. In December 2017, Sunrise publicly presented a live 5G network demo that provided a glimpse into the future of mobile networks and demonstrated eye-opening experience showcases such as the parallel provision of multiple 4K TVs over the air, live 360-degree videos, and virtual and augmented reality use cases. Guests from the business, politics and civic sectors, along with members of the media, watched as the download data throughput reached a world record level of 3.28 Gbit/s in the 3.5 GHz (band 42) frequency band.

But Sunrise did not stop there. Six months after setting this 5G world record, Sunrise put Switzerland's first 5G antenna into operation. As one of the first providers, Sunrise demonstrated "5G for People" with Huawei 5G Wi-Fi hotspot hardware. In this demonstration, Huawei provided the latest 3GPP-based 5G New Radio equipment and customer-premises equipment (CPE), which enabled Sunrise to be one of the first in Europe to show to the public the potential of 5G in an end-to-end environment. Sunrise demonstrated real life use cases such as multiple 4K TVs and various tablets and mobile communication hardware connected to one single 5G CPE.

Only five months later, Sunrise, together with Switzerland's most innovative ski resort, "Weisse Arena Laax," demonstrated the first standardized 5G network in the world in a ski resort. Also, this demonstration focused on real-life use cases for end consumers.

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### Sunrise 4G coverage

(as of December 2018)

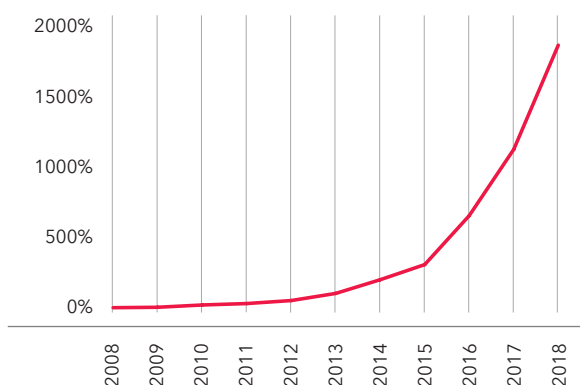
With its strong focus on network expansion, Sunrise now provides more than 99% of Swiss residents with 4G mobile high-speed Internet and covers 96% of the territory of Switzerland.




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### Data traffic in %

Massive increase in data traffic over the past ten years



#### **7.4 Network App**

The network app that allows customers to provide direct feedback on their experience with the Sunrise mobile network was further developed in 2018. The app, launched in May 2015, has provided immensely valuable direct feedback from customers and has been used to design the Sunrise network expansion programs since then. In 2018, Sunrise took another step toward its customers and is now able to communicate individually by push notifications with every customer based on the individual feedback they provided. The update, consisting of push notifications, was rolled out at the end of 2018.

#### **7.5 Outstanding Network**

Sunrise is the first mobile communications provider to attain the highest score ever achieved in the European connect network test twice in a row, and in comparison with more than 70 countries. It also has the only network that has been rated "outstanding" three times in succession. Sunrise undoubtedly offers the best network for mobile calling, thanks to its excellent coverage, and it has the most reliable network for mobile data connections.

The connect test, however, is not the only test that has confirmed the outstanding quality of the Sunrise mobile network: Various crowdsourcing platforms such as Ookla (speedtest.net) and OpenSignal have upheld the unparalleled quality and speed of the Sunrise mobile network. As far as 4G speeds are concerned, Sunrise has been delivering the fastest mobile upload speeds for 2.5 years in a row, as confirmed by the results obtained by Speedtest by Ookla. Regarding the 4G coverage footprint, Sunrise has been providing the highest 4G availability for the past year, as supported by the results obtained by Speedtest by Ookla. Also, OpenSignal's latest Swiss country report (November 2018) established that Sunrise has the highest 4G availability.

## **8 Regulatory Environment**

Sunrise Communications Group AG (Sunrise) is listed on the SIX Swiss Exchange in Zurich and is therefore bound by Swiss stock corporation law. As a mobile and landline operator in Switzerland, Sunrise is subject to regulation and supervision by various Swiss government agencies, including the Federal Communications Commission (ComCom) and the Federal Office of Communications (OFCOM).

#### **8.1 Regulatory Framework**

The regulatory framework is based primarily on the Swiss Federal Telecommunications Act (TCA) and its associated regulations (such as the Swiss Federal Ordinance on Telecommunications Services), but also the Swiss Cartel Act, the Swiss Federal Act on the Surveillance of Postal and Telecommunications Traffic (BÜPF), the Swiss Federal Radio and Television Act, and related ordinances. There are some conceptual differences between Swiss and EU telecommunications regulations. The most important ones are: ex-post regulation in Switzerland as opposed to ex-ante regulation in the EU, the technology-based "last mile" system in Switzerland, which grants access at long-run incremental cost conditions only to the incumbent's copper infrastructure, and the lack of regulation on end-consumer pricing in international mobile roaming. The fact that EU regulations within the European Economic Area do not apply to Swiss carriers has led certain operators in the EU to increase the termination rates charged to Swiss carriers for voice traffic originating in Switzerland to price levels higher than those charged to operators located within the EU; this is the subject of ongoing negotiations. Although Sunrise believes that these EU operators are in violation of WTO rules on international free trade, European authorities seem to protect or at least tolerate their practices. Bilateral price negotiations have now largely succeeded in mitigating the situation.

## **8.2 Revision of the Swiss Telecommunications Act (TCA)**

In December 2015, the Federal Council launched the public deliberation on the partial revision of the TCA. A large majority of the submissions received during the deliberation confirm that a partial adaptation of the regulatory framework is required. The Federal Council therefore tasked the Federal Department of the Environment, Transport, Energy and Communications with the preparation of a draft revision of the TCA, which was submitted to the Parliament by September 2017.

The proposal called for the addition of youth and consumer protection measures, transparency requirements regarding network neutrality, as well as the preservation of proven ex-post regulations regarding network access. The originally proposed ex-officio or ex-ante regulation was dropped. To prevent a new monopoly, especially in combined fiber-optic and copper network technologies (FTTC, FTTB, and FTTS broadband infrastructures based on the copper network without competitive access), Sunrise and almost all other important providers have proposed that the Federal Council be granted the right to extend regulations to fiber technologies. In the event of a market failure, that would guarantee a minimum level of fair competition and ensure investments in network expansion, especially in rural areas. Another objective is the proposed facilitation of the common use of mobile networks and frequencies. The more liberal provisions regarding network cooperation and frequency transfers may improve the efficiency of the handling of scarce resources. As a result, Switzerland would benefit from further investments in new technology and competition, and the improved supply would be particularly beneficial in remote areas.

During 2018, the parliament already largely debated the TCA revision. In its considerations regarding the access regulation, the parliament did not follow the recommendations of the Federal Council, ComCom, OFCOM, the price supervisor, consumer organizations, the vast majority of telecommunications providers, etc., and rejected the respective extension. This means that there is now no access regulation other than the outdated access regulation for copper technology. The Federal Council is only obliged to submit a report to the parliament on the competitive situation in the broadband Internet market within three years after the revised Telecommunications Act has come into effect, which may lead to fiber regulation at a later date.

## **8.3 Allocation of new mobile radio frequencies**

On behalf of ComCom, OFCOM launched deliberations in May 2016 regarding the allocation and use of the new mobile radio frequencies. The frequency bands involved are 700 MHz, 1400 MHz, and 3400 to 3800 MHz, which are expected to be available for use from 2019 on. In July 2018, ComCom decided that the new mobile radio frequencies would be awarded within the framework of an auction. The auction was held at the beginning of 2019, and on February 8, 2019 ComCom announced the results.

#### **8.4 Copyright Protection**

In December 2015, the Federal Council submitted the draft of a new copyright protection law for deliberation. It focuses on the carriers' responsibility to restrict access to websites illegally offering copyrighted content and to send warnings to customers sharing content through peer-to-peer services. In December 2016, the Federal Council announced the results of the deliberations regarding the partial revision of the Copyright Act. The Federal Council submitted the corresponding draft act to the Parliament in November 2017. The bill is based on a compromise agreed upon by various stakeholders in a working group that had been set up by the Federal Department of Justice and Police. It strengthens the rights and interests of creative artists and the culture industry by taking an appropriate approach to pirated online content without imposing obligations on access providers to block such content. At the same time, it upholds the principle that consumers who take advantage of such illegal offers will not be criminalized. In the Legal Commission of the National Council, a discussion on replay TV commenced. The majority of the commission members proposed a provision that enables TV channels to prevent skipping advertisement. The National Council rejected the proposition in December 2018. A similar request could be subject to debate in the Council of State. Replay TV operators and consumer organization have threatened to call for a referendum.

#### **8.5 Telecommunications Surveillance**

Telecommunications providers are subject to the BÜPF. They are required to maintain their own infrastructure for adequate surveillance and must be capable of running surveillance operations at any time. In the spring 2017, the Parliament approved a revision of the BÜPF aimed at extending surveillance. A referendum opposing the revision to the law was rejected. Providers will be subject to additional requirements as a result. The Federal Council decided in November 2017 that the new BÜPF and its implementing regulations would go into effect on March 1, 2018 with a transitional period for implementation.

#### **8.6 Revision of the Federal Act on Data Protection**

The Federal Council approved a revision to the Federal Act on Data Protection (FADP) in the spring of 2015 and asked the Federal Department of Justice and Police (DFJP) to submit a preliminary draft of a revision of the FADP based on data protection reforms adopted in the EU and by the Council of Europe. The DFJP delivered a corresponding draft on December 21, 2016 for deliberation by the Federal Council. In September 2017, the Federal Council approved the draft of the revised law and sent it to the Parliament. The draft will tighten data protection substantially. At the same time, it will align Swiss law with developments in the EU and in the Council of Europe. The Parliament divided the revision in two parts and adopted the urgent adaptation to the Schengen treaty in September 2018. The debate on the remaining part of the revision is being continued.

#### **8.7 Environmental Protection from Radio Emissions**

The Swiss Ordinance on Protection against Non-Ionizing Radiation (NIR) requires Swiss carriers to comply with ten times stricter safety limits than those of most carriers in the European Union. In February 2015, in response to two political initiatives, the Federal Council issued a report on options for expanding capacity in mobile communication networks. Three possible measures mentioned in the report are: an increase in limits, a change in the number of installations per carrier, and the simplification of processes. Despite support from the Swiss National Council and the Expert Committee of the Council of States for immediate implementation of these measures, the Council of States twice voted down a respective motion in December 2016 and March 2018 by a narrow margin. However, the Federal Council retains the power to adjust the ordinance. Mobile network operators have warned that without any changes in the NIR regulation the country-wide introduction of 5G with its all-powerful features will not be possible and will be greatly delayed and very expensive. As the Federal Council considers 5G to be a key element of its digitalization strategy, the former Federal Councillor Doris Leuthard and Head of DETEC (Federal Department of the Environment, Transport, Energy and Communications) initiated a working group. This working group includes all stakeholders and analyzes the needs and risks for the near and far future of mobile radio and radiation exposure, in particular in connection with the introduction of 5G. Future

plant limit values will also be discussed in compliance with the precautionary principle. The working group has planned to present a report with recommendations for further action in mid-2019. At the same time, the Federal Office for the Environment (FOEN) is preparing a small revision of the Ordinance on Protection against Non-Ionizing Radiation in order to address loopholes that could impede the development of 5G networks. In particular, these include the introduction of a monitoring system for non-ionizing radiation and the setting of an installation limit value for frequencies between 900 and 1800 MHz. The revised ordinance is to be accepted by the Federal Council in the spring of 2019.

### **8.8 International Roaming**

Switzerland has not regulated international roaming. As part of the current revision of the TCA, the Federal Council is recommending measures for increased transparency and more accurate billing. The Parliament is going to delegate the facility to define such measures to the Federal Council.

### **8.9 Network Neutrality**

In its draft of the new Telecommunications Act, the Swiss Federal Council limits its proposal to the introduction of transparency requirements for differentiated services and subsequent monitoring of market developments as needed to evaluate future regulations. Based on a code of conduct signed by Sunrise, Swisscom, Salt, UPC, and Suissedigital, the carriers established a conciliation body effective September 2015. The parliament is going to tighten rules on network neutrality in the context of the revision: Net neutrality shall be stipulated as a principle by law, however, certain exemptions are intended.

### **8.10 Sports Broadcasting Rights**

Due to the abuse of market dominance through exclusive sports broadcasting, the Competition Commission imposed a CHF 71.8 million fine on the Swisscom Group (including Cinetrade and Teleclub) in May 2016 without ordering any specific actions. According to the judges' decision, which was appealed by the parties before the Swiss Federal Administrative Court, the requirements for protective measures were not met. The decisions by the Competition Commission and the Federal Administrative Court show that competition laws in general (such as the Swiss Cartel Act) are not sufficient for creating or protecting competition. Although the Competition Commission has regularly found the former monopolist guilty of abuse of power and imposed heavy fines on it, the regulatory agencies and courts have failed to prevent this abuse from happening in the first place. Swisscom's appeal against the fine is still pending. In the meantime, the Competition Commission opened an investigation of UPC in regard to Swiss ice hockey broadcasting rights.

## **9 Corporate Responsibility**

To ensure credible sustainability management, Corporate Responsibility (CR) must be deeply entrenched in the organization's culture and main strategy. Its primary focus areas and strategies are also influenced by current challenges, such as digitalization.

### **9.1 Corporate Responsibility Strategy**

The Corporate Responsibility strategy, which encompasses social and environmental aspects, is aligned with both the main corporate strategy (see section Strategy on pages 8 et seq.) and global challenges driven by society to ensure state-of-the-art sustainability management.

In order to enhance the effectiveness of its corporate sustainability management, Sunrise links its main CR strategy focus, defined as highly relevant in the materiality analysis (see figure in chapter 9.3 on page 28) to the Company's main corporate strategy. A focus on customer need, defined as a high CR materiality area, is covered by Sunrise ongoing efforts to maintain the best-in-class customer service. Digitalization and innovation, another CR focus area with high internal and external stakeholder signifi-

cance, is also strongly driven by the main corporate strategy action field to enhance growth in B2B. Maintaining a state-of-the-art infrastructure as another key corporate strategic topic is strongly linked with the high material CR topic of network quality and reliability.

CR focus areas and strategies at Sunrise are also tailored to current global challenges, thus ensuring relevant sustainability management both now and in the future. The ongoing digitalization of society is an important driver, significantly impacting the focus of CR activities in the various sustainability dimensions.

Digitalization has had a number of positive effects on the environment, such as the decrease in resource consumption as a result of the virtualization of many aspects of daily life. As a leader in the digitalization movement, Sunrise must deal with the sharp rise in data consumption that is associated with rising Internet usage and the increasingly widespread linking of communication hardware. It is the Company's goal to make the high annual surge in network performance independent from increased direct power consumption. The environmental strategy of Sunrise is thus clearly focused on boosting the energy efficiency and therefore the ecological performance of its network (see section Environment on pages 33 et seq.).

Digitalization is also impacting the work environment. For example, flexible work hours and models are becoming increasingly important and are a deciding factor in a company's appeal as an employer. Sunrise offers its employees a modern work environment with flexible working hour models (see chapter 10.7 on page 32).

## **9.2 Corporate Responsibility Governance and Principles**

In addition to involving decision-makers, incorporating behavioral principles and guidelines is an important part of CR at Sunrise.

A CR Steering Committee that extends across business lines meets quarterly and is made up of both management and staff representatives. It ensures that the CR function receives the attention it deserves at the highest levels of the Company. The Committee's objective is to manage CR activities and focus while also broadening the support CR receives throughout the Company. In addition, the Steering Committee regularly evaluates CR activities on behalf of the Audit Committee, which consists of representatives from the Board of Directors.

Sunrise has had company-wide environmental and social responsibility policies in place for three years. These policies, in turn, form the basis for additional rules and standards, such as social and environmental requirements for its suppliers.

## **9.3 Stakeholder Exchange and Materiality Analysis**

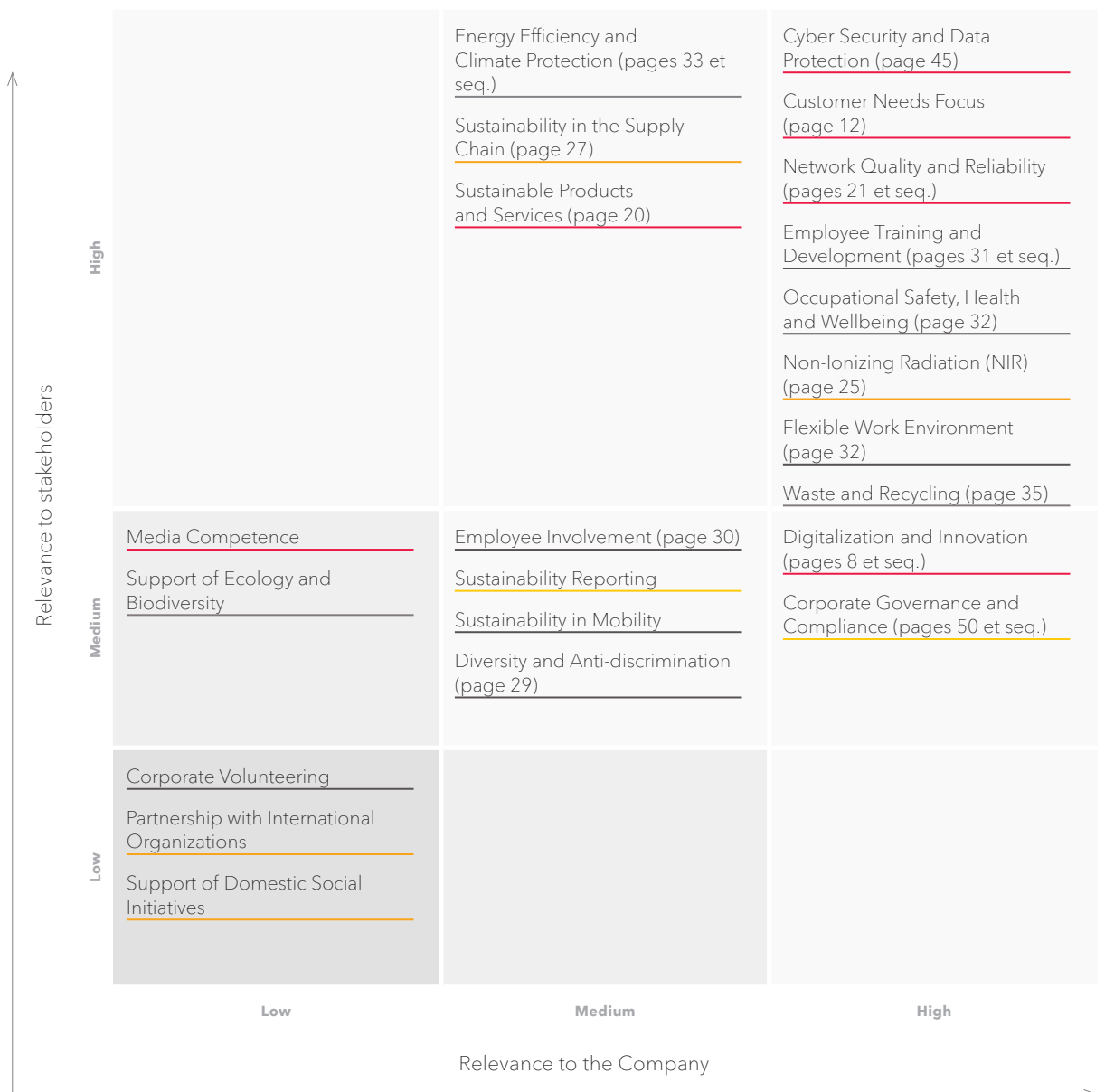
Sunrise maintains an open dialog with various internal and external stakeholders to ensure that their perspectives are aligned with the Company's current CR focus. This exchange serves as a driving force for future projects and activities and as an important channel for the external communication of the Sunrise perspective on individual CR aspects. In 2018, stakeholder discussions focused on topics such as working conditions in the supply chain and the reporting of environmental performance indicators. As a result of the last topic discussions, Sunrise joined the Carbon Disclosure Project (CDP) in 2018 and takes part in the Ecovadis supplier assessment system.

Materiality analysis is a central CR management tool used to boost the impact of CR activities and promote a common understanding of CR topics. It also helps better determine improvement potential as well as risk areas. The Company conducted a comprehensive materiality analysis during the summer of 2018. The sustainability topics outlined in the analysis were selected by evaluating comparable materiality analyses and were then submitted to decision makers in the Company for approval. These sustainability topics were then assessed for internal relevance during workshops and in consultation with all



hierarchy levels, business areas and the CR Steering Committee. The external relevance analysis was based on focus interviews with key stakeholders and an online survey that included responses from several hundred Sunrise customers.

## Sunrise materiality analysis



Environment Employee Customer Community Investors

## 10 Employees

Sunrise has adopted a set of values that not only promote, but exemplify everything it does: bold, intuitive and positive. Bold because the Company believes in blazing new trails and winning with bold ideas, in rewriting the rules on behalf of the customer and making a difference every day. Intuitive alludes to the Company's firm belief in outstanding quality which is tailored to satisfy its customers' individual needs. Lastly, positive means that Sunrise believes optimists go further: that the Company aspires to create simple and engaging experiences that are beautifully engineered and fit to purpose. That it aims to make every day brighter, one sunrise at a time. Sunrise employees are encouraged to regularly examine these values and discuss their practical implementation both inside and outside the Company.

As of December 31, 2018, Sunrise had 1,671 employees (1,611 full-time equivalents) throughout Switzerland (a decrease of 2.5% over the previous year). These jobs are located at the Company's headquarters in Zurich, its offices in Prilly, Geneva, Bern, Basel and Lugano, and at some 92 points of sale across the country's different linguistic regions.

Women account for 27.8% of the Sunrise workforce and 13.73% of its leadership. Of the overall workforce, 62.4% work under the Collective Employment Contract. The employee-initiated attrition rate for the year averaged 13.5%. The average age of employees is 39 years, and they stay at Sunrise for an average of 7.3 years. The overall part-time quota is 12.7%, 63.7% of which are women.

### Employee KPIs

In full-time equivalents (FTE) or headcount (heads) as indicated	2018	2017	2016
Total staff (FTE)	1,611	1,645	1,656
Total staff <sup>2</sup> (headcount)	1,671	1,713	1,723
Extended management <sup>1</sup> (headcount)	37	42	33
Women in extended management <sup>1</sup> (headcount)	10	12	6
Men in extended management <sup>1</sup> (headcount)	27	30	27
Women (headcount)	465	498	501
Men (headcount)	1,206	1,215	1,153
Apprentices (FTE)	140	122	109
Participants in employee engagement survey (headcount) <sup>3</sup>	92.0%	82.5%	-
<b>Personnel expenditures in CHFk<sup>4</sup></b>	<b>213.9</b>	<b>214.6</b>	<b>221.4</b>

<sup>1</sup> Executive Leadership Team and selected other Top Management.

<sup>2</sup> Including extended management.

<sup>3</sup> Of all employees with a permanent or a fixed-term employment contract.

<sup>4</sup> Wages and salaries, pension expenses and other social security costs.

### 10.1 Diversity and Anti-Discrimination

Employees from more than 50 nations contribute with their knowledge, innovative thinking and extraordinary commitment to help Sunrise succeed. Sunrise stands not just for Swissness, but for an international, multi-cultural and open work environment as well. Sunrise firmly believes that it can better meet the varied needs of its customers by fostering an environment of diversity and inclusion. Mutual respect, tolerance toward other cultures and a discrimination-free workplace are part of everyday life at Sunrise.

Sunrise protects its employees' mental and physical integrity and does not tolerate mobbing, sexual harassment or any other form of discrimination. Sunrise employees are expected to show respect for all colleagues, customers, and vendors. They are encouraged to report observed misconduct according to the anti-discrimination policy.

## **10.2 Whistleblowing Process**

Sunrise encourages all employees to report any violations of applicable law or internal guidelines so that the Company can launch appropriate investigations into such claims. Individuals who report a violation of this nature (referred to as whistleblowers) are protected against retaliatory measures of any kind. Sunrise maintains a whistleblowing portal for this purpose where employees can anonymously report any misconduct of which they have become aware or of threats made toward them, their colleagues or the company, secure in the knowledge that any and all information disclosed through this channel will be kept confidential. Six reports were received through the whistleblowing portal in 2018.

## **10.3 Employee Involvement**

As a responsible employer, Sunrise cultivates an open, constructive dialog with the employee-elected representatives of the Staff Committee. The Executive Leadership Team and the newly installed Employee Relations Manager provide Staff Committee delegates with a monthly update on the Company's development, specifically with regard to any decisions that might impact the workforce. Other topics the Staff Committee addresses are issues such as the workplace environment and employee assistance in the event of bilateral conflicts. The Staff Committee members collect employees' information and consult with the ELT accordingly. In the event of a reorganization, merger, acquisition or large-scale layoff, close collaboration between the Staff Committee and the ELT is essential. The nine members of the Staff Committee are elected for a three-year term, with the current term ending in December 2019.

## **10.4 Trade Union Relationship and Collective Employment Contract**

Progressive employment terms are essential to ensuring employee satisfaction and employer appeal. Sunrise partners actively with the Swiss trade union syndicom, taking part in respectful and honest dialogs, negotiating terms and finding balanced solutions.

Sunrise successfully negotiated a new Collective Employment Contract (CEC) with syndicom in 2017, which entered into force on January 1, 2018. It guarantees proper working conditions for Sunrise employees and is valid through 2022. The goal of the CEC is to establish a set of binding employment terms that will continue to meet the growing demands placed on a present-day employer. The CEC strikes a balance between social security for the staff and flexibility for Sunrise. With syndicom, Sunrise employees will continue to have, in addition to the Staff Committee, a strong partner in all social policy issues.

Guaranteeing health care and time off for employees is essential in any company today. Sunrise and syndicom have agreed that staff members have the explicit right to be inaccessible outside their contractual work hours. The CEC contains progressive and family-friendly employment terms. For example, it provides for a higher minimum wage and extends the length of both maternity and paternity leave.

## **10.5 Employee Survey**

Through its partnership with Gallup, Sunrise systematically and periodically measures engagement based on employees' responses to the Q12 survey. The poll consists of actionable workplace elements with proven links to performance outcomes. Surveys were conducted in June and November of 2018.

Employee participation in the first survey was 91%. Earning a grand mean score of 4.25 points and up.14 points over the previous year, Sunrise made significant gains in terms of engagement and placed in the 66<sup>th</sup> percentile of Gallup's overall database. This positive improvement can also be seen in the employee net promotor score (eNPS) which rose from 35 to 48.

With a response rate of 93%, an even higher number of employees participated in the second survey conducted in November 2018. The overall results are encouraging as well: both employee engagement and the Company's attractiveness as a workplace have increased, with the grand mean rising from 4.25 on page to 4.39 points, placing Sunrise in the 75 percentile of Gallup's overall database. In 2019, the

Company and its teams will define and implement further actions to improve and strengthen workgroup engagement and performance.

## 10.6 Employee Training and Development

Sunrise promotes a culture of excellence and strives to continuously improve the services it offers to its customers. Its annual goal-setting and evaluation process is an essential results-oriented leadership tool, as are individual agreements on development objectives and measures. Sunrise focuses on business strategy, firm corporate values and clear management principles to provide guidance and to fulfill the Company's promise to its customers. The consolidation of the Company values and leadership principles is supported through various continuing education offers. In accordance with the Sunrise values and principles, managers are provided with an online self-assessment program which allows them to contribute their skills more effectively to the everyday work environment. The new values are also reflected in the personal objectives of each staff member. Regular employee surveys help to anchor these values even further.

Frequent, constructive feedback meetings between management and staff shed light on personal performance and provide reference points for individual development. A dedicated Leadership Development team ensures the continuous development of Sunrise managers, guaranteeing their ability to respond to ongoing changes in leadership and teams.

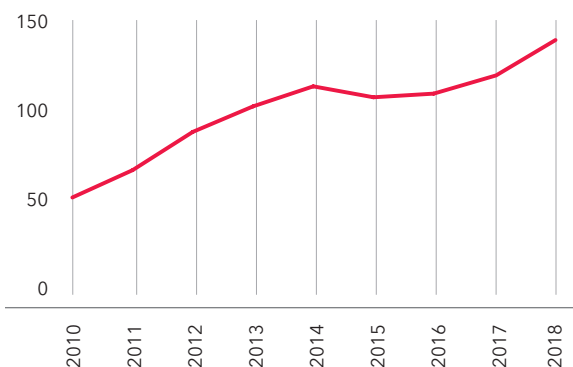
Employees can take part in in-house continuous education courses with access to computer-based learning modules. If the in-house training resources do not meet employee training needs, Sunrise turns to external training programs. Sunrise Academy, the Company's Training and Development group for practical training, is continually developing new learning modules and training courses for practical education.

### A growing number of apprentices at Sunrise

As a highly engaged and well-known participant in the Swiss apprenticeship market, Sunrise puts great effort into training up-and-coming professionals. With 140 apprentices on staff, equivalent to 8% of all full-time positions, a number well above the legal requirements and the industry benchmark, Sunrise holds the highest percentage of apprentices of all major telecommunications providers! Apprentices are trained in the areas of sales, customer relations, IT, mediamatics and retail. Sunrise considers this part of its responsibility to society while also understanding the importance of systematically developing its own young talent pool.

### A growing number of apprentices at Sunrise

Sunrise invests in talent and therefore has a long tradition of training apprentices in various positions.



The Company plans to host 155 apprentices in 2019, further increasing the already high quota. All apprentices who completed their apprenticeship in 2018 passed without exception. Two of the 35

apprentices are among the best of their year with their outstanding performance. In 2018, 74% of apprenticeship graduates went on to become full-time employees of the Company. The benefits of an in-depth, diverse and valuable apprenticeship at Sunrise have been verified again and again. For example, in 2017, two former retail apprentices were promoted to store managers.

### **10.7 Occupational Safety, Health and Wellbeing**

As part of its responsibility as an employer, Sunrise seeks to protect its staff from workplace accidents and health hazards. Based on the company-wide occupational safety plan, Sunrise has taken several steps toward improving workplace safety, such as a series of emergency drills conducted at corporate headquarters with the goal of improving the interaction between emergency teams in the event of an evacuation. In 2018, Sunrise concluded an external occupational safety audit conducted by Schweizerischen Büros für integrale Sicherheit (SBIS). The audit scope comprised all the Company's relevant safety-related aspects and business activities. It culminated in a set of recommendations which then served as a basis for defining improvement measures and an implementation plan. Given the fact that training and education are vital elements of workplace safety, Sunrise provided additional safety training to a total of 79 employees on topics such as first aid, working near antennas, etc. in 2018. Safety-related aspects of network and antenna operations remain an important focus area. Occupational Safety officers from Sunrise and its network partners meet on a regular basis to evaluate the status of occupational safety at both network and antenna locations.

Sunrise offers employment terms that are both progressive and competitive. This contributes to its positive image as an employer. To this end, it offers a wide range of benefits, such as a pension plan in excess of the mandatory requirements, unpaid leave, and a flexible vacation policy, all of which make it easier for employees to strike a healthy work-life balance. Each employee, for instance, is entitled to up to two additional weeks of unpaid vacation. Sunrise employees also enjoy five weeks of vacation, or six weeks until the age of 20. Starting at the age of 50, employees have six weeks of vacation. Sunrise offers its employees a supportive work environment during the various phases of their professional careers. Maternity and paternity leave following the birth or adoption of a child, for instance, is designed to help both parents get comfortable in their new roles.

To promote the physical and mental health of its employees, Sunrise encourages joint participation in athletic events. This not only strengthens employees' sense of team spirit but also encourages physical activity to compensate for time spent in the office. Sunrise offered a series of preventive training sessions on resilience and stress management for employees and managers in 2018. Sunrise also switched its provider of sick leave benefits in January and now works with a new insurance company that provides case management services for employees with long-term absences. Sunrise intensified its collaboration with the new insurance company in order to help employees during their reintegration.

### **10.8 Flexible Work Environment**

Flexible work arrangements help improve the health and wellbeing of employees and promote a better work-life balance by reducing stress while raising productivity. Flexible work hours and the option of working from home are only one aspect of the efforts Sunrise is making in this area. All office employees in Zurich will move into the newly refurbished Ambassador House in Glattpark/Opfikon in February 2019, where a new office concept will be implemented. This new concept will offer a wide range of flexible work settings including shared desks combined with new work spaces such as focus rooms, offices for a day and project areas, all of which are equipped with modern technology. Add to that an in-house childcare service and fitness area, and it is plain to see that Sunrise is striving to create an ideal environment to meet most of its employees' needs.

## 11 Environment

In the environmental sector, Sunrise focuses on the two most relevant topics of “Energy Efficiency and Climate Protection” and “Waste and Recycling,” which are referenced in the materiality analysis in the section on Corporate Responsibility.

Energy efficiency is essential to the Company’s operations since electricity consumption has the largest direct environmental impact on climate protection at Sunrise and is an important internal cost driver.

Environmental KPIs are critical indicators to monitor in an effort to reduce the ecological footprint. Therefore, Sunrise focuses on the most important KPIs with the highest direct environmental impact on climate protection. These KPIs are described in greater detail in the following section on energy efficiency and climate protection.

Waste and Recycling is the other topic customers and other external stakeholders perceive to be significant in the context of the global environmental issue of e-waste and packaging. Product life cycle and business ecology aspects are addressed in greater detail in the following section called “Waste and Recycling.”

Sunrise is currently participating in various sustainability initiatives and ratings. For example, Sunrise joined the Carbon Disclosure Project (CDP) in 2018 and is also part of the supplier ratings conducted by EcoVadis. In addition, the Company’s environment and sustainability performance has been positively rated by agencies assessing socially responsible investment (SRI), such as Vigeo Eiris, Inrate, zRating, ISS-oekom, J. Safra Sarasin, and Sustainalytics.

The impact Sunrise has on the environment and vice versa is constantly evaluated by the Corporate Responsibility Steering Committee that meets quarterly (see section Corporate Responsibility on pages 26 et seq.). This committee also assesses operational ecology and risk, and monitors the status quo.

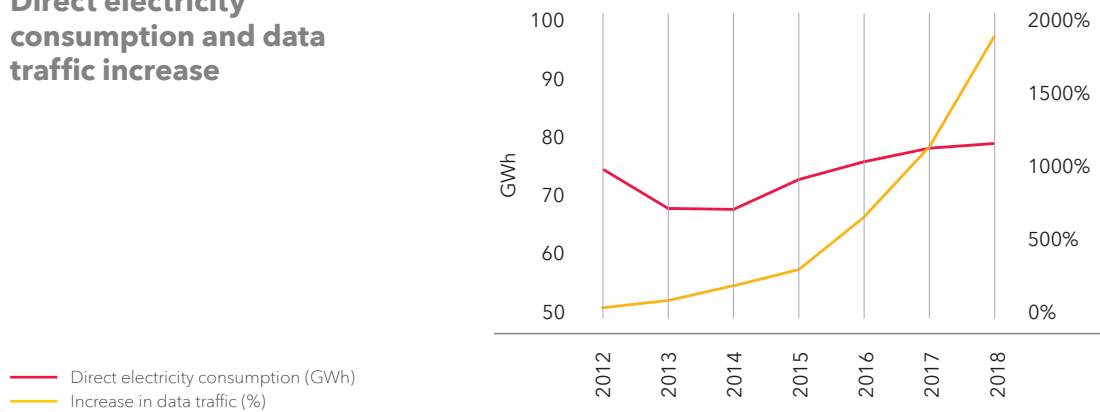
### 11.1 Energy Efficiency and Climate Protection

#### 11.1.1 Energy Efficiency

As already pointed out in section Corporate Responsibility on pages 26 et seq., one of the biggest challenges for Sunrise in the environmental area will be the separation of the rapid rise in data usage brought about by ongoing digitalization from the increased direct electricity consumption (see chart on page 34). Energy efficiency plays a key role in driving sustainable development with the limited use of finite resources.

Sunrise assesses its energy efficiency as part of a voluntary energy efficiency target agreement with the Swiss Federal Government and launched several efforts in 2018 to improve its energy efficiency. The biggest source of harmful emissions Sunrise can directly influence is its direct electricity consumption, more than 80% of which is attributable to the network infrastructure. To this end, the Company installed more efficient air conditioning systems and upgraded power supply units at antenna locations to optimize power consumption. To date, these efforts have resulted in total savings of up to 212,945 kWh of electricity per year. Despite the rapid growth in data usage and increased network performance, total direct electricity consumption at Sunrise has risen only slightly over the past five years.

### Direct electricity consumption and data traffic increase



#### 11.1.1.1 Energy Consumption and Efficiency Objectives

By defining energy efficiency objectives, Sunrise seeks to make its environmental protection efforts measurable and assessable. The goal is to increase energy efficiency by at least 13.5% (based on 2012 levels) by 2020 as part of the Company’s voluntary efficiency agreement with the Swiss Federal Government. Given that Sunrise has already increased its energy efficiency by more than 12% in 2018, it is highly likely that it will surpass the original target set in 2012.

#### 11.1.2 Climate Protection

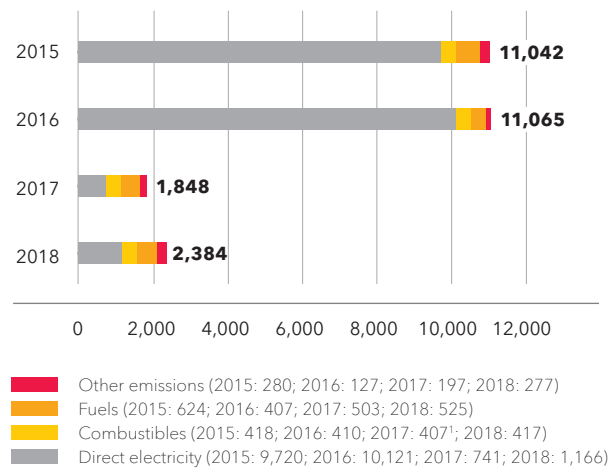
A company’s environmental footprint is an important measure that can help determine the impact of its business activities on the climate. 2016 marked the first time Sunrise calculated its environmental footprint. Since then, these measurements have been expanded (see chart on page 35). In addition, Sunrise joined the Carbon Disclosure Project in 2018 to continue improving its reporting.

The environmental footprint analysis included the relevant factors the Company has direct control over: greenhouse gas emissions from fuels and combustibles and direct electricity consumption (Scopes 1 and 2). Not included in the calculations were indirect (Scope 3) emissions, which would for example also take into consideration the environmental impact of mobile phone production.

Greenhouse gas emissions from combustible fuels include heat generation for offices and points of sale. Sunrise has a relatively low score in this area, since the Company’s headquarters and other larger buildings use district heating. The opening of several new Sunrise shops has mainly led to an increase in combustible emissions in 2018. Vehicle emissions include the Sunrise vehicle fleet. In 2018, 174 vehicles traveled an average of 25,750 kilometers. The expansion of the B2B sector and its vehicle pool led to an increase in CO<sub>2</sub> emissions. The average CO<sub>2</sub> emission per company car has slightly decreased from 128g CO<sub>2</sub> per kilometer in 2015 to 117g CO<sub>2</sub> per kilometer in 2018. The “Other emissions” category mainly accounts for refrigerant losses in air conditioning systems installed at the Company’s network sites. Direct electricity consumption (Scope 2) produces the lion’s share of greenhouse gas emissions.

As announced in 2016, Sunrise switched its electricity supply to 100% renewable energy sources, thus taking an essential step toward climate protection. In 2018, more than 75% of the total renewable energy share was domestically sourced, and water power is the most used renewable energy source. This climate protection measure had a major impact on the environmental footprint: in 2017, Scope 2 emissions were reduced by almost 90%. In 2018, Scope 2 emissions increased slightly due to rising electricity consumption at our network sites.

## 2018 CO<sub>2</sub> equivalent emissions in metric tons (Scopes 1 & 2)



<sup>1</sup> Restated

### 11.2 Waste and Recycling

Waste and recycling, a highly relevant topic, as described in the materiality analysis, is an important aspect for Sunrise to meet its customers' and other stakeholders' expectations of sound environmental management. A solid product life cycle view can enhance the attractiveness of products in the eyes of Sunrise customers.

In the area of product and business ecology, Sunrise has several initiatives in place to lower waste and improve the recycling of its own products. Since 2015, Sunrise has been offering a take-back program for mobile phones and tablets. The Company continued the program in 2018, taking back a large number of mobile phones and tablets for proper recycling or refurbishment. Sunrise also has in place a refurbishment program for Sunrise TV and Internet Boxes returned by customers. The goal of this program is to increase the use of these hardware while at the same time decreasing e-waste.

A state-of-the-art approach to office ecology can help Sunrise improve employer attractiveness. Digitalization is therefore an important driver toward sustainable office ecology. With the move to its new Headquarters in 2019, Sunrise seeks to minimize paper consumption and waste by offering its employees a modern, paperless, digital work experience. As part of the new workplace, Sunrise also developed a state-of-the-art recycling concept for the new Headquarters in 2018.

## 12 Community

Sunrise demonstrates its social engagement by promoting talented athletes and collaborating with the Roger Federer Foundation.

### 12.1 Support for the Roger Federer Foundation

As part of its collaboration with Roger Federer as the Company's brand ambassador, Sunrise is also involved in the activities of the Roger Federer Foundation. The Roger Federer Foundation supports educational projects in the southern part of Africa and in Switzerland. Young athletes are the main beneficiaries of the support provided through the Stiftung Schweizer Sporthilfe (Swiss Sports Foundation). Sunrise makes an annual donation that benefits these young, up-and-coming athletes.



## 12.2 Promotion of Marginal Sports

In Switzerland, providing professional training conditions to young athletes engaging in marginal sports is often quite difficult. As a result, Sunrise is actively involved in the Swiss Sports Foundation sponsorship program through the support it provides to the Roger Federer Foundation. The foundation promotes talented young athletes pursuing careers in competitive sports in Switzerland, particularly in disciplines and age categories largely neglected by sponsorship arrangements.

Sunrise is currently supporting young athletes between the ages of 10 and 16 in marginal sports including rock climbing, fencing and chess. Wheelchair-bound athletes are usually somewhat older when they first enter competitive sports. Every year, around 500 talented young Swiss athletes receive individual or performance-based funding and are motivated through sponsorship arrangements or awards.

## 12.3 Premium Partner of Swiss Olympic

Sunrise entered a multi-year premium partnership with Swiss Olympic in 2018. By doing so, the Company makes a commitment to popular sports and supports the best Swiss male and female athletes with the best Swiss network.

# 13 Major Events

## 13.1 Refinancing Transactions

In Q2 2018, the Group completed the amendment and extension as well as repricing of its existing senior facilities agreement. The existing term loan B facility ("TLB") was increased by CHF 500 million to CHF 1,410 million. The revolving credit facility ("RCF") remains unchanged at CHF 200 million and is currently undrawn. The leverage-dependent margins of the facilities were reduced by 25 and 30 bps throughout the margin grid for the TLB and the RCF, respectively. The new facilities have a maturity of five years. The proceeds from the increased TLB were used to redeem the outstanding CHF 500 million 2.125% senior secured notes due March 2022. Furthermore, the Group placed CHF 200 million inaugural Swiss domestic senior secured notes due 2024 with a coupon of 1.5%. The issue price was set at 100.2% of the nominal amount and redemption will be at par.

The refinancing had the following impacts on the consolidated financial statements:

- Positive net impact of CHF 185 million on cash flow from financing activities (repayment of CHF 500 million senior secured notes and an additional early redemption fee of CHF 5 million, issuance of CHF 200 million senior secured notes and the extension of CHF 500 million TLB less transaction costs of CHF 10 million);
- Increase in the non-current portion of loans and notes in the consolidated statements of financial positions to CHF 1,568 million;
- CHF 9 million increase in financial expenses for 2018, of which CHF 5 million relate to an early redemption fee for the CHF 500 million notes redemption and CHF 4 million are due to the release of capitalized debt issuance costs;
- Increase of financial income by CHF 15 million and of interest expenses by CHF 4 million in 2018 due to the application of IFRS 9 debt modification adjustments related to the repricing of the existing term loan B.

## 14 Financial Review

Revenue for 2018 exceeded the guidance, while adjusted EBITDA came in at the mid-to-high end of the guidance. Revenue increased by 1.2% year over year, whereby the impact of the initial application of IFRS 15 as of January 1, 2018 was immaterial. Revenue growth was mainly attributable to customer growth in mobile postpaid, landline Internet and TV as well as higher hardware revenue. Adjusted EBITDA for 2018 demonstrated a flat year-over-year development. The higher network service fees, following the disposal of the subsidiary Swiss Towers AG in August 2017 (hereinafter referred to as the "tower deal") had a negative impact on adjusted EBITDA. Excluding those higher network service fees, adjusted EBITDA rose by 3.4% year over year (2.3% excluding IFRS 15).

IFRS 15 Revenue from Contracts with Customers is effective for annual reporting periods beginning on January 1, 2018. The application of IFRS 15 in 2018, which mainly related to the capitalization of costs to obtain a contract, resulted in an increase in EBITDA of CHF 7 million.

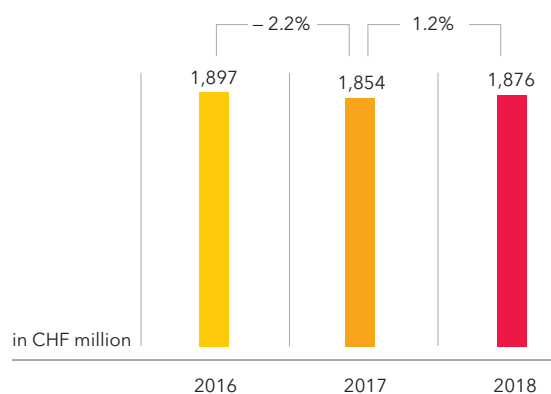
The table below summarizes the immaterial impact of applying IFRS 15 in the segments Residential and Business.

CHFk January 1 - December 31	RESIDENTIAL			BUSINESS		
	2018	2017 <sup>1</sup>	Change (%)	2018	2017 <sup>1</sup>	Change (%)
<b>Revenue reported</b>	<b>1,351,929</b>	<b>1,317,198</b>	<b>2.6</b>	<b>285,326</b>	<b>267,570</b>	<b>6.6</b>
IFRS 15 impact	(1,117)	-		670	-	
Revenue excluding IFRS 15	1,350,811	1,317,198	2.6	285,996	267,570	6.9
<b>Gross profit reported</b>	<b>907,777</b>	<b>894,681</b>	<b>1.5</b>	<b>188,104</b>	<b>180,539</b>	<b>4.2</b>
IFRS 15 impact	(1,117)	-		4,885	-	
Gross profit excluding IFRS 15	906,660	894,681	1.3	192,989	180,539	6.9
<b>EBITDA reported</b>	<b>712,144</b>	<b>695,253</b>	<b>2.4</b>	<b>124,756</b>	<b>122,669</b>	<b>1.7</b>
IFRS 15 impact	(7,040)	-		482	-	
EBITDA excluding IFRS 15	705,104	695,253	1.4	125,238	122,669	2.1

<sup>1</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated.

## 14.1 Revenue

Total revenue at Sunrise increased by 1.2% in the 2018 financial year, which includes an immaterial positive impact from the initial application of IFRS 15 as of January 1, 2018. Revenue growth was mainly driven by higher service revenue (mobile postpaid, landline Internet and TV) and mobile hardware revenue.



### Revenue by segment and service

Sunrise reports the segments Residential, Business, Wholesale and a reportable Head Office segment, which includes the finance, IT and technology functions of the Group. The organizational structure of Sunrise reflects these segments, as they represent the different customer groups to which the Group provides its services. The financial revenue development of the segments is shown in the table below:

CHFk January 1 - December 31	RESIDENTIAL		BUSINESS		WHOLESALE <sup>1</sup>		HEAD OFFICE ACTIVITIES		TOTAL	
	2018	2017 <sup>2</sup>	2018	2017 <sup>2</sup>	2018	2017 <sup>2</sup>	2018	2017 <sup>2</sup>	2018	2017 <sup>2</sup>
<b>Revenue</b>										
External customers	1,351,929	1,317,198	285,326	267,570	198,747	230,538	40,462	38,869	1,876,464	1,854,175
Inter-segment revenue	-	-	-	-	-	1,232	-	-	-	1,232
<b>Total</b>	<b>1,351,929</b>	<b>1,317,198</b>	<b>285,326</b>	<b>267,570</b>	<b>198,747</b>	<b>231,770</b>	<b>40,462</b>	<b>38,869</b>	<b>1,876,464</b>	<b>1,855,407</b>

<sup>1</sup> Including hubbing revenue of CHF 96 million generated for the year 2018, and CHF 128 million generated for 2017.

<sup>2</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated.

Sunrise sells mobile services, landline services and Internet&TV services across its segments. Since this information could be sensitive from a competitive point of view, the Group refrains from reporting a breakdown of the segments by services and instead provides a breakdown of total revenue by services.

CHFk January 1 - December 31	2018	2017 <sup>1</sup>
Mobile services	1,270,891	1,231,048
– Thereof mobile postpaid	802,204	767,804
– Thereof mobile prepaid	96,273	122,340
– Thereof mobile hardware	279,403	255,686
– Thereof other	93,011	85,218
Landline services	325,331	378,276
– Thereof landline voice	125,997	137,353
– Thereof hubbing	95,580	128,253
– Thereof other	103,754	112,670
Landline Internet and TV	280,242	244,851
<b>Total</b>	<b>1,876,464</b>	<b>1,854,175</b>

<sup>1</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated.

### Mobile Services

Mobile service revenue grew 3.2% year over year to CHF 1,271 million. This trend was mainly driven by growth in mobile postpaid service revenue of CHF 34 million, which exceeded the CHF –26 million decline in mobile prepaid service revenue.

The impact of applying IFRS 15 as of January 1, 2018, on mobile services revenue was CHF –0.2 million or –0.1%.

While the mobile postpaid subscription base increased by 8.5% year over year, a lower average revenue per user (ARPU) led to a 4.5% increase in mobile postpaid revenue (incl. IFRS 15). The year-over-year postpaid ARPU reduction of CHF –1.3 incl. IFRS 15 was mainly driven by secondary SIM dilution and roaming off.

The postpaid subscription base totaled 1,729 thousand subscribers as of December 31, 2018 (December 31, 2017: 1,594 thousand). The subscription base increase was driven by high network quality, good customer experience, prepaid to postpaid migration, competitive mobile rate plans and strong B2B sales momentum. The continuous growth in mobile data traffic is reflected in the increase in secondary subscriptions (such as secondary SIM cards for data) used by customers in addition to their primary subscriptions.

Mobile prepaid revenue declined year over year due to a decreasing subscription base and lower ARPU (CHF –1.2). The prepaid subscription base shrank year over year by –17.0% to 628 thousand subscribers as of December 31, 2018. The migration of high-value prepaid customers to postpaid, fewer international prepaid calls related to more attractive postpaid offers and increased OTT usage are factors that contributed to the reduction of the subscription base.

Mobile hardware revenue (low margin) increased year over year by 9.3% to CHF 279 million. Average hardware prices were higher than in previous years due to the launch of higher priced handsets, but the volume of hardware sold was lower. Hardware revenue depends on handset innovation/launches and on volatile sales to retailers.

### Landline Services

Landline services revenue decreased by 14% to CHF 325 million in 2018, mainly driven by hubbing and landline voice. The revenue generated by hubbing (international trading business) decreased by 25.5% to CHF 96 million; this business has a low margin and is volatile by nature. Landline voice revenue decreased by 8.3% to CHF 126 million due to fixed-to-mobile substitution, voice flat rates and the increased use of OTT services.

### Landline Internet and TV

Landline Internet and TV revenue increased by 14.4% to CHF 280 million in 2018.

The total Internet subscription base increased by 8.3% year over year to 457 thousand subscriptions.

The TV product, which can be purchased along with Internet service, increased its customer base by 14.1% year over year to 244 thousand subscribers. Customer growth was supported by convergence benefits including the Sunrise One offer, and by enhanced TV sports content.

ARPU were roughly stable and impacted by promotions, convergence discounts, Sunrise One, as well as increased Internet prices accompanied by higher speeds.

## 14.2 Costs and Profitability

The following sections show the development of gross profit, EBITDA and net income.

### 14.2.1 Gross Profit

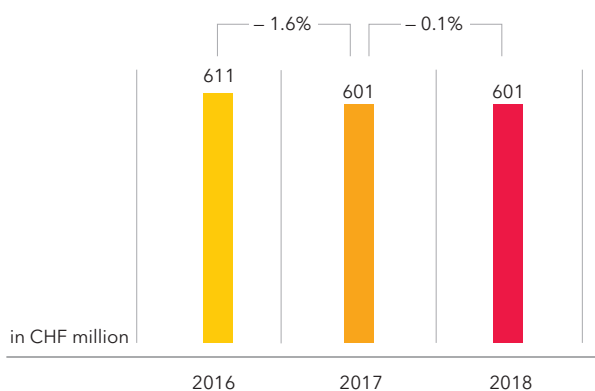
Gross profit rose by 2.2% to CHF 1,219 million. This increase was mainly driven by growth in mobile postpaid, Internet and TV revenue. The gross margin increased from 64.3% to 65.0%, supported by decreased hubbing revenue (low margin) and a slight improvement in the service gross margin.

### Transmission Costs and Cost of Goods Sold

Transmission costs and the cost of goods sold totaled CHF 657 million for 2018. This represents a decrease of -0.6% year over year (excl. IFRS 15: CHF 653 million; a decrease of -1.3%), mainly driven by the reduced hubbing cost of goods sold along reduced revenue.

### 14.2.2 Adjusted EBITDA

For 2018, adjusted EBITDA amounted to CHF 601 million, which reveals a year-over-year decrease of -0.1% (excl. IFRS 15: CHF 594 million; year-over-year decrease of -1.1% or CHF -7 million). Excluding the higher network service fees due to the tower deal, adjusted EBITDA excl. IFRS 15 increased by CHF 14 million or 2.3%. This was supported by gross profit growth, partly offset by higher commercial expenses since cost savings have been reinvested to sustain commercial momentum.



The table below shows one-time adjustments from reported EBITDA to adjusted EBITDA in 2018 and 2017. The adjustments for events related to prior years amount to CHF –3 million. The adjustments for non-recurring, non-operating events add up to zero, due to compensating effects. The most major effect relates to the reduction of the asset retirement obligation as a result of a lower cost assumption (CHF 10 million) which was offset by adjustments for the set-up/preparation of the frequency auction (CHF –4 million), early employee contract terminations (CHF –3 million) and other minor effects (CHF –3 million). The adjustment for share-based payment expenses amounts to CHF 2 million.

in CHF million January 1 - December 31	<b>2018</b>	2017	2016
<b>Reported EBITDA</b>	<b>602</b>	<b>592</b>	<b>599</b>
Prior-year-related events	(3)	(6)	(3)
Non-recurring and/or non-operating events	-	13	14
<i>Thereof restructuring effect, net</i>	-	-	7
Costs related to share-based payment	2	2	2
<b>Adjusted EBITDA</b>	<b>601</b>	<b>601</b>	<b>611</b>

### 14.2.3 Reported EBITDA

The Group generated an EBITDA of CHF 602 million in 2018. This is a year-over-year increase of CHF 10 million or 1.7% from CHF 592 million in 2017 (excluding the IFRS 15 impact of CHF 7 million, the year-over-year increase would have been CHF 3 million or 0.6%).

The EBITDA increase is mainly attributable to increased service revenue which outperformed the higher commercial and operating expenses incurred as a result of the tower deal as well as a reduction in the asset retirement obligation due to a lower cost assumption (CHF 10 million).

#### Other Operating Expenses

Other operating expenses increased by CHF 30 million or 7.5% (excl. IFRS 15: CHF 39 million or 9.7%), namely from CHF 396 million to CHF 425 million year over year. This was mainly due to higher network service fees, higher marketing costs and higher customer service investments in brands and segments (Sunrise and the ethnic brand as well as the B2B segment).

#### Wages, Salaries and Pension Costs

Wages, salaries and pension costs totaled CHF 214 million in 2018. This represents a flat year-over-year development of –0.3% with one-time early employee contract terminations of CHF 3 million being offset by a lower FTE base and higher capitalization of wages.

Although the pension fund of Sunrise Communications AG is overfunded by 16% as of December 31, 2018, according to Swiss GAAP FER 26, the Group reports a net pension liability of CHF 85 million in its consolidated financial statements as of December 31, 2018. The different results are driven by differences in valuation methods; Swiss GAAP FER 26 prescribes a static valuation method, whereas IFRS (IAS 19) requires the use of a dynamic valuation method. Therefore, the IFRS pension liability should not be considered a current cash liability based on current facts and circumstances. Compared to 2017, the pension liability remained stable (2017: CHF 85 million).

#### Other Income and Expenses, Net

Other income and expenses, net, increased by CHF 12 million year over year. Other income increased by CHF 15 million year over year. This is mainly attributable to higher income related to the sale of telecom towers based on the build-to-suit (BTS) agreements with Swiss Towers AG, early termination fees and a

reduction of the asset retirement obligation due to a lower cost assumption (CHF 10 million). Other expenses increased by CHF –3 million year over year, mainly due to costs related to the sale of telecom towers based on the BTS agreements.

#### **14.2.4 Net Income**

The Group reported net income of CHF 107 million for the year ended December 31, 2018, a year-over-year decrease of CHF 398 million from CHF 505 million in 2017. 2017 net income was mainly impacted by the recorded gain of CHF 420 million related to the sale of Swiss Towers AG. Excluding this gain, net income in 2018 would have exceeded the previous year by CHF 22 million. In 2018, higher operating income of CHF 12 million and lower net financial items of CHF 18 million overcompensated for the higher tax expenses of CHF 8 million.

#### **Depreciation and Amortization**

Depreciation and amortization are in line with the prior year. For the year 2018, depreciation and amortization totaled CHF 426 million, of which CHF 126 million related to the amortization of purchased intangibles (2017: CHF 126 million). Those intangibles, created in 2010 in the amount of CHF 1,477 million and amortized over a maximum of 10 years, are related to the acquisition of Sunrise by MCG in October 2010.

#### **Net Financial Items**

Net financial items for the year 2018 mainly consist of financial expenses in the amount of CHF 51 million (2017: CHF 52 million), one-time financial income of CHF 15 million (2017: CHF nil) and CHF 2 million in foreign currency gains. In addition to the interest expenses of CHF 41 million, there is a non-recurring impact on net financial items in connection with the refinancing transaction executed in Q2 2018. CHF 9 million of financial expenses related to bond breakage costs and the accelerated amortization of capitalized issuance cost of old debt. Financial income of CHF 15 million relating to the new IFRS 9 accounting standard, applied as of January 1, 2018, was also recorded. IFRS 9 requires to immediately record the difference resulting from a debt modification related to differences between the present value of the cash flows under the original and modified terms discounted by the original effective interest rate.

#### **Gain on Disposal of Subsidiary**

No material disposal of subsidiary occurred in 2018. In 2017, the gain on disposal of subsidiary related to the sale of Swiss Towers AG resulted in a net gain of CHF 420 million.

#### **Income Taxes**

For the year 2018, net income tax expenses of CHF 36 million (2017: CHF 28 million) consist of a CHF 53 million (2017: CHF 54 million) tax expense related to current income taxes and a tax benefit of CHF 17 million (2017: CHF 26 million) related to the change in deferred taxes.

### **14.3 Cash Flow, Balance Sheet and Dividend Policy**

#### **14.3.1 Cash Flow**

Cash and cash equivalents totaled CHF 421 million as of December 31, 2018, an increase of CHF 148 million compared to the cash position held as of December 31, 2017. The increase is mainly driven by the Q2 refinancing (CHF 185 million) and equity free cash flow generation of CHF 149 million, partly offset by the dividend payout (CHF 180 million) as well as the repayments of capital leases (CHF 7 million).

#### **Cash Flow from Operating Activities**

The year-over-year decrease of CHF 89 million in 2018 is primarily attributable to an outflow from net working capital and higher income tax payments. Taxable income in 2017 increased significantly compared to 2016 and led to higher income tax payments (relating to 2017) in 2018 compared to the prior year.

### **Cash Flow from/(Used) in Investing Activities**

Cash flow used in investing activities amounts to CHF 293 million as of December 31, 2018, which is CHF 428 million higher than in the prior year (2017: cash flow from investing activities CHF 135 million). The cash flow in 2017 was positively impacted by the net proceeds from the sale of Swiss Towers AG of CHF 450 million. In 2018, the cash outflow related to the purchase of intangible assets and property, plant and equipment was CHF 12 million lower than in the prior year and the sale of property, plant and equipment resulted in a cash inflow of CHF 10 million.

### **Cash Flow Used in Financing Activities**

Cash flow used in financing activities decreased by CHF 604 million in 2018 compared to the prior year. In 2017, the cash flow was negatively impacted by the partial repayment of the existing term loans of CHF 450 million, whereas the refinancing of the long-term loans and notes resulted in a net cash inflow of CHF 185 million in 2018. Furthermore, a higher dividend of CHF 30 million was paid out in 2018.

#### **14.3.2 Net Debt**

The Group's consolidated debt position - consisting of a term loan B3 facility, senior secured notes and capital leases - amounted to CHF 1,573 million (nominal value: CHF 1,615 million compared to CHF 1,419 million as of December 31, 2017), of which CHF 2 million is expected to be paid within 12 months. The increase, compared to December 31, 2017, is related to the Group's refinancing transactions in Q2 2018 which involved the issuance of an additional CHF 200 million senior secured note. Net debt at nominal value totaled CHF 1,194 million as of December 31, 2018, resulting in a net debt to EBITDA leverage ratio of 2.0x (December 31, 2017: 1.9x).

#### **14.3.3 Net Working Capital**

Net working capital represents short-term assets reduced by short-term liabilities. Net working capital includes current assets and liabilities as well as non-current prepaid expenses, trade receivables, trade payables and deferred income. Changes in trade and other payables related to the mobile license and non-cash capital expenditures related to Indefeasible Rights of Use (IRU) are excluded.

For 2018, the change in net working capital resulted in a decrease of CHF 49 million. This is mainly driven by a reduction in trade and other payables (CHF 55 million) caused by payments of mobile phones and tablets bought in Q4 2017 and roaming settlements. The negative development was also impacted by a reduction related to IFRS 15 accounts (CHF 15 million). These effects were partly offset by the reduction of inventory (CHF 11 million) and by a positive change in trade and other receivables (CHF 10 million).

Comparing the 2017 positive change in net working capital of CHF 32 million to the negative net working capital change in 2018 of CHF 49 million results in a negative gross net working capital cash impact of CHF 81 million between the two years' operating cash flows. Compared to 2017, the change in net working capital showed a decline of CHF 81 million. This negative development was mainly driven by movements in roaming discount settlements, which had a positive impact in 2017 and reversed in 2018, the disposal of Swiss Towers AG in 2017 and the application of new IFRS accounting standards (IFRS 9 and IFRS 15).

#### **14.3.4 Dividend Proposal and Distribution Policy**

The Board of Directors proposes allocating approximately CHF 189 million from the reserves from capital contributions to the dividend reserves to pay a dividend of CHF 4.20 per share (a total of CHF 189 million) in 2019.

Sunrise confirms its long-term dividend policy of paying out at least 65% of equity-free cash flow, while continuing to target 85%, if the net debt/adjusted EBITDA leverage is below 2.0x. Sunrise is targeting an annual 4% to 6% dividend progression from 2018 to 2020. This guidance specification was introduced to buffer investors from near-term cash flow volatility due to landline access and spectrum payments.



### 14.3.5 Shareholder Return

Sunrise stock price decreased by –3% in 2018 and increased by +27% since the IPO in February 2015. The table below shows the total shareholder return. The figures in this table take both stock price performance and dividend payments into account. The total shareholder return on Sunrise stock amounted to +2% in 2018, which surpassed the performance of its peer index.

Total shareholder return (in%)	2018	2017	IPO 2015
Sunrise	2%	39%	44%
STOXX Europe 600 Telecom Index	–8%	1%	–10%
Swiss Performance Index (SPI)	–9%	20%	2%

Source: Bloomberg; IPO was on 6 February, 2015; Telecom Index performance in EUR

As per the end of 2018, the sell-side brokers, who cover Sunrise stock and publish regular research are: Barclays, Berenberg, Citi, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, Jefferies, J.P. Morgan, Kepler Cheuvreux, Morgan Stanley, New Street, RBC Capital Markets, Redburn, UBS and Vontobel.

Further information, as well as a comprehensive fact sheet about the Company's financials and KPIs, can be found on the Sunrise investor relations website [www.sunrise.ch/ir](http://www.sunrise.ch/ir) under Reports and Presentations.

## 15 Risks

### 15.1 Overview

To protect the Company's value, Sunrise operates a centralized risk management system that differentiates between strategic and operational risks. The Company's risk management plan includes risks from all business functions. Competition, uncertainty regarding the regulatory framework, impairment of supply relationships, and the security of and interruptions to network performance are the main risks and uncertainties the Company faces. All identified risks are quantified (according to their probability of occurrence and impact) and tracked on a risk schedule. This risk schedule is subject to an annual discussion among the Sunrise Group's Board of Directors; the most recent meeting took place on November 7, 2018.

### 15.2 Risk Management Process

The Sunrise risk management system adheres to a comprehensive process that starts at the Executive Leadership Team level. The members of the Executive Leadership Team then work together with the leaders of their subunits to perform an analysis of the internal and external environment as well as any changes that could potentially occur or have already taken place, while also taking into account the risks from previous years. During the subsequent consolidation performed by the central risk management unit, these risks are assigned to one of the following ten risk categories: competition, regulatory framework, business continuity operations, security, supply chain, financial, governance/legal compliance, market consolidation, employees, and innovation/business development. The ensuing discussions with the risk owners result in a detailed description and quantification of each individual risk and the determination of mitigation activities to be implemented, with the objective of preventing the risk from materializing or of limiting the risk exposure to a level that is acceptable to the Company. Risk management and the resulting risk clusters are discussed among the Executive Leadership Team, while the Audit Committee and the Sunrise Board of Directors are informed annually.

### **15.3 Main Risk Clusters**

The following risk clusters are focus areas for Sunrise.

#### **15.3.1 Market Dynamics**

Aggressive promotional campaigns by Salt and other operators offering low domestic flat rates, roaming price competition and competition in the landline market put pressure on almost all market segments. Continued price erosion and a growing customer preference for bundle plans that tend to offer more value for the same price might lead to a decrease in revenue. Additionally, over-the-top services continue to cannibalize international call and roaming voice revenue and impact the growth potential of IPTV. Sunrise actively monitors market developments and offers attractive bundles with flat rate components and promotional activities to comprehensively meet customers' needs.

#### **15.3.2 Regulatory Framework**

Under the current regulations on non-ionizing radiation, the activation of new frequencies requires a reduction in transmission power and thus less coverage and lower capacity, which is at odds with increases in data traffic and the digitalization needs of customers (see chapter 8.7 on pages 25 et seq.). This scenario might mean that the spectrum acquired in the 2019 frequency auction will tie up investments that cannot be utilized without an easing of NIR regulations. With the goal of bringing about a more favorable regulation, Sunrise is attempting to mitigate this risk by stepping up its lobbying activities and by educating all stakeholders about the impact of the restrictive regulatory framework on network evolution, especially the 5G rollout.

#### **15.3.3 Cyber Security and Data Protection**

Continuous technological innovation and digitalization open up new business opportunities and services for Sunrise customers. At the same time, the rising technological complexity of the solutions requested by customers and the growing volume of available data combined with shorter innovation cycles increase the complexity of technical implementations. They also open up a wider range of opportunities for attacks to be launched on these systems and solutions. Additionally, both the power commanded by cybercriminals as well as the number of cyber attacks committed increase year after year. The Company's mature internal information security framework ensures that Sunrise services meet the standards customers demand and that threats are recognized early enough to allow the implementation of appropriate preventive actions. Sunrise is certified to the ISO 27001 standard, which covers all personnel, operations processes and technology infrastructure used for the processing, storing and transmission of customer information and communication.

#### **15.3.4 Reputation**

The Company's strong momentum contributed to its improved public perception as a strong, ambitious, high-quality player in the Swiss market. This heightened perception, however, also increases the Company's exposure to incidents such as quality issues, network outages, cyber security attacks or negative consumer reports, all of which could negatively affect its image. Reputation risk is not classified as a fully independent risk in and of itself, but rather must be considered as a risk cluster influenced by incidents. Corresponding mitigation activities are addressed in several sections of the Company's strategic risk management.

#### **15.3.5 Business Continuity Management**

Telecom services are becoming increasingly complex, and that means they are also heavily dependent on highly sophisticated technological infrastructures. Software or hardware failures, human error, viruses, or hacking can decrease service quality or, in the worst-case scenario, lead to system outages that can have an impact on the reputation and financial performance of the Company. In addition to the ISO 27001 information security management system, measures such as system and geographical redundancy, business continuity plans, the deliberate selection of suppliers, and continuous improvements to network operations management and controls ensure that Sunrise is able to deliver the service quality and availability expected by its customers.

### **15.3.6 Sourcing Dependency**

Sunrise, like the entire ICT industry, is highly dependent on the global supply chain. Supply chain disruptions, such as supply shortages due to natural disasters, political instability, trade conflicts, etc. could affect the availability of certain components. Sunrise actively monitors these factors. In addition, it is in our suppliers' interest to reduce potential risks to their own business continuity by implementing a multi-sourcing strategy and a comprehensive supply and business continuity management system. Some of our key suppliers, such as Huawei, have confirmed to Sunrise that they have such a comprehensive set-up in place.

### **15.3.7 Financial Risks**

The Company is exposed to a variety of financial risks, specifically to market, credit, and liquidity risks. A detailed description of the financial risks is provided in Note 25 (on pages 143 et seq.).

## **16 Additional Disclosures**

### **16.1 Material Affiliate Transactions**

#### **16.1.1 Changes in the Board of Directors**

At the ordinary Annual General Meeting on April 11, 2018, Ingrid Deltenre was elected to the Board of Directors as a new member by the General Meeting for a term of one year. All other Board members were re-elected for an additional one-year term.

Joachim Preisig resigned from the Sunrise Board of Directors as of December 31, 2018. His successor will be elected at the ordinary Annual General Meeting in 2019.

#### **16.1.2 Changes in the Executive Leadership Team**

Karin Schmidt, Chief Human Resources Officer and Member of the ELT since May 2016, left the company on March 24, 2018. Françoise Clemes, CSO, led the Human Resource unit ad interim. Tobias Foster was appointed as the new Chief Human Resources Officer for Sunrise, effective from January 1, 2019.

Marcel Huber was appointed as the new Chief Administrative Officer and Member of the ELT, following Dominik Rubli, who left the company as of August 31, 2018. Marcel Huber took office on February 11, 2019 taking over from Patrick Alain Meier, Director Legal who had been leading the Administrative Office in the interim.

#### **16.1.3 Share Capital Increase**

In connection with the long-term management incentive programs, and as approved by the Annual General Meeting on April 15, 2016, the share capital was increased by means of an authorized capital increase of 69,028 shares on February 9, 2018.

#### **16.1.4 Dividend Payment**

At the Annual General Meeting on April 11, 2018, the payment of an ordinary dividend from statutory reserves from capital contributions in the total amount of CHF 180 million (CHF 4.00 per share) in respect to the 2017 financial year was approved. The dividend payment was made on April 18, 2018.

## 16.2 Material Contractual Arrangements

Sunrise entered into new agreements with Swiss Fibre Net AG (SFN), Services Industriels de Genève (SIG) and Basel Industrial Works (IWB). The new agreements grant Sunrise access to a certain amount of fiber lines on new terms: Sunrise invested CHF 56 million upfront during 2018 and will benefit from an additional low single-digit annual gross profit contribution.

The Group's refinancing transactions resulted in new material contractual arrangements. These comprised the placement of CHF 200 million in Swiss domestic senior secured notes and the amendment, extension and repricing of the existing term loan B facility (refer to "Major Events").

Sunrise and Swisscom agreed to prolong the existing agreement concerning fixed broadband connectivity services from January 1, 2019, to June 30, 2022. As part of the prolongation, Sunrise will make a one-time investment of CHF 101 million for the use of wholesale broadband connectivity services from Swisscom which will be paid in installments of 60% in 2019, 20% in 2020 and 20% in 2021. The new agreement allows Sunrise to supply broadband and TV services independently.

Sunrise Communications Group AG entered into an agreement with Swiss Towers AG regarding the sale of 133 telecom towers for a consideration of CHF 29 million. The agreement is effective as of January 1, 2019. The resulting gain on the transaction will be treated as a non-recurring gain and therefore will not have an impact on the adjusted EBITDA guidance.

Sunrise joined ngena (the Next Generation Enterprise Network Alliance), a global alliance of international telecom companies, such as T-Systems, Centurylink, PCCWGlobal, Telus, A1 Telekom Austria Group, KPN and many more. As a partner of the alliance, Sunrise will be able to use the global Software-Defined Wide Area Network (SD-WAN) to offer Swiss and international customers Ethernet- and Internet-based global connectivity services to customer sites and cloud services across the world.

## 16.3 Certain Other Contractual Commitments

Total contractual and purchase commitments as of December 31, 2018 amounted to CHF 441 million (2017: CHF 88 million) and comprised future investments in property, plant and equipment and intangible assets. The increase compared to the prior year is mainly related to the newly signed access deals.

## 16.4 Credit Ratings

As of December 31, 2018, the corporate family ratings for Sunrise Communications Holding S.A., 100% indirectly owned by Sunrise Communications Group AG, were BBB- (outlook stable) by S&P Global Ratings ("S&P") and BB+ (outlook stable) by Fitch Ratings. The Swiss domestic senior secured notes, the term loan B facility, as well as the revolving credit facility are all rated BBB- by Fitch Ratings and S&P.

## 16.5 Acquisitions, Disposals and Recapitalization

No material acquisitions, disposals or recapitalization occurred in 2018.

## 16.6 Research and Development

Sunrise is not currently investing in research and development itself but is partnering with its suppliers in order to benefit from their experience and know-how.

## 17 Outlook

### 17.1 Impact of the Application of IFRS 16

From 2019 onward, the new standard on leases (IFRS 16) will be applied. From the initial recognition of the standard, Sunrise expects an initial increase in assets and liabilities in the range of CHF 275 million to CHF 285 million. Since the modified retrospective transition method was chosen, no impact on equity is expected. Furthermore, the expected positive impact on EBITDA lies between CHF 40 million and CHF 45 million. The expected increase in depreciation and interest expenses is between CHF 49 million and CHF 51 million. Therefore, net income is expected to be negatively impacted within a range of CHF –4 million and CHF –11 million.

### 17.2 2019 Guidance

2019 revenue and adjusted EBITDA are expected to range from CHF 1,860 million to CHF 1,900 million and CHF 608 million to CHF 623 million, respectively. The guidance includes IFRS 15, which is expected to have a year-over-year negative impact on adjusted EBITDA in the low- to mid-single-digit CHF millions. The guidance does not yet include the effects of IFRS 16. The 2019 Capex is expected to be in the range of CHF 420 million to CHF 460 million. As indicated previously, this includes CHF 91 million for the spectrum payment, CHF 61 million an upfront payment for landline access at Swisscom, and a CHF 16 million upfront payment for landline access scope extensions at utilities. Excluding these effects, Capex guidance is expected to be between CHF 252 million and CHF 292 million. This includes the 5G rollout investment, which will drive network excellence and customer momentum and provide the basis for mobile broadband in rural areas.

### 17.3 Dividend Policy

Sunrise confirms its long-term dividend policy of paying out at least 65% of equity free cash flow and continues to target 85% if net debt/adjusted EBITDA leverage is below 2.0x. For 2018 to 2020, Sunrise reiterates its annual 4% to 6% dividend progression guidance. This near-term guidance specification was introduced in March 2018 to protect investors from near-term cash flow volatility due to landline access and spectrum payments. Upon meeting its 2019 guidance, Sunrise expects to propose a dividend in the range of CHF 4.35 to CHF 4.45 per share for 2019, to be paid out of capital contribution reserves in 2020.

# Corporate Governance

Corporate governance at Sunrise Communications Group AG is ensured through the activities of the Board of Directors, the Chief Executive Officer and the Executive Leadership Team in accordance with the Articles of Incorporation and the Organizational Regulations of Sunrise Communications Group AG. Sunrise Communications Group AG complies with all applicable legal requirements and discloses its corporate governance pursuant to the Directive on Information Relating to Corporate Governance of March 20, 2018, issued by SIX Swiss Exchange. In 2018 Sunrise was awarded with the best corporate governance and is the winner in the zRating study 2018 done by Inrate.

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## **49 Corporate Governance**

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# Corporate Governance

## 1 Group Structure and Shareholders

### 1.1 Group Structure

Sunrise Communications Group AG is organized as a stock corporation with limited liability under Swiss corporate law. It was founded on January 13, 2015, and was registered on January 14, 2015, with the commercial register of the Canton of Zurich under company registration number CHE-343.774.206. The registered office of Sunrise Communications Group AG is located at Binzmühlestrasse 130, 8050 Zurich, Switzerland. Business operations are conducted through the Sunrise group of companies listed in Note 30 to the consolidated financial statements on page 152.

The operational structure of the Sunrise Group follows the segment reporting and reflects the different customer groups to which the Sunrise Group provides its telecommunications products and services: Residential, Business, Wholesale, and Head Office which includes the finance, IT and technology functions of the Sunrise Group. For further details, see Note 7 to the consolidated financial statements on pages 118 et seq.

Share capital and voting rights of all Group companies are listed in Note 3.4 to the statutory financial statements on page 166. Sunrise Communications Group AG is the Group's holding company and directly or indirectly owns all Sunrise Group companies. Sunrise Communications AG, based in Opfikon, Switzerland, is the main operating entity of the Group.

Sunrise Communications Group AG is the only listed Group company within the Sunrise Group. On December 28, 2018, Sunrise Communications Group AG had a market capitalization of CHF 3,896 million. For further information on the shares and the listing, see chapter 2.5 on pages 52 et seq.

### 1.2 Significant Shareholders

As of December 31, 2018, Sunrise Communications Group AG was notified of the following shareholdings totaling 3% or more of the total share capital of Sunrise Communications Group AG:

Name of shareholder	In % of total share capital
freenet AG, Büdelsdorf	24.52%
Canada Pension Plan Investment Board, Toronto	5.03%
BlackRock, Inc., New York	3.19%

In % of total share capital as registered with the commercial register of the Canton of Zurich as of December 31, 2018.

Disclosure notifications of significant shareholdings in Sunrise Communications Group AG that were filed in 2018 with Sunrise Communications Group AG and SIX Swiss Exchange are available from the online publication platform of SIX Swiss Exchange through the following database search page:

[www.six-exchange-regulation.com/en/home/publications/significant-shareholders](http://www.six-exchange-regulation.com/en/home/publications/significant-shareholders).

Sunrise Communications Group AG is not aware of any other person or institution which, as of December 31, 2018, directly or indirectly, on its own account or in concert with third parties, may have held 3% or more of the Sunrise Communications Group AG share capital.

### 1.3 Cross Shareholdings

As of December 31, 2018, Sunrise Communications Group AG had no cross shareholdings with any other company exceeding 5% of the capital shareholdings or voting rights.

## 2 Capital Structure

### 2.1 Capital

As of December 31, 2018, the share capital of Sunrise Communications Group AG amounted to CHF 45,069,028 divided into 45,069,028 fully paid-in, registered shares with a nominal value of CHF 1.00 per share.

### 2.2 Authorized Share Capital

Sunrise Communications Group AG has authorized share capital in a total amount of CHF 4,780,972, representing 10.60% of the issued share capital of Sunrise Communications Group AG, under which the Board of Directors is authorized to increase the share capital as follows:

- According to Article 3a of the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)), the Board of Directors is authorized to increase the share capital in an amount not to exceed CHF 4,500,000 through the issuance of up to 4,500,000 fully paid-in, registered shares with a nominal value of CHF 1.00 each, at any time until April 12, 2019, such authorized share capital representing 9.98% of the issued share capital of Sunrise Communications Group AG. The Board of Directors determines the date of issue of new shares, the issue price, type of payment, conditions of exercising subscription rights, and the beginning of the dividend entitlement. An increase in partial amounts is permitted. The Board of Directors may issue new shares by means of a firm underwriting or by other means through a banking institution or syndicate with subsequent offer of those shares to current shareholders or third parties. The Board of Directors may allow the expiration of subscription rights which have not been exercised or it may place these rights as well as shares, the subscription rights of which have not been exercised, at market conditions or it may use them for other purposes in the interest of Sunrise Communications Group AG. The Board of Directors is authorized to restrict or withdraw the subscription rights of shareholders and allocate them to third parties or selected shareholders if the shares are to be used for the acquisition of enterprises, parts of enterprises, or participations, for the acquisition of intellectual property rights, licenses or concessions, including concessions for the use of the radio frequency spectrum, for new investments, or for a share placement with one or more investors for the purpose of financing or refinancing such transactions. Subscription and acquisition of the new shares, as well as each subsequent transfer of shares, are subject to the restrictions of Article 5 of the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)).
- According to Article 3b of the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)), the Board of Directors is authorized to increase the share capital of Sunrise Communications Group AG in an amount not to exceed CHF 280,972 through the issuance of up to 280,972 fully paid-in, registered shares with a nominal value of CHF 1.00 each, at any time until April 12, 2019, whereby such authorized share capital represents 0.62% of the issued share capital of Sunrise Communications Group AG. The registered shares stemming from registered share capital are reserved exclusively for the purpose of the participation of employees as well as members of the Board of Directors and the executive management of Sunrise Communications Group AG or its subsidiaries pursuant to one or more regulations adopted by the Board of Directors. The shareholders' preemptive right is excluded. Increases in partial amounts are permitted. Further, an increase through initial subscription of the new shares by Sunrise Communications Group AG is permitted in accordance with Article 659 et seq. of the Swiss Code of Obligations. The Board of Directors determines the date of issue of new shares, their issue price, which may be below the market price, the type of contribution and the time of dividend entitlement. Any newly registered shares are subject to registration restrictions under Article 5 of the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) following their acquisition.

### 2.3 Conditional Share Capital

As of December 31, 2018, Sunrise Communications Group AG had no conditional share capital.



## 2.4 Changes in Share Capital

Sunrise Communications Group AG was founded on January 13, 2015, with an initial issued share capital of CHF 100,000 divided into 100,000 fully paid-in, registered shares with a nominal value of CHF 1.00 per share. On January 23, 2015, the share capital of Sunrise Communications Group AG was increased from CHF 100,000 to CHF 25,000,000.

In the capital increase, Sunrise Communications Group AG received by way of a contribution in kind and by way of a contribution to the reserves from capital contributions all 134,553,661 A ordinary shares in Mobile Challenger Intermediate Group S.A., Luxembourg, Luxembourg, with a nominal value of CHF 0.01 each pursuant to a contribution agreement dated January 23, 2015, against issuance of 24,900,000 registered shares of Sunrise Communications Group AG with a nominal value of CHF 1.00 per share. On February 5, 2015, the share capital of Sunrise Communications Group AG was increased from CHF 25,000,000 to CHF 45,000,000 in an ordinary capital increase of 20,000,000 registered shares of Sunrise Communications Group AG with a nominal value of CHF 1.00 per share against cash contributions in connection with the initial public offering of Sunrise Communications Group AG on February 6, 2015.

On February 12, 2018, the share capital of Sunrise Communications Group AG was increased from CHF 45,000,000 to CHF 45,069,028. The capital increase of 69,028 registered shares of Sunrise Communications Group AG with a nominal value of CHF 1.00 per share was made against cash contributions from authorized capital for the purpose of employee participation (Article 3b of the Articles of Incorporation). Shareholders' subscription rights were excluded in accordance with Article 3b (1) of the Articles of Incorporation.

## 2.5 Shares

The shares of Sunrise Communications Group AG are registered shares with a nominal value of CHF 1.00 per share and are fully paid-in. All registered shares, with the exception of treasury shares held by Sunrise Communications Group AG, are eligible for a dividend. There are no preferential rights. The shares are listed and traded in accordance with the Standard for Equity Securities, Sub-standard International Reporting, of SIX Swiss Exchange (Valor No. 26729122, ISIN CH0267291224, symbol: SRCG). The shares are issued as uncertificated securities (German: Wertrechte) within the meaning of Article 973c of the Swiss Code of Obligations and registered as intermediated securities (German: Bucheffekten) within the meaning of the Swiss Federal Intermediated Securities Act. Shareholders have no right to request the printing and delivery of share certificates or the conversion of the form in which shares are issued into another form. Shareholders may, however, at any time request from Sunrise Communications Group AG the delivery of an attestation certifying their current shareholdings.

## 2.6 Participation Certificates

As of December 31, 2018, Sunrise Communications Group AG had no participation certificates outstanding.

## 2.7 Profit-Sharing Certificates

As of December 31, 2018, Sunrise Communications Group AG had no profit-sharing certificates outstanding.

## 2.8 Limitations on Transferability and Nominee Registrations

For as long as the shares are in uncertificated form (German: Wertrechte) and registered as intermediated securities (German: Bucheffekten), any transfer and collateralization of shares must be made in accordance with the Swiss Federal Intermediated Securities Act. If uncertificated shares are transferred by assignment, Sunrise Communications Group AG must be notified of the transfer in order for it to be considered valid. Voting rights may be exercised only after a shareholder has been registered in the share register of Sunrise Communications Group AG (German: Aktienbuch) as a shareholder with voting rights. For further information on voting rights, see chapter 6.1 on page 72. According to Article 5 (3) of the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) as well as Articles 4 and 5 of the

Share Register Regulations (see chapter 6.1 on page 72), a nominee shall, to the extent permitted by law, be registered in the share register as a shareholder with voting rights up to a maximum of 3% of the Company's total share capital outstanding at the time. Nominees are persons who, in their registration request, do not explicitly declare that they hold the shares for their own account. Above such limit of 3%, the Board of Directors shall, to the extent permitted by law, register shares of nominees in the share register as shares with voting rights provided the relevant nominees declare in writing that they will disclose the names, addresses, nationality (or, in case of legal entities, the registered office) and share-holdings of the persons for whose account such nominees hold 0.5% or more of the total share capital outstanding at the time. According to Article 10 (5) of the Articles of Incorporation, changes to the rules regarding limitations on transferability of shares are subject to a quorum of two-thirds of the votes represented at the meeting. For further information on statutory quorum requirements, see chapter 6.4 on page 73.

As of December 31, 2018, the following nominees were registered in the share register of Sunrise Communications Group AG as shareholders with voting rights in excess of 3% of the total share capital outstanding at the time:

Name of nominee	Voting rights (percentage of total share capital outstanding)	Year of first registration
Chase Nominees Ltd.	More than 3%	2015

## 2.9 Convertible Bonds and Options

As of December 31, 2018, Sunrise Communications Group AG had no convertible bonds or options on its shares outstanding. With respect to share-based compensation (including the right to receive a portion of the short-term incentive in the form of shares and the right to receive performance shares), please consult the Compensation Report (see section 5 Executive Leadership Team Compensation on pages 90 et seq.).

# 3 Board of Directors

## 3.1 Members of the Board of Directors

The Board of Directors currently consists of seven non-executive members. No board member is or has been a member of the management of Sunrise Communications Group AG or any of its subsidiaries in the last three financial years ending December 31, 2018. There are no significant business relationships between any of the members of the Board of Directors and Sunrise Communications Group AG or any of its subsidiaries. The Board of Directors aims to nominate non-executive and independent members within the meaning of the Swiss Code of Best Practice for Corporate Governance to be elected by the Annual General Meeting as members of the Nomination and Compensation Committee. All members of the Board of Directors in 2018 qualify as non-executive and independent members in accordance with these rules. The Board of Directors may nominate members to be elected as members of the Nomination and Compensation Committee who are or represent significant shareholders of Sunrise Communications Group AG. Christoph Vilanek represents freenet AG, which holds 24.52% of the total share capital outstanding of Sunrise Communications Group AG. According to Article 23 of the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)), a member of the Board of Directors may hold no more than four additional mandates in listed companies and no more than six mandates in unlisted companies. For the purposes of such provision, the following mandates shall be deemed one mandate outside of the Sunrise Group:

- mandates which a member of the Board of Directors holds in legal entities outside of the Sunrise Group that are under common control

- mandates held by a member of the Board of Directors in his or her capacity as a member of the supreme governing body or of the group management of a legal entity outside of the Sunrise Group
- mandates held by a member of the Board of Directors upon instruction and on behalf of a legal entity outside of the Sunrise Group or legal entities controlled by it.

The following mandates are not subject to these limitations:

- mandates in companies controlled by Sunrise Communications Group AG or which control Sunrise Communications Group AG
- mandates held at the request of Sunrise Communications Group AG or companies controlled by it, whereby no member of the Board of Directors may hold more than ten such mandates
- mandates in associations, charitable organizations, foundations, trusts and employee welfare foundations, whereby no member of the Board of Directors may hold more than six such mandates.

“Mandates” within the meaning of Article 23 of the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) are mandates in the supreme governing body of any legal entity that is required to be entered into the commercial register or corresponding foreign register of companies.

No member of the Board of Directors exceeds any limits for additional mandates.

The composition of the Board of Directors of Sunrise Communications Group AG is designed to ensure effectiveness. The Board of Directors’ main task of supervising, challenging and supporting the CEO and the Executive Leadership Team is best assured when members of the Board of Directors collectively represent an extensive leadership experience as well as knowledge in all relevant areas which are necessary to lead a public company in the area of telecommunications and the broader Swiss business environment, both of which are challenging. The most important skills sought for the Board of Directors of Sunrise Communications Group AG are industry knowledge and experience as well as general management background. Most of the members of the Board of Directors held, or still hold, important positions in the telecommunications industry in different countries or were involved in this industry as analysts or advisors. All of the members of the Board of Directors held positions in executive management or board positions inter alia in the telecommunications, finance, IT, sports, publishing or advertising industry. Required expert skills encompass a variety of different fields including financial literacy, banking and finance, financial and other communication, HR, legal and compliance, government and regulatory affairs, corporate responsibility and governance; they should also be integrated into the Swiss business environment. With a view to fostering diversity in opinion and business judgement, members of the Board of Directors should be recruited from different cultural, national and gender backgrounds. Also, members of the Board of Directors should be independent in thinking and willing to work in a team focusing exclusively on the interest of the Company and its principal stakeholders. The Board of Directors considers gender diversity an important governance aspect and will continue to take actions both at the executive and board level to foster gender diversity.

The composition of the Board of Directors during 2018 is set out on the following pages.

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## Peter Kurer



**Title and function**  
Chairman of the Board of Directors

Member of the Nomination and Compensation Committee

Member of the Audit Committee

Non-Executive Member

**Year of birth**  
1949

**Nationality**  
Swiss

### Education

1980: Attorney at Law, admitted to the Zurich bar, Switzerland

1978: Dr. iur., University of Zurich, Switzerland

1976: LLM Law, University of Chicago, USA

1974: lic. iur., University of Zurich, Switzerland

### Professional background

Since 2013: BLR & Partners AG, Thalwil, Switzerland (unlisted), Partner and Executive Member of the Board of Directors

2001 - 2009: UBS, Zurich, Switzerland, Non-Executive Chairman of the Board of Directors; Group General Counsel and Member of the Group Executive Board

1987 - 2002: Non-Executive Member of the Board of Directors of various companies in Switzerland (Unisys Switzerland, Kraft Foods Switzerland Holding, Holcim, Netstal-Machinery, Danzas Holding among others)

1991 - 2001: Homburger, Zurich, Switzerland, Partner and Head of Corporate Transaction Group

1980 - 1990: Baker & McKenzie, Zurich, Switzerland, Partner; Associate

1977 - 1979: District Court of Zurich, Switzerland, Clerkship

### Material other activities and functions

Since 2013: SoftwareONE Holding AG, Stans, Switzerland (unlisted), Non-Executive Member of the Board of Directors and Chairman of the Audit Committee

### Non-material other activities and functions

Since 2014: Kein & Aber AG, Zurich, Switzerland (unlisted), Non-Executive Chairman of the Board of Directors

Since 2012: Accenture AG, Zurich, Switzerland, Member of the Advisory Board (not a supreme governing body)

Since 2010: Spencer Stuart & Associates B.V., Zurich Branch, Switzerland, Chairman of the Advisory Board (not a supreme governing body)

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## Peter Schöpfer



**Title and function**  
Vice-Chairman of the Board of Directors

Chairman of the Nomination and Compensation Committee

Non-Executive Member

**Year of birth**  
1957

**Nationality**  
Swiss

### Education

2002: International MBA, University of Freiburg, Switzerland

Degree in Engineering and Information Technology, Bern University of Applied Sciences, Switzerland

### Professional background

Since 2006: Avaloq Group AG, Freienbach, Switzerland (unlisted), Group Chief Advisory Officer; Chief Marketing Officer

2000 - 2006: T-Systems, CEO and Country Manager, Brazil; CEO and Country Manager, Switzerland; CEO Multilink

1986 - 2000: Swisscom AG, Bern, Switzerland, Head of Operations, Swisscom International; several other positions

### Other activities and functions

Since 2017: Netrics AG, Biel, Switzerland (unlisted), Non-Executive Member of the Board of Directors

Since 2011: Avaloq Group AG, Freienbach, Switzerland (unlisted), Executive Member of the Board of Directors

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## Robin Bienenstock



**Title and function**  
Member of the Board of Directors

Member of the Audit Committee  
Non-Executive Member

**Year of birth**  
1968

**Nationality**  
British, Canadian

**Education**  
1998: MA International Relations, University of Toronto, Canada  
1992: MA International Economics and Management, SDA Bocconi, Milan, Italy  
1991: BA Politics, Philosophy, Economics, Trinity College, University of Oxford, UK

**Professional background**  
Since 2016: RBMP Capital LLP, London, United Kingdom, Partner  
2014-2016: Marlin Sams Fund, New York, USA, Partner  
2007-2014: Sanford C. Bernstein Ltd, London, UK, Senior Analyst European and Latin American Telecommunications  
2004-2006: O.S. Consulting, Italy, UK, Management Consultant

1999-2004: McKinsey & Co., Canada, France, UK, Associate Principal

1995-1996: European Union Administration of Mostar (Bosnia and Herzegovina), Loan Fund Manager

1993-1994: Bunting Warburg Inc., Canada, UK, Analyst

**Other activities and functions**  
Since 2018: Pretium Resources Inc., Member of the Board of Directors

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## Ingrid Deltenre



**Title and function**  
Member of the Board of Directors

Member of the Nomination and Compensation Committee (since April 11, 2018)  
Non-Executive Member

**Year of birth**  
1960

**Nationality**  
Dutch, Swiss

**Education**  
1982-1989: MA, Journalism and Educational Sciences, University of Zurich, Switzerland

**Professional background**  
Since 2017: Focus on Board Mandates  
2010-2017: European Broadcasting Union, Geneva, Switzerland, Director General  
2004-2009: Swiss Television, Zurich, Switzerland, CEO  
1999-2004: publisuisse SA, Berne, Switzerland, CEO  
1998-1999: Swisscard AECS GmbH, Horgen, Switzerland, Chief Marketing Officer and Member of the Executive Committee  
1991-1998: Ringier AG, Zurich, Switzerland, Managing Director, Cash, Head of Marketing, Cash, Project Manager Business Development  
1989-1991: Swiss Association of Newspapers and Magazines, Zurich, Switzerland, Project Manager Market Research & Electronic Media

**Other activities and functions**  
Since 2017: Agence France Press, Paris, France (unlisted), Non-Executive Member of the Board of Directors

Since 2016: Deutsche Post AG, Bonn, Germany (listed), Non-Executive Member of the Supervisory Board, Member of the Executive and Nomination Committees

Since 2015: Givaudan SA, Vernier, Switzerland (listed), Non-Executive Member of the Board of Directors and of the Compensation Committee and the Nomination and Governance Committee

Since 2014: Banque Cantonale Vaudoise, Lausanne, Switzerland (listed), Non-Executive Member of the Board of Directors and Member of the Nomination and Compensation Committee

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## Michael Krammer



**Title and function**  
Member of the Board of Directors

Member of the Nomination and Compensation Committee

Non-Executive Member

**Year of birth**  
1960

**Nationality**  
Austrian

### Education

1983: Master of Military Leadership, Theresian Military Academy, Vienna, Austria

### Professional background

Since 2013: Ventocom GmbH, Vienna, Austria (unlisted), Founder and Managing Partner

2007-2013: ONE GmbH/Orange Austria Telecommunication GmbH, Vienna, Austria, CEO

2009-2011: Invitel Holdings A/S, Budaörs, Hungary, Non-Executive Member of the Board of Directors

2006-2007: E-Plus Mobilfunk GmbH, Düsseldorf, Germany, CEO

2002-2006: tele.ring Telekom Service GmbH, Vienna, Austria, CEO; CCO (Marketing, Sales, Customer Service)

1998-2002: max.mobil Telekommunikation Service GmbH, Vienna, Austria, Executive Director Business Customers, Member of the Management Board; Director Customer Care

1991-1997: Austrian Automobile Association (ÖAMTC), Vienna, Austria, Director Emergency and Information Services

1983-1990: Austrian Army, Officer

### Other activities and functions

Since 2016: techbold technology group AG, Vienna, Austria, Non-Executive Member of the Board

Since 2013: Sportklub Rapid Wien, Vienna, Austria (unlisted), President and Chairman of the Board of Directors

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## Jesper Ovesen



**Title and function**  
Member of the Board of Directors

Chairman of the Audit Committee

Non-Executive Member

**Year of birth**  
1957

**Nationality**  
Danish

### Education

1989: State Authorized Public Accountant, Denmark

1985: MSc in Finance, Copenhagen Business School, Denmark

### Professional background

2011-2014: Nokia Siemens Network Group, Finland/Germany, Executive Chairman

2008-2011: TDC Group, Denmark, CFO

2007-2008: Kirkbi Group, Investment Company and Owner of the Lego Group, Denmark/Switzerland, CEO

2004-2007: Lego Group, Denmark/Switzerland, CFO

1998-2004: Danske Bank Group, Denmark, CFO

1993-1998: Novo Nordisk Group, Denmark, Finance Director

1992-1993: Baltica Bank (under restructuring), Denmark, CEO

1988-1992: Baltica Holding, Insurance & Finance Group, Denmark, Finance Director

1982-1988: PwC, Denmark, Auditor

### Other activities and functions

Since 2016: ConvaTec Group PLC, Reading, UK (listed), Independent Non-Executive Member of the Board of Directors, Chairman of the Audit and Risk Committee, Member of the Remuneration and Nomination Committees

Since 2004: Scandinavian Enskilda Bank, Sweden (listed), Non-Executive Vice-Chairman of the Board of Directors, Chairman of the Risk & Capital Committee and Chairman of the Audit and Compliance Committee

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## Joachim Preisig



**Title and function**  
Member of the Board of Directors (until December 31, 2018)  
Member of the Audit Committee (until December 31, 2018)  
Non-Executive Member

**Year of birth**  
1962

**Nationality**  
Swiss

**Education**  
1987: Business Economist, School of Economics and Business Administration HWW, Zurich, Switzerland  
1983: Swiss Army, Military Officer

**Professional background**  
Since 2010: freenet AG, Büdelsdorf, Germany, CFO  
2008-2010: freenet AG, Büdelsdorf, Germany, Chief Operations & Integration Officer  
2006-2008: debitel AG, Stuttgart, Germany, CFO  
2003-2006: Deutsche Telekom AG, Bonn, Germany, Head of Central Group Controlling  
2002-2003: T-Mobile Deutschland GmbH, Bonn, Germany, CFO  
1996-2001: O2 Germany GmbH & Co. KG, Munich, Germany, Managing Director Marketing & Sales, CFO

1992-1995: Steinbeck Global Logistics GmbH, Bremen, Germany, CFO

1991-1992: Steinbeck Holding AG, Zurich, Switzerland, Regional Controller Europe

1989-1990: Vinito AG, Zurich, Switzerland, Head of Finance & Controlling

1987-1989: Price Waterhouse AG, Zurich, Switzerland, Assistant

**Other activities and functions**  
Since 2012: William Prym Holding GmbH, Stollberg, Germany, Member of the Advisory Board (not a supreme governing body)

Since 2010: Commerzbank AG, Frankfurt, Germany, Member of the Regional Advisory Board North (not a supreme governing body)

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## Christoph Vilanek



**Title and function**  
Member of the Board of Directors  
Member of the Nomination and Compensation Committee  
Non-Executive Member

**Year of birth**  
1968

**Nationality**  
Austrian

**Education**  
1991: Magister Business Administration, University of Innsbruck, Austria

**Professional background**  
Since 2009: freenet AG, Büdelsdorf, Germany, CEO  
2005-2008: debitel AG, Stuttgart, Germany, Vice President Customer Care, Customer Management  
2004-2005: iPUBLISH GmbH, Munich, Germany, interim Managing Director  
2001-2004: McKinsey & Co., Munich, Germany, Zagreb, Croatia, Engagement Manager  
2000-2001: Ravensburger Interactive Media GmbH, Ravensburg, Germany, Managing Director  
1999-2000: boo.com GmbH, Munich, Germany, Managing Director  
1997-1998: Meister Verlag, Munich, Germany, Marketing Director

1995-1997: Gräfe und Unzer Verlag, Munich, Germany, Head of Electronic Publishing

1991-1995: Time-Life International GmbH, Munich, Germany, and London, UK, Director Business Development

**Other activities and functions**  
2015-2018: gamigo AG, Hamburg, Germany (unlisted), Non-Executive Member of the Board of Directors

Since 2013: Ströer SE, Cologne, Germany (listed), Non-Executive Chairman of the Board of Directors

## 3.2 Election and Term of Office

	Year of first election	Year of most recent election	AGM year of end of term
Peter Kurer	2016	2018	2019
Peter Schöpfer	2015	2018	2019
Robin Bienenstock	2016	2018	2019
Ingrid Deltenre	2018	2018	2019
Michael Krammer	2016	2018	2019
Jesper Øvesen	2015	2018	2019
Joachim Preisig <sup>1</sup>	2016	2018	2019
Christoph Vilanek	2016	2018	2019

<sup>1</sup> Joachim Preisig resigned from the Board of Directors as of December 31, 2018.

Article 12 of the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) provides for the Board of Directors to comprise at least four and no more than nine members, including the Chairman of the Board of Directors, and for the Nomination and Compensation Committee to comprise at least three members of the Board of Directors (Article 17 of the Articles of Incorporation). All members of the Board of Directors, the Chairman of the Board of Directors as well as the Chairman and all members of the Nomination and Compensation Committee are elected annually and individually by the Annual General Meeting (AGM) for a term of office of one year until the end of the next Annual General Meeting. Re-election is possible. If the post of Chairman of the Board of Directors or Chairman of the Nomination and Compensation Committee is vacant, the Board of Directors shall appoint a new Chairman of the Board of Directors or Chairman of the Nomination and Compensation Committee for the remaining term of office. The terms of office of the members of the Board of Directors are set out above.

## 3.3 Internal Organizational Structure

### 3.3.1 Allocation of Tasks within the Board of Directors

The Board of Directors has established a Nomination and Compensation Committee and an Audit Committee through the enactment of Organizational Regulations for the Board of Directors as well as Organizational Regulations for both the Nomination and Compensation Committee and the Audit Committee ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)). In their respective areas, the committees are responsible for establishing policies, periodically reviewing their implementation, supervising business activities and preparing and executing resolutions brought forth by the Board of Directors. Except for the election of the Chairman of the Board of Directors and the Chairman and members of the Nomination and Compensation Committee by the shareholders' meeting, the Board of Directors organizes itself. Following the Annual General Meeting, it appoints a Vice-Chairman of the Board of Directors, the Secretary and a Chairman as well as members of the Audit Committee for a term of office of one year until the end of the next Annual General Meeting. Reappointment is possible. Each committee appoints a secretary who needs not to be a member of the Board of Directors. If not determined otherwise by a committee, the Secretary of the Board of Directors acts as the secretary of a committee. The Audit Committee is composed of at least three members of the Board of Directors.

The Chairman of the Board of Directors chairs the shareholders' meetings and presides over the Board of Directors. The Chairman has the following duties and powers: calling meetings of the Board of Directors and setting the agenda; supervising, complying with and implementing the resolutions of the Board of Directors; immediately informing all members of the Board of Directors in case of extraordinary events; handling information requests from other members of the Board of Directors; ensuring that, in urgent business matters where a regular board resolution cannot be reasonably passed within the required time frame, all measures are taken to safeguard the interests of the Sunrise Group; interacting with the CEO



and other members of the Executive Leadership Team outside of board meetings; monitoring the implementation of measures decided by the Board of Directors; and representing the Board of Directors internally and externally. The Vice-Chairman assumes the powers and duties of the Chairman in the absence of the Chairman. The Chairman of the Nomination and Compensation Committee and the Chairman of the Audit Committee chair their respective committees. The Chairs and the composition of the committees of the Board of Directors during 2018 were as follows:

Chairman and Vice-Chairman	Nomination and Compensation Committee	Audit Committee
Peter Kurer (Chairman)	Peter Schöpfer (Chairman)	Jesper Ovesen (Chairman)
Peter Schöpfer (Vice-Chairman)	Ingrid Deltenre (Member since April 11, 2018)	Robin Bienenstock (Member)
	Michael Krammer (Member)	Peter Kurer (Member)
	Peter Kurer (Member)	Joachim Preisig (Member until December 31, 2018)
	Christoph Vilanek (Member)	

### 3.3.2 Tasks and Areas of Responsibility of each Committee of the Board of Directors

#### Nomination and Compensation Committee (NCC)

The Nomination and Compensation Committee combines the functions of a nomination committee and a compensation committee and supports the Board of Directors in the fulfilment of its powers and duties as set forth by law, the Articles of Incorporation and the Organizational Regulations ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) with regard to the compensation and personnel policies of the Sunrise Group.

The tasks within the Nomination and Compensation Committee are delegated; each member has his or her field of specialization, either in the area of nomination or compensation. The Nomination and Compensation Committee prepares all relevant decisions made by the Board of Directors related to the nomination and compensation of and contracts for the members of the Board of Directors, the CEO and other members of the Executive Leadership Team and defines the compensation and personnel policies of the Sunrise Group. In particular, the Nomination and Compensation Committee has the following powers and duties:

- succession planning, including planning and training for unforeseen and emergency situations
- determining the criteria for the selection of candidates for appointment to the Board of Directors, as Chairman of the Board of Directors or as Chairman or members of the Nomination and Compensation Committee by the shareholders' meeting, considering the criteria for the composition of the Board of Directors as set forth in the Swiss Code of Best Practice for Corporate Governance
- preparing the nomination of new members for the Board of Directors to be proposed to the shareholders' meeting for appointment, considering each proposed member's experience, independence, compatibility with other members, culture and other commitments in line with the policies for skill and diversity setting (see chapter 3.1 on pages 53 et seq.)
- preparing the appointment of a Vice-Chairman of the Board of Directors, the Secretary and a Chairman as well as members of the Audit Committee by the Board of Directors following the Annual General Meeting
- evaluating candidates for the position of CEO and, together with the CEO, evaluating candidates for the Executive Leadership Team other than the CEO
- reviewing mandates held by members of the Board of Directors and the Executive Leadership Team outside of the Sunrise Group
- annually reviewing the independence of the members of the Board of Directors and its committees

- annually reviewing and evaluating the corporate governance and the performance of the Board of Directors
- submitting proposals, in line with the maximum aggregate compensation limits approved by the shareholders' meeting, for the individual compensation of the members of the Board of Directors based on their responsibilities and functions, of the CEO and, based on the CEO's proposal, of the other members of the Executive Leadership Team along with respective performance metrics for the CEO, to the Board of Directors for approval
- on an annual basis, reviewing the performance of the CEO and assessing the performance of the other members of the Executive Leadership Team as proposed by the CEO and, based on the evaluation, submitting proposals for respective individual compensation to the Board of Directors for approval
- proposing, on an annual basis, the maximum aggregate compensation amount in relation to each of the members of the Board of Directors and the Executive Leadership Team to be proposed to the Annual General Meeting for approval
- establishing the Sunrise Group's compensation and personnel policies and performance criteria related to compensation with the goal of finding, encouraging and retaining employees of the Sunrise Group and, by so doing, ensuring the competitiveness and long-term success of the Sunrise Group
- periodically reviewing the implementation of the compensation and personnel policies
- assessing the effectiveness, attractiveness and competitiveness of variable compensation, share compensation and pension plans and evaluating appropriate insurance plans for the members of the Board of Directors and the Executive Leadership Team at least every two years
- submitting compensation proposals for the Head of Internal Audit to the Board of Directors for approval
- reviewing the draft of the annual compensation report submitted by the Executive Leadership Team

#### **Audit Committee (AC)**

The Audit Committee supports the Board of Directors and the Nomination and Compensation Committee in the fulfilment of its powers and duties as set forth by law, the Articles of Incorporation and the Organizational Regulations ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) with regard to financial controls (monitoring of financial reporting, supervision of internal and external auditing), as well as supervision of persons entrusted with the management of the Sunrise Group (internal control system). The Audit Committee has the following powers and duties in particular:

- assessing and proposing to the Board of Directors the consolidated financial statements, statutory financial statements and management report of Sunrise Communications Group AG to be proposed to the Annual General Meeting for approval
- reviewing the integrity of the financial reporting processes
- reviewing significant financial risk exposures and measures taken by management to monitor, control and report such exposures
- determining the audit plan for a period of several years as well as the scope of the internal and external audits
- discussing audit reports with internal and external auditors and management and monitoring the implementation of the auditors' findings
- assessing the performance and collaboration of internal and external auditors
- preparing the nomination of external auditors to be proposed to the Annual General Meeting for election
- annually reviewing the fees and independence of external auditors
- reviewing the independence of the Internal Audit department from the Executive Leadership Team and the units to be audited
- reviewing and approving the guidelines, activities, budget, organizational structure and qualifications of the Internal Audit organization
- submitting proposals concerning the appointment, replacement and dismissal of the Head of Internal Audit to the Board of Directors for approval
- reviewing processes implemented by management to monitor significant risks and the respective reports on risk assessment and risk management submitted by management
- assessing and further developing the internal control system and the compliance functions

### Working Methods of the Board of Directors and its Committees

According to the Organizational Regulations ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)), the Board of Directors convenes upon invitation by the Chairman or, in his/her absence, by the Vice-Chairman whenever required by business, ordinarily six times per year. Meetings may also be called at the request of a member of the Board of Directors, the CEO or another member of the Executive Leadership Team accompanied by an explanation of the reason(s) for the request. The Board of Directors may pass resolutions if the majority of its members are in attendance. Attendance may also take place by telephone, video conference or other electronic media. No quorum is required if only resolutions regarding the implementation of a capital increase and subsequent amendments to the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) are to be passed. Except as provided by the Organizational Regulations, the Board of Directors passes resolutions with the majority of the votes cast. In the event of a tie, the chairman of the meeting casts the deciding vote. Resolutions may also be passed by circular resolution, whether in writing, by facsimile or by e-mail, provided that no member requests deliberations in a meeting. Members of the Board of Directors abstain from voting on matters or transactions which affect their own interests or the interests of individuals or entities connected with or close to them. In order to enhance an open and diversity-oriented discussion and decision-making, the Board of Directors has agreed on internal guidelines assuring such things as proper presentations by the executive management, clear and meaningful documentation, a culture of open debate, crisp and swift decision-making and committee work which is both effective and transparent to all members of the Board of Directors.

The Board of Directors met and passed written resolutions in 2018 with the participation of individual board members as set out below.

The Nomination and Compensation Committee meets whenever required by business, but at least three times per year. The Nomination and Compensation Committee met and passed written resolutions in 2018 with the participation of individual board members as set out on the following page.

The Audit Committee meets whenever required by business, but at least four times per year. The Audit Committee met and passed written resolutions in 2018 with the participation of individual board members as set out on the following page.

### Meetings - Board of Directors

	Meetings in attendance	Total duration/ Average duration	Meetings by phone	Total duration/ Average duration	Circular resolutions	Meeting attendance in %
<b>Total number</b>	<b>8</b>	<b>46.5 hours/ 5.8 hours</b>	<b>3</b>	<b>4.3 hours/ 1.4 hours</b>	<b>10</b>	<b>100</b>
Peter Kurer	8		3		10	100
Peter Schöpfer	7		3		10	91
Robin Bienenstock	8		3		10	100
Ingrid Deltenre (since April 11, 2018)	7		2		10	82
Michael Krammer	8		3		10	100
Jesper Ovesen	8		3		10	100
Joachim Preisig	8		2		10	91
Christoph Vilanek	7		2		10	82

## Meetings - Nomination and Compensation Committee

	Meetings in attendance	Total duration / Average duration	Meetings by phone	Total duration / Average duration	Circular resolution	Meeting attendance in %
<b>Total number</b>	<b>4</b>	<b>12.8 hours / 3.2 hours</b>	<b>1</b>	<b>4 hours / 4 hours</b>	<b>0</b>	<b>100</b>
Peter Schöpfer	4		1		0	100
Ingrid Deltenre (since April 11, 2018)	3		1		0	80
Michael Krammer <sup>1</sup>	4		1		0	100
Peter Kurer	4		1		0	100
Christoph Vilanek <sup>1</sup>	4		1		0	100

<sup>1</sup> Thereof two attendances by phone.

## Meetings - Audit Committee

	Meetings in attendance	Total duration / Average duration	Meetings by phone	Total duration / Average duration	Circular resolution	Meeting attendance in %
<b>Total number</b>	<b>4</b>	<b>12.8 hours / 3.2 hours</b>	<b>2</b>	<b>2 hours / 1 hour</b>	<b>0</b>	<b>100</b>
Jesper Ovesen	4		2		0	100
Robin Bienenstock <sup>1</sup>	4		1		0	83
Peter Kurer	4		2		0	100
Joachim Preisig	4		1		0	83

<sup>1</sup>Thereof three attendances by phone.

The meetings of the Nomination and Compensation Committee and the Audit Committee are called by the Chairman of the respective committee or, in his/her absence, by the most senior member of the committee. Meetings may also be called at the request of a member of the committee with explanation of the reason(s) for the request. A committee may pass resolutions if the majority of its members are in attendance. Attendance may also take place by telephone, video conferencing or other electronic media. Resolutions are passed by a majority of the votes cast. In the event of a tie, the Chairman of the meeting casts the deciding vote. Resolutions may also be passed by circular resolution, whether in writing, by facsimile or by e-mail, provided that no member requests deliberations in a meeting. The CEO, the CFO and depending on the agenda items to be discussed, other members of the Executive Leadership Team as well as the Company's auditors etc. may be invited by the respective Chairman to participate in meetings of the Board of Directors, the Nomination and Compensation Committee and the Audit Committee on a consultative basis. However, the CEO and other members of the Executive Leadership Team must not be present when the Nomination and Compensation Committee reviews the compensation or other aspects of the employment of the respective person. Likewise, the Chairman of the Board of Directors and the Chairman of the Nomination and Compensation Committee must also not be present when the Nomination and Compensation Committee reviews the compensation of the respective person. The Audit Committee may hold meetings exclusively with representatives of the internal and external auditors.

The Nomination and Compensation Committee reports to the board on its activities on a regular basis and submits the necessary proposals and recommendations to the Board of Directors. It assists the Board of Directors in conducting an annual review and evaluation of the performance of the Board of Directors and its committees. The Audit Committee reports to the Board of Directors at each meeting of the Board of Directors on its activities and on matters that are within its area of responsibility and submits the necessary proposals and recommendations to the Board of Directors.

The Nomination and Compensation Committee reports to the Board of Directors at least once per year on succession planning, including planning and training for unforeseen and emergency situations, and on management development for members of the Executive Leadership Team.

Newly elected members of the Board of Directors receive orientation training appropriate to their functions. Existing members of the Board of Directors receive regular training with respect to their responsibilities as members of the Board of Directors and its committees.

### **3.4 Definition of Areas of Responsibility between the Board of Directors and Executive Management**

The Board of Directors has delegated the executive management of the Company, unless otherwise provided by law, the Articles of Incorporation and the Organizational Regulations ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)), to the CEO. As part of the executive management duties delegated to the CEO pursuant to the Organizational Regulations, the CEO is responsible for the overall business and affairs of Sunrise Communications Group AG and has final authority in all management matters not reserved for the Board of Directors by law, the Articles of Incorporation and the Organizational Regulations. The CEO is responsible for implementing all resolutions of the Board of Directors and supervising all management levels in the Company. The CEO must ensure the successful long-term market- and value-oriented management and development of the Sunrise Group. The CEO acts as the head of the other members of the Executive Leadership Team, who are appointed and removed by the Board of Directors at the recommendation of the CEO and the Nomination and Compensation Committee. Within the Executive Leadership Team, the CEO is the contact person for the Chairman and the other members of the Board of Directors. He represents and coordinates the positions of the Executive Leadership Team vis-à-vis the Board of Directors. In matters requiring approval by the Board of Directors, the CEO submits corresponding proposals to the board and ensures the implementation of the resolutions passed. The CEO provides information to the other members of the Executive Leadership Team concerning the resolutions, suggestions and wishes of the Board of Directors. The CEO represents the Sunrise Group, both

internally and externally. A table listing the allocation of powers and duties between the Board of Directors, the committees and the CEO is set out in Article 4 of the Organizational Regulations of the Board of Directors ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)).

### **3.5 Information and Control Instruments vis-à-vis the Executive Management**

The Board of Directors ensures the continued contact with the CEO and the other members of the Executive Leadership Team in accordance with the Organizational Regulations ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) in order to be informed at all times about all important developments of the business and affairs of Sunrise Communications Group AG and its subsidiaries. In each meeting of the Board of Directors, the Board of Directors is informed by the CEO, the CFO and other members of the Executive Leadership Team of the current state of the business, financial results, material developments and important business transactions affecting the Company. This includes, but is not limited to, consolidated annual budgets, quarterly reports with budget comparison, profit and loss forecasts, quarterly financial projections, monthly key performance index reports and strategic risk management and compliance assessment reports (annually with quarterly updates to the Audit Committee). The risks registered in the risk management system and measures taken to mitigate such risks are described in section 15 Risks on pages 44 et seq. The Audit Committee receives, and the Board of Directors approves, the quarterly financial results. The Audit Committee receives quarterly compliance (including whistleblowing), legal, regulatory, information security and data privacy reports. Once a year, the Nomination and Compensation Committee receives information on the implementation of compensation and personnel policies by the Executive Leadership Team as well as information on personnel development and corresponding measures at management levels below the Executive Leadership Team. The Audit Committee has direct access to the Internal Audit department and may obtain information required by it within the Sunrise Group and question the responsible employees. The board carries out an annual review of the principles of compliance applicable to the Board of Directors, its committees, the Executive Leadership Team and the Sunrise Group to determine whether such principles are sufficiently well known and consistently followed.

### **3.6 Internal Audit**

The Internal Audit department provides the Audit Committee, in particular, as well as the Board of Directors and Executive Leadership Team of Sunrise Communications Group AG, in general, with an independent review of the business processes and controls necessary to manage the risks of Sunrise Communications Group AG. It is an independent assurance function that examines and evaluates the adequacy and effectiveness of internal controls in line with the Internal Audit Charter approved by the Board of Directors. To ensure its independence, the Head of Internal Audit reports administratively to the Chief Financial Officer and functionally to the Chairman of the Audit Committee.

Internal Audit provides an objective and effective value-added internal audit service through a systematic and disciplined approach by assisting management in controlling risks, monitoring compliance and improving the efficiency and effectiveness of internal control systems and governance processes. As part of its duties, it prepares an annual plan approved by the Audit Committee, carries out all the necessary activities to ensure that audits are conducted in an effective and professional manner, documents audit findings and monitors the implementation of corrective measures. Regular reports highlighting significant audit findings and recommendations as well as summarizing internal audit activities are provided to the management teams and Audit Committee meetings at least on a quarterly basis.

To achieve maximum assurance and avoid duplication of audit efforts, Internal Audit coordinates its annual audit plan and activities with those of the external auditors. External auditors have unrestricted access to the audit reports of Internal Audit.

Internal Audit adheres to standards of best professional practice such as the International Standards for the Professional Practice of Internal Auditing.

## 4 Executive Leadership Team

The composition of the Executive Leadership Team during 2018 is set out on the following pages.

The Executive Leadership Team conducts weekly meetings to decide on selling, general and administrative expenses as well as other operating expenses, to review and manage the sales, product marketing, customer service and network as well as financial performance. The Executive Leadership Team further reviews projects, the work force, compliance, risk, as well as regulatory- and communication-related topics and decides on capital expenditures and updates the strategy on a regular basis. The CEO and the CFO, together with the responsible members of the Executive Leadership Team, conduct additional weekly reviews of customer service and product roadmaps as well as further bi-weekly and monthly reviews of infrastructure operations, key business segments and partnerships. On a quarterly basis, the performance development of each unit is reviewed by the CEO and CFO as part of the financial planning. A bi-weekly investment committee chaired by the CFO and CTO decides on the prioritization of projects for capital expenditures

No member of the Executive Leadership Team carried out any tasks for Sunrise Communications Group AG or any of its subsidiaries before having been appointed as a member of the Executive Leadership Team, except for previous employment of individual members of the Executive Leadership Team as set out in the respective curricula vitae.

According to Article 23 of the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)), no member of the Executive Leadership Team may hold more than one additional mandate in a listed company and more than five mandates in non-listed companies.

For the purposes of such provision, the following mandates shall be deemed one mandate outside of the Sunrise Group:

- mandates which a member of the Executive Leadership Team holds in legal entities outside of the Sunrise Group that are under common control
- mandates held by a member of the Executive Leadership Team in his or her capacity as a member of the supreme governing body or of the group management of a legal entity outside of the Sunrise Group
- mandates held by a member of the Executive Leadership Team upon instruction and on behalf of a legal entity outside of the Sunrise Group or legal entities controlled by it.

The following mandates are not subject to these limitations:

- mandates in companies controlled by Sunrise Communications Group AG or which control Sunrise Communications Group AG
- mandates held at the request of Sunrise Communications Group AG or companies controlled by it, whereby no member of the Executive Leadership Team may hold more than ten such mandates
- mandates in associations, charitable organizations, foundations, trusts and employee welfare foundations, whereby no member of the Executive Leadership Team may hold more than six such mandates.

“Mandates” within the meaning of Article 23 of the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) are mandates in the supreme governing body of any legal entity that is required to be entered in the commercial register or corresponding foreign register of companies. Any mandate held by a member of the Executive Leadership Team in a legal entity outside of the Sunrise Group is subject to prior approval by the Board of Directors of Sunrise Communications Group AG, or, if delegated to it, the Nomination and Compensation Committee.

Due to a recent nomination to a board of directors, Olaf Swantee exceeds at this point in time the limit for additional mandates in listed companies, but remains compliant with the company's articles of

incorporation. No other member of the Executive Leadership Team of Sunrise Communications Group AG exceeds any limits for additional mandates.

As of December 31, 2018, Sunrise Communications Group AG had not entered into any management contracts with companies (or natural persons) not belonging to the Sunrise Group.

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## Olaf Swantee



**Title and function**  
Chief Executive Officer (CEO)  
since 2016

**Year of birth**  
1966

**Nationality**  
Dutch, Swiss

**Education**

1990: European MBA, European School of Management, Paris, France

1987: 2 years of Economics, University of Amsterdam (UvA), Netherlands

**Professional background**

2011 - 2016: EE Limited, Hatfield, UK, CEO

2010 - 2011: Orange-FT, Paris, France, Executive Vice President Europe and Purchasing WW, Member of the Global Management Committee

2007 - 2010: Orange-FT, Paris, France, Executive Vice President Europe and Mobile WW, Member of the Global Management Committee

2002 - 2007: Hewlett-Packard (Schweiz) GmbH, Dübendorf, Switzerland, Senior Vice President Technology Solutions Group Sales and Software EMEA; Managing Director General Western Europe; Vice President Enterprise Sales Group EMEA, Vice President Network Storage Solutions EMEA

1998 - 2002: Compaq Computer (Schweiz) AG, Dübendorf, Switzerland, Vice President Enterprise Storage Group EMEA; Director Sales and Marketing

1994 - 1998: Digital Equipment, Boston, USA, and Geneva, Switzerland, Executive Assistant to the Chairman and CEO of Digital Equipment; Marketing Director PC Business Europe; Manager Desktop Business Line

1990 - 1993: Compaq Computer EMA, Munich, Germany, District Sales Manager Export Markets; Product Manager Export Markets

**Other activities and functions**

Since 2018: T-Mobile US, Inc. (listed), Director, Member of the Compensation Committee

Since 2016: TeliaSonera AB, Stockholm, Sweden (listed), Non-Executive Member of the Board of Directors

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## André Krause



**Title and function**  
Chief Financial Officer (CFO)  
since 2011

**Year of birth**  
1970

**Nationality**  
German

**Education**

1996: BA in Economics, Bielefeld University, Germany

1992: Follmann GmbH & Co. KG, Minden, Germany, Industrial Management Training, SAP Implementation Project

**Professional background**

2011 - 2015: Sunrise Communications AG, Zurich, Switzerland, CFO

2006 - 2011: O2 Germany GmbH, Munich, Germany, CFO

2004 - 2006: O2 Germany GmbH, Munich, Germany, Vice President, Strategy & Consulting

1999 - 2004: McKinsey & Company, Inc., Düsseldorf, Germany, Associate Principal and member of the TIME (Telecom, IT, Media) practice

1997 - 1999: Arthur Andersen, Düsseldorf, Germany, Assistant, Computer Risk Management and Auditing

**Other activities and functions**

Since 2014: Tele Columbus, Berlin, Germany (listed), Member of the Board of Directors and Chairman of the Audit Committee



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## Françoise Clemes



**Title and function**  
Chief Services Officer (CSO) since 2016

a.i. Chief Human Resources Officer (CHRO)

March 24, 2018 to December 31, 2018

**Year of birth**  
1967

**Nationality**  
French

### Education

1992: MA in Ergonomics and Human Factors Engineering, Paris Descartes University, France

1991: MA in Experimental Psychology/Information Systems, Paris Descartes University, France

### Professional background

2013-2016: EE Limited, Hatfield, UK, Chief Customer Services

2011-2013: EE Limited, Hatfield, UK, Chief of HR

2007-2011: Orange-FT, Paris, France, VP HR Orange Europe

1997-2007: Orange-FT, Paris, France, Deputy HR Director Orange Business Services; Deputy HR Director Paris/East; Recruitment Business Division

1992-1997: Orange-FT, Paris, France, Corporate Sales, Network Security

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## Patrick Alain Meier



**Title and function**  
Director Legal since 2017

a.i. Chief Administrative Officer (CAO)

a.i. Secretary of the Board of Directors

**Year of birth**  
1982

**Nationality**  
Swiss  
Egyptian

### Education

2011: Attorney at law, admitted to the Swiss bar, Switzerland

2007: Master of Law, University of Fribourg, Switzerland

2005: Bachelor of Law, University of Fribourg, Switzerland

### Professional background

2015-: Sunrise Communications AG, Zurich, Switzerland, Head of Legal

2014-2015: Sunrise Communications AG, Zurich, Switzerland, Deputy Head of Legal & Senior Legal Counsel

2011-2014: Sunrise Communications AG, Zurich, Switzerland, Legal Counsel

2008-2010: FBT Attorneys-at-Law, Lausanne, Switzerland, Junior Associate

2006-2008: Basel Institute of Governance (University of Basel), Switzerland, Research Assistant

2007-2008: Novartis Pharma AG, Basel Switzerland, Contract Management

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## Bruno Duarte



**Title and function**  
Chief Consumer Officer (CCO)  
since 2017

**Year of birth**  
1966

**Nationality**  
French

### Education

1995: MBA, INSEAD, Fontainebleau, France

1990: Bachelor's Degree (Diplôme d'Ingénieur), Supélec, Gif-sur-Yvette, France

### Professional background

2016-2017: EE Limited, Hatfield, UK, Managing Director, Operations, Pricing & Strategy

2014-2016: EE Limited, Hatfield, UK, VP Consumer-Pay Monthly

2010-2014: EE Limited, Hatfield, UK, VP Fixed & Mobile Broadband

2007-2010: EE Limited, Hatfield, UK, VP Strategy

2005-2006: Hutchison 3G UK Limited, Maidenhead, UK, UK Strategy Director

2000-2005: Arthur D. Little, Paris, France, Partner, TMT Practice

1997-2000: Arthur D. Little, Paris, France, Manager/Senior Manager, TMT Practice

1995-1997: Arthur D. Little, Cambridge, MA, USA, Consultant

1993-1994: Arthur D. Little, Paris, France, Analyst

1992-1993: Andersen Consulting, Paris, France, Consultant

1990-1992: Schlumberger Industries, Farnborough, UK, Marketing and Sales Manager

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## Elmar Grasser



**Title and function**  
Chief Technology Officer (CTO)  
since 2013

**Year of birth**  
1965

**Nationality**  
Italian

### Education

1992: Graduate degree (Dipl. Ing.) in Computer Science, Vienna University of Technology, Austria

### Professional background

2008-2013: Orange Austria Telecommunication GmbH, CTO

2006-2007: E-Plus Mobilfunk GmbH & Co. KG, Düsseldorf, Germany, KPN Mobile International, Brussels, Belgium, CTO

2004-2006: tele.ring Telekom Service GmbH, Vienna, Austria, CTO

2000-2004: O2 Limited London/O2 Germany, Munich, Germany, Vice President, Product Development

1996-2000: Iridium Communications Germany, GmbH, Düsseldorf, Germany; Iridium Services Europe GmbH & Co. KG, Executive Director, Engineering

1995: European Telecommunication Standardization Institute, Sophia Antipolis, France, Technical Expert, ETSI GSM Standardization, Project Team 12

1993-1994: Siemens Stromberg Carlsson, Boca Raton, FL, USA, Siemens representative in the TIA (Telecommunications Industry Association) and ANSI (American National Standards Institute)

1992-1993: Siemens AG, Vienna, Austria, Program and Systems Engineering, GSM Mobile Division

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## Dominik Rubli



**Title and function**  
Chief Administrative Officer (CAO)  
until August 31, 2018  
  
Secretary of the Board of Directors

**Year of birth**  
1971

**Nationality**  
Swiss

**Education**  
2009: Dr. iur., University of Zurich, Switzerland  
  
2000: Attorney at Law, admitted to the Zurich bar, Switzerland  
  
1996: lic. iur., University of St. Gallen, Switzerland

**Professional background**  
2010–2016: Sunrise Communications Group AG (since 2015), Sunrise Communications AG, Zurich, Switzerland, General Counsel, Head of Legal & Corporate Affairs/Regulatory, Corporate Security & Compliance, Secretary of the Board of Directors

2006–2010: Sunrise Communications AG, Zurich, Switzerland, Senior Legal Counsel

2002–2006: Korach Simonius Hayer, Zurich, Switzerland, Associate

2000–2001: Department of Business and Management, Zurich University of Applied Science, Winterthur, Switzerland, Legal Research Associate

1998: District Court of Dielsdorf, Switzerland, Clerkship

1996–1997: Winterthur Rechtsschutzversicherungsgesellschaft, Winterthur, Switzerland, Legal Counsel

**Other activities and functions**  
Since 2015: Dispute Resolution Net Neutrality, Zurich, Switzerland (unlisted), Member of the Board of Directors

Since 2008: Swisstream, Zurich, Switzerland (unlisted), Member of the Board of Directors

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## Karin Schmidt



**Title and function**  
Chief Human Resources Officer (CHRO)  
until March 24, 2018

**Year of birth**  
1973

**Nationality**  
Swiss

**Education**  
2016: CAS in HR Value Creation, University of St. Gallen, Switzerland

2014: Executive MBA ZFH General Management, HWZ University of Applied Sciences, Zurich, Switzerland

2002: Management Diploma AKAD-Senior Level, AKAD, Zurich, Switzerland

2001: Diploma in Business Administration, BVS Business School, Zurich, Switzerland

**Professional background**  
2013–2016: Sunrise Communications AG, Zurich, Switzerland, Head HR Operations Commercial/Finance

2011–2012: Charles Vögele Switzerland, Pfäffikon SZ, Switzerland, Group Head Human Resources

2008–2010: UBS AG, Wealth Management & Swiss Bank, Zurich, Switzerland, Head Human

Resources & Education CFO, Management Functions, Pension Funds UBS

1998–2007: UBS AG, Wealth Management & Swiss Bank, Zurich, Switzerland, Deputy Head HR CFO, Management Functions; Senior HR Client Relationship Manager, Credit Risk Control & Pension Fund UBS

1994–1998: UBS AG, Wealth Management & Swiss Bank, Zurich, Switzerland, Personal Assistant to Head Next Generation & Topic Owner HR Administration

**Other activities and functions**  
Since 2006: profawo, Zurich, Switzerland (unlisted), Member of the Board of Directors

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**Robert Wigger**

**Title and function**  
Chief Business Officer  
(CBO)  
since 2017

**Year of birth**  
1967

**Nationality**  
Swiss

**Education**  
2008: Executive Leadership &  
Management, St. Gallen Management  
Institute, St. Gallen, Switzerland

2000: Advanced Marketing and Sales,  
INSEAD, Singapore

1990: Swiss Marketing & Management  
Diploma, Furrer Marketing and  
Management Institute, Zurich,  
Switzerland

**Professional background**

2012 - 2017: Hewlett-Packard  
Enterprise, Dübendorf, Switzerland,  
Vice President Service Provider  
Business for Europe, Middle East and  
Africa (EMEA)

2009 - 2012: Hewlett-Packard  
(Schweiz) GmbH, Dübendorf,  
Switzerland, Country Manager for the  
Enterprise Servers, Storage &  
Networking Business in Switzerland

2003 - 2009: Hewlett-Packard  
(Schweiz) GmbH, Dübendorf,  
Switzerland, Business Unit Manager  
Storage Division Switzerland

2002 - 2003: Hewlett-Packard  
International Sàrl, Dübendorf,  
Switzerland, Enterprise Marketing  
Manager, Storage and Server for  
Europe, Middle East and Africa  
(EMEA)

1998 - 2002: Compaq Schweiz AG,  
Dübendorf, Switzerland, Business Unit  
Manager Deskbound Computing

1995 - 1997: Macrotron (Ingram)  
Switzerland AG, Rotkreuz, Switzerland,  
Business Unit Manager Software

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## 5 Compensation, Shareholdings and Loans

For information regarding compensation, shareholdings and loans relating to members of the Board of Directors and the Executive Leadership Team, please consult the Compensation Report on pages 77 et seq..

## 6 Shareholders' Participation Rights

### 6.1 Voting Rights

Each share of Sunrise Communications Group AG carries one vote at a shareholders' meeting. Voting rights may be exercised only after a shareholder has been registered in the share register of Sunrise Communications Group AG (German: Aktienbuch) as a shareholder with voting rights. Acquirers of shares are, upon request and presentation of evidence of the transfer, registered as shareholders with voting rights in the share register only if they explicitly declare that they hold the shares in their own name and for their own account. For this purpose, Article 5 of the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) requires that Sunrise Communications Group AG maintain a share register listing the owners, usufructuaries and nominees of registered shares, including name, address and nationality (in the case of companies with registered offices). The Board of Directors has adopted Share Register Regulations concerning the registration of shareholders and maintenance of the share register of Sunrise Communications Group AG ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) in accordance with Article 5 of the Articles of Incorporation. The regulations set out in detail the rules governing the recognition and registration of acquirers of shares and nominees as shareholders with voting rights, the powers and duties in relation to and the maintenance of the share register as well as the monitoring of the shareholdings registered in the share register. The persons listed in the share register are deemed to be shareholders, usufructuaries or nominees in relation to Sunrise Communications Group AG. Sunrise Communications Group AG recognizes only one proxy per share. The Board of Directors has the power to delete entries in the share register retroactively as of the date of the entry if the entry was made on the basis of false information. Before deleting an entry, it may give the shareholder or nominee in question the opportunity to argue against the deletion. The shareholder or nominee in question will be informed of the deletion without delay. As a rule, the share register is closed three trading days before the date of the Annual General Meeting, up to and including the day of the meeting. Nonetheless, deletions from the share register may be made during the period that the share register is closed. The Board of Directors shall, under certain circumstances, register nominees as shareholders with voting rights in the share register. For further information regarding the registration of nominees, see chapter 2.8 on pages 52 et seq.

### 6.2 Convocation of the Meeting of Shareholders

Shareholders' meetings of Sunrise Communications Group AG are announced by the Board of Directors through official publication in the Swiss Official Gazette of Commerce (German: Schweizerisches Handelsamtsblatt) no less than twenty days prior to the date of the meeting. Notices may also be mailed to the shareholders listed in the share register. One or more shareholders of Sunrise Communications Group AG, together representing at least 3% of the total share capital outstanding at the time, may request an extraordinary shareholders' meeting in writing to the Board of Directors including indication of the agenda items and associated motions. Shareholders representing at least 1% of the total share capital outstanding at the time may request that items be included in the agenda. Such requests must be made at least 30 days prior to the meeting in writing and include a list of the items to be added to the agenda and the associated motions. The invitation to the shareholders' meeting states the day, time and place of the meeting, the agenda items as well as the motions made by the Board of Directors and the shareholders who requested the shareholders' meeting or the inclusion of an item in the agenda.

### 6.3 Representation at the Meeting of Shareholders

At shareholders' meetings of Sunrise Communications Group AG, shareholders may only be represented by their statutory proxy, another shareholder with voting rights or the independent proxy elected by the Annual General Meeting. Shareholders may grant proxies electronically and instruct the independent proxy on both

- agenda items included in the invitation to the shareholders' meeting and
- new motions not disclosed in the invitation to the shareholders' meeting.

The independent proxy may only exercise the voting rights granted by the shareholder in accordance with the shareholder's instructions. Absent voting instructions, the independent proxy is required to abstain from voting. The independent proxy is elected annually by the Annual General Meeting for a term of office of one year until the end of the next Annual General Meeting.

### 6.4 Statutory Quorum Requirements

The shareholders' meeting passes resolutions and carries out elections by absolute majority of the votes cast, excluding any abstentions, blank or invalid votes. However, in accordance with the specific quorum requirements of the Swiss Code of Obligations and Article 10 (5) of the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)), the following actions require the approval of shareholders holding at least two thirds of the votes represented at such meetings:

- changes to the Company's purpose
- creation of shares with privileged voting rights
- restriction to the transferability of registered shares
- authorized or conditional capital increases
- increase of capital out of equity (German: Kapitalerhöhung aus Eigenkapital), against contributions in kind (German: Sacheinlage) or for the purpose of acquiring assets (German: Sachübernahme) and granting special benefits (German: Gewährung besonderer Vorteile)
- limitation or withdrawal of preemptive rights
- a change of registered offices of the Company
- the delisting of the shares of the Company from the SIX Swiss Exchange or its successor and
- dissolution of the Company

The Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) do not provide for stronger majority requirements than envisioned by law.

### 6.5 Entries in the Share Register

The deadline for the entry of registered shareholders in the share register of Sunrise Communications Group AG is the third working day prior to the Annual General Meeting.

## 7 Change of Control Provision

### 7.1 No Opting Out, No Opting Up

Pursuant to the applicable provisions of the Federal Act on Financial Market Infrastructure and Market Conduct in Securities and Derivatives Trading (Financial Market Infrastructure Act, FMIA), if a person acquires shares of a company listed on the SIX Swiss Exchange, whether directly or indirectly or acting in concert with third parties, which, when added to the shares already held by such person, exceed the threshold of one third of the voting rights (whether exercisable or not) of such company, that person must make a bid to acquire all of the listed shares of such company. A company's articles of incorporation may either eliminate this provision of the SESTA/FMIA or may raise the relevant threshold to 49% ("opting out" or "opting up", respectively). The Articles of Incorporation of Sunrise Communications Group AG ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) do not contain opting-out or opting-up provisions.

## 7.2 Change of Control

There are no change-of-control clauses benefiting members of the Board of Directors, members of the Executive Leadership Team or other members of the management of Sunrise Communications Group AG. Employment contracts given to members of the Executive Leadership Team do not provide notice periods exceeding 12 months, commissions for the acquisition or transfer of enterprises or severance payments.

# 8 Auditor

## 8.1 Duration of the Mandate and Term of Office of the Lead Auditor

Sunrise Group's financial statements for the fiscal year ended December 31, 2018, have been audited by Ernst&Young AG, Zurich (since the incorporation of Sunrise Communications Group AG in 2015). The auditor is elected annually by the Annual General Meeting of Sunrise Communications Group AG. The lead auditor has been Willy Hofstetter since 2016. The lead auditor is rotated every seven years in accordance with Swiss law.

## 8.2 Audit Fees

The total audit fees for the fiscal year 2018 amount to CHF 684,900 (2017: CHF 707,000).

## 8.3 Additional Fees

The additional fees for audit-related services totaling CHF 191,500 for the fiscal year 2018 (2017: CHF 117,500) primarily comprise services in connection with comprehensive refinancing of the debt instruments and the implementation of new IFRS standards. The additional fees for non-audit services totaling CHF 88,600 (2017: CHF 1,021,000) are related to tax and advisory services for compliance and regulatory purposes. In 2018, the Audit Committee has decided to implement a policy to limit the non-audit fees to 70% of the yearly audit and audit-related fees over a three-year period.

## 8.4 Supervisory and Control Instruments Pertaining to Audits

The Board of Directors of Sunrise Communications Group AG meets with the auditor on a regular basis (at least four times a year) during the Audit Committee meetings. Once a year, the auditor presents to the Audit Committee a detailed report on the financial statement audit, including findings of significant financial accounting, reporting and internal control system issues. The auditor also confirms its independence from the Sunrise Group in that report. Each year, the Audit Committee reviews the appropriateness of retaining Ernst&Young as the Sunrise Group's auditor prior to proposing the re-election of Ernst&Young to the Annual General Meeting. Audit fees are ultimately approved by the Audit Committee. To ensure independence throughout the year, any additional and audit-related services provided by the auditor require the approval of the Audit Committee. The Audit Committee assesses the performance of the auditor and the fees paid for the audit services in accordance with Swiss law and based on its understanding of the Group's business, control environment, accounting and reporting issues, together with the way in which matters significant at Group level or in the statutory accounts are identified and resolved.

# 9 Information Policy

Sunrise Communications Group AG engages in transparent, open and regular communication with its shareholders, the capital market and the general public. Throughout the year, Sunrise Communications Group AG publishes its annual results and interim reports (semi-annually and quarterly) on the dates listed in the financial calendar published on the Sunrise Investor Relations website at [www.sunrise.ch/ir](http://www.sunrise.ch/ir). Press releases and ad-hoc publications containing potentially price-sensitive information are published

regularly and in accordance with the rules of SIX Swiss Exchange. All interim reports ([www.sunrise.ch/reports](http://www.sunrise.ch/reports)), company press releases ([www.sunrise.ch/press-releases](http://www.sunrise.ch/press-releases)) and ad-hoc publications ([www.sunrise.ch/ad-hoc](http://www.sunrise.ch/ad-hoc)) are also available on the Sunrise website, as are push subscription services for all such publications ([www.sunrise.ch/alert-service](http://www.sunrise.ch/alert-service)). Ad-hoc publications are distributed electronically to at least two electronic information systems widely used by professional market participants (inter alia Bloomberg, Reuters) and to at least two relevant Swiss newspapers of national importance (inter alia Neue Zürcher Zeitung, Le Temps). Official publications of Sunrise Communications Group AG are made in the Swiss Official Gazette of Commerce (German: Schweizerisches Handelsamtsblatt). Notices to shareholders may also be made in writing to the addresses of the shareholders recorded in the share register. Printed annual reports are available upon request. For further information, please contact the Investor Relations department by calling +41 58 777 96 86 or sending an e-mail to [investor.relations@sunrise.net](mailto:investor.relations@sunrise.net). For media enquiries, please contact Corporate Communications by calling 0800 333 000 (+41 58 777 76 66 from outside of Switzerland) or sending an e-mail to [media@sunrise.net](mailto:media@sunrise.net). The registered office of Sunrise Communications Group AG is located at Binzmühlestrasse 130, 8050 Zurich, Switzerland.

## 10 Subsequent Events after December 31, 2018

### 10.1 New Members of the Board of Directors and of the Executive Leadership Team

Tobias Foster has been appointed as the new Chief Human Resources Officer and Member of the Executive Leadership Team for Sunrise, effective January 1, 2019.

After the announcement of his appointment to the Sunrise Executive Leadership Team on September 6, 2018, Marcel Huber took office as the new Chief Administrative Officer for Sunrise on February 11, 2019.

### 10.2 Significant Shareholders

On January 9, 2019, Sunrise Communications Group AG filed with SIX Swiss Exchange that Norges Bank (the Central Bank of Norway), Oslo, Norway, had increased its shareholding to 3.31% of the total share capital 0.69% thereof held as collateral via securities lending).

### 10.3 Annual General Meeting

On February 28, 2019, Sunrise Communications Group AG announced that the Board of Directors will, among other things, propose to the Annual General Meeting on April 10, 2019, the following:

- Re-election of all members of the Board of Directors (except Joachim Preisig, who resigned from the Board of Directors as of December 31, 2018), the Chairman of the Board of Directors as well as the members and the Chairman of the Nomination and Compensation Committee.
- Election of Ingo Arnold as member of the Board of Directors.
- Approval of the increased maximum aggregate compensation for the members of the Executive Leadership Team for the 2019 financial year.
- Adoption of an amendment to the Company's Articles of Incorporation, pursuant to which, the authorized share capital according to Article 3a of the Articles of Incorporation is renewed for two years until April 12, 2021, and reduced from a maximum amount of CHF 4,500,000 through the issue of a maximum of 4,500,000 fully payable registered shares, each with a par value of CHF 1, each to a maximum amount of CHF 4,200,000 through the issue of a maximum of 4,200,000 fully payable registered shares, each with a par value of CHF 1.
- Adoption of an amendment to the Company's Articles of Incorporation, pursuant to which the authorized share capital for employee participation according to Article 3b of the Articles of Incorporation is renewed for two years until April 12, 2021.
- Adoption of an amendment to the Company's Articles of Incorporation, pursuant to which the current variable compensation threshold for the Executive Leadership Team of 160% of the fixed compensation according to Article 20 of the Articles of Incorporation is increased to 230%.



- Adoption of amendments to the Company’s Articles of Incorporation to change the registered office of the Company from Zurich to Glattbrugg (Opfikon).

#### **10.4 Announcements**

On February 8, 2019, Sunrise Communications Group AG announced the results of the 5G frequency auction.

On February 27, 2019, Sunrise announced that it has entered into a Share Purchase Agreement and a Transitional Services Agreement with Liberty Global plc regarding the acquisition of UPC Switzerland GmbH. Completion of the Transaction is subject to receipt of regulatory clearance and the approval of a capital increase by the company’s shareholders.

# Compensation Report

The Sunrise compensation framework is aligned with the Company's strategy and financial goals, and encourages employees to focus on the Sunrise Company values of being bold, intuitive and positive. The Compensation Report is compliant with the Directive on Information Relating to Corporate Governance issued by SIX Swiss Exchange along with the Ordinance against Excessive Compensation in Public Companies and the Swiss Code of Best Practice for Corporate Governance.

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## **77 Compensation Report**

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90	Executive Leadership Team Compensation
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95	Audit Report

# Compensation Report

## 1 Introduction by the Chairman of the Nomination and Compensation Committee

To the Shareholders

On behalf of the Board of Directors and the Nomination and Compensation Committee of Sunrise, I am pleased to present the 2018 Compensation Report.

The Sunrise compensation framework rewards short- and long-term success, both in terms of the performance of the Company as a whole as well as the individual's contributions to the business, thus fostering a culture of high performance. Compensation is subject to a formal annual performance management process designed to align organizational, team, and individual targets.

The Sunrise quality strategy paid off again in 2018, leading to year-on-year growth in all key financials and further beating the market with increased revenue (+1.2%), gross profit (+2.2%), and adjusted EBITDA (+3.4%, excluding higher network service fees following the disposal of the subsidiary Swiss Towers AG in August 2017). In addition, the Net Promoter Score (NPS) and the employee engagement metric, both key performance indicators (KPIs) of quality, delivered all-time high values. The combination of the described trends resulted in an overall target achievement of 130%. The overall target achievement was 138% for the CEO and between 127.5% and 135% for the Executive Leadership Team members.

In 2018, the Board of Directors decided to review the Sunrise compensation structure, in particular the Management Long-Term Investment Programs. The purpose of this review was to introduce a new long-term incentive plan (LTI) that enhances the link between pay and long-term performance, includes performance metrics reflecting the Company's strategic objectives as well as shareholders' interests, offers greater simplicity, and supports talent attraction and retention. In this matter, the Board of Directors obtained advice and benchmark data from Willis Towers Watson and consulted some of its major shareholders and proxy advisors to gather feedback on the compensation elements for the Sunrise Executive Leadership Team.

As of 2019, the Board of Directors will introduce a mandatory LTI for members of the Executive Leadership Team and selected Other Top Management members. This plan will be completely separate from the short-term incentive as dictated by best practices. The selected performance metrics, adjusted EBITDA, and equity-free cash flow support the business strategy by driving long-term performance. EBITDA is the most important short and long-term success measurement for operational performance in the telecommunications sector, whereas equity free cash flow is the basis to support the Sunrise long-term dividend strategy. In addition to the new LTI, the Board of Directors will also introduce minimum shareholding ownership guidelines for the members of the Executive Leadership Team to further ensure their alignment with shareholders' interests.

Sunrise is committed to providing shareholders with a genuine Say on Pay. This means shareholders will determine compensation budgets for future years and can retrospectively voice their opinions on the use of these budgets in an advisory capacity every year. At the Annual General Meeting on April 10, 2019, the 2018 Compensation Report will be submitted for an advisory vote by the shareholders.

At the 2019 Annual General Meeting, shareholders will also be asked to approve the future compensation for the members of the Board of Directors for the period prior to the 2020 Annual General Meeting, as well as the maximum compensation amount for the Executive Leadership Team members for the

financial year ending December 31, 2020. Due to the changes detailed above, the shareholders will additionally be asked to approve the maximum compensation amount for the members of the Executive Leadership Team for 2019.

On behalf of the Board of Directors and the Nomination and Compensation Committee, I would like to thank all our shareholders for their support and valuable feedback.

Sincerely,

A handwritten signature in black ink, appearing to read 'Peter Schöpfer', with a stylized flourish at the end.

Peter Schöpfer  
Chairman of the Nomination and Compensation Committee

## 2 Compensation Governance

### 2.1 Rules Regarding Compensation in the Articles of Incorporation

The Sunrise Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) contain provisions regarding the approval of compensation by the Annual General Meeting (Article 8), the powers and duties of the Nomination and Compensation Committee (Article 17), general principles of compensation (Article 20), approval of maximum compensation for the members of the Board of Directors and the Executive Leadership Team (Article 21), additional amounts for new members of the Executive Leadership Team (Article 22), agreements with members of the Board of Directors and the Executive Leadership Team (Article 24) and loans and credits to members of the Board of Directors and the Executive Leadership Team (Article 25).

### 2.2 Nomination and Compensation Committee

The Nomination and Compensation Committee (NCC) is entrusted with the supervision and governance of the Sunrise compensation programs and policies, compensation of the Executive Leadership Team as well as the performance evaluation of new Executive Leadership Team members as set out under chapter 3.3.2 on pages 60 et seq.

The NCC consists of at least three members of the Board of Directors. The members of the NCC and the Chairman of the NCC are elected individually each year by the respective Annual General Meeting in accordance with Swiss law and the Articles of Incorporation. The powers and duties of the NCC related to compensation are outlined in the Organizational Regulations of the Board of Directors and the Organizational Regulations of the NCC, and are defined therein in accordance with the Articles of Incorporation, Article 17 ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)). In compliance with the Organizational Regulations of the Board of Directors, decision-making powers regarding the compensation of the members of the Board of Directors and the Executive Leadership Team are outlined in the table below.

Subject	Nomination and Compensation Committee	Board of Directors	General Meeting
Compensation Report	A	E	E (consultative)
Compensation of the Board of Directors	A	A	E
Compensation of the Executive Leadership Team	A	A	E
Additional amounts for new members of the Executive Leadership Team	A	E	
Decision on individual compensation of the members of the Board of Directors (subject to approval of the total compensation amount by the General Meeting)	A	E	
Decision on individual compensation of the CEO and other members of the Executive Leadership Team (subject to approval of the total compensation amount by the General Meeting)	A	E	

Legend: A = Applicant, E = Decision

At the 2018 Annual General Meeting, Ingrid Deltenre was elected as a new member of the NCC while Peter Schöpfer was re-elected as Chairman of the NCC. Peter Kurer, Christoph Vilanek and Michael Kramer were re-elected as members of the NCC.

### 2.3 Process for Determining Compensation

In general, the NCC evaluates and prepares the compensation guidelines and applicable performance criteria for compensation and submits corresponding proposals to the Board of Directors. The NCC also regularly informs the Board of Directors of its activities. The NCC assesses the effectiveness, attractiveness and competitiveness of compensation plans at least every two years.

In accordance with these compensation guidelines, the NCC recommends remuneration for the Board of Directors for the period prior to the following year's Annual General Meeting and for the Executive Leadership Team for the following business year, in line with the maximum aggregate compensation and subject to approval by the Annual General Meeting. Article 22 of the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) provides for additional amounts for compensating members of the Executive Leadership Team who are appointed after the maximum aggregate compensation is approved by the Annual General Meeting.

Discussions and decisions by the Board of Directors or the NCC regarding the compensation of Executive Leadership Team members are resolved in the presence of the CEO and the Chief HR Officer, who do not have voting rights. However, the CEO and the Chief HR Officer may not be present when the Board of Directors or the NCC reviews their respective compensation. Likewise, the Chairman of the Board of Directors and the Chairman of the NCC are not present when the NCC reviews their compensation. The Chairman of the Board of Directors abstains from voting on his Base Compensation when the Board of Directors takes resolutions concerning the compensation of its members.

#### **2.4 NCC Meetings**

The NCC held five physical meetings in 2018. The main task was to review the compensation system and the related metrics as well as overall compensation levels for the members of the Executive Leadership Team. In doing so, the NCC was mindful of the objectives of the Sunrise compensation strategy, which intends to emphasize the link between pay and performance and to attract and retain talent. Based on this review, the NCC proposed the introduction of a new LTI plan to the Board of Directors, which also includes new performance metrics reflecting the strategic objectives of the Company as well as the interests of the shareholders. The following table provides an overview of the agenda items that are annually reviewed by the NCC and submitted for approval by the Board of Directors.

	January 23, 2018	May 29, 2018	August 7, 2018	September 18, 2018	October 23, 2018
<b>Sunrise compensation system and governance</b>					
NCC roadmap		•			
Recommendations of proxy advisors		•			
Overall compensation framework (incl. LTI)		•	•	•	•
Annual salary increase					•
Personnel policy (incl. pension fund)	•	•	•		
Company target achievement	•		•		•
Company target setting	•				•
Compensation report	•				
Compensation Head of Internal Auditor	•				
<b>Board of Directors</b>					
Constitution	•				
Independence review					•
Maximum aggregate compensation	•				
Performance assessment			•		
Succession planning			•		
Compensation benchmark (every 2 years)					
<b>Executive Leadership Team (incl. CEO)</b>					
Individual target achievement	•		•		
Individual target setting	•				
Base salary compensation	•				
Maximum aggregate compensation	•				
Succession planning	•				
Compensation benchmark (every 2 years)		•	•	•	•
<b>Corporate governance practices</b>					
Corporate governance KPI			•		
Organizational regulations and Articles of Incorporation					•

## 3 Compensation System

### 3.1 Principles

Sunrise benchmarks compensation levels and structures on a regular basis, whereby the median compensation of relevant comparison groups is used as the target benchmark.

In general, the compensation of the Board of Directors and Executive Leadership Team is reviewed and evaluated every second year by an external consultant. To this end, Sunrise obtained advice and benchmark data from Willis Towers Watson on companies in the Swiss Market Index SMIM in 2018. A subset of particularly relevant companies was selected from the SMIM (excluding financial services and pharma-

ceutical companies). This subset of SMIM companies is considered most comparable to Sunrise in terms of size, complexity and labor market.<sup>1</sup>

<sup>1</sup> AMS; Arysza; Barry Callebaut; Clariant; DKSH; Dormakaba; Dufry; Ems-Chemie; Zurich Airport; Georg Fischer; Kuehne&Nagel; Lindt&Sprüngli; Logitech; OC Oerlikon; PSP Swiss Property; Schindler; Sonova; Strauman Group; Swatch Group; Swiss Prime Site; Temenos.

Sunrise is mindful of the fact that pay level comparisons must also take into account differences in compensation structure. While SMIM companies generally differ in terms of their compensation structures, Sunrise considered their pay structures similar enough to allow for meaningful pay level benchmarking.

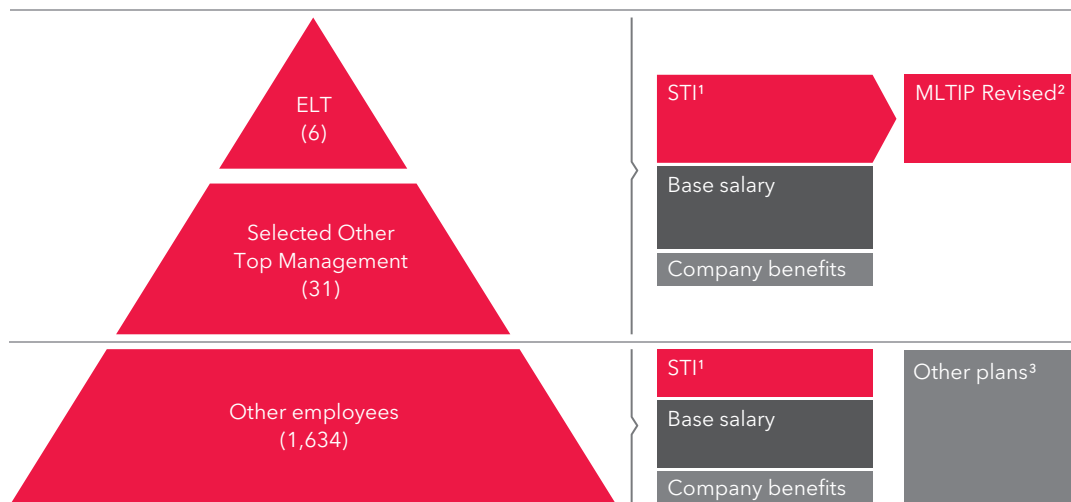
### 3.2 Elements

The general principle governing compensation for the Board of Directors and the Executive Leadership Team of Sunrise are described in the Articles of Incorporation (Article 20) ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)).

As shown in the Compensation Framework chart below, total compensation at Sunrise is based on:

- Fixed compensation - base salary
- Variable compensation - short- and long-term incentive plans
- Company benefit programs (company pension plans, insured benefits and other fringe benefits)

## Compensation framework 2018



<sup>1</sup> Short-term incentive: annually, rewarding past performance

<sup>2</sup> Management Long-Term Investment Program (MLTIP Revised): linked to STI and participation on a voluntary basis

<sup>3</sup> Plans for selected employee groups: Sales Plan and Customer Service Frontline Incentive Plan



### 3.2.1 Total Compensation Overview 2018

	Chairman of the Board	Members of the Board	Executive Leadership Team (ELT)	Selected Other Top Management (OTM)	All regular employees	Remarks
<b>Fixed compensation</b>						
Fixed compensation	•	•	•	•	•	
Board of Directors Share Plan	•	•				
<b>Variable compensation</b>						
Short-Term Incentive (Company Bonus Plan)			•	•	•	Based on the achievement of company targets and individual targets, ELT and OTM members can opt to invest part of their Short-Term Incentive in the MLTIP Revised
Management Long-Term Investment Program (MLTIP Revised)			•	•		
Management Long-Term Investment Program for Executives (MLTIPE Revised)			•			Only for newly appointed ELT members on a voluntary and one-time basis
Sales Plan				•	•	Only for sales employees, based on quotas
Customer Service Frontline Incentive Plan					•	Only for employees within Customer Service who have customer advisory duties
<b>Company benefits</b>						
(Base plus additional pension plan, base plus additional accident insurance, sick pay insurance, etc.)			•	•	•	Bel-Etage Pension Plan for ELT members

### 3.2.2 Fixed Compensation

Generally speaking, fixed compensation is paid in cash on a monthly basis and takes into account the size and scope of the position as well as external market data. Potential increases in base pay are evaluated on an annual basis. The fixed compensation of the Board of Directors is described in section 4 Board of Directors Compensation.

### 3.2.3 Variable Compensation

Variable compensation is based on annually defined objectives that are linked to the key drivers behind the Sunrise strategy.

#### 3.2.3.1 Annual Short-Term Incentive (Company Bonus Plan)

The Short-Term Incentive arrangement aims at rewarding all employees on an annual basis for their contribution to reaching company targets that foster the success of Sunrise as well as for the achievement of individual targets. For that purpose, there is a defined target-setting and performance management process in place. Company targets and the individual targets of the Executive Leadership Team are subject to approval by the Board of Directors. Individual targets for each employee are defined using a top-down approach to ensure alignment within Sunrise and across the departments. To support the process and ensure transparency in line with the Sunrise values, employees are informed on a quarterly basis of the status of company target achievement in an indicative way. Financial company target achievement is assessed at the end of the year against the audited financial results.

The key features of the Company Bonus Plan are outlined in the table below.

Company Bonus Plan	Employees	Upper Management and Selected Other Top Management	Executive Leadership Team	CEO
Target short-term incentive	5 - 15%	20 - 50%	50%	60%
Overachievement	200%	200%	200%	200%
Weighting of company target	10 - 30%	50%	70%	80%
Weighting of individual target	70 - 90%	50%	30%	20%
Number of individual targets	3 - 4	3 - 4	2	1
Company targets	– adjusted EBITDA – company gross profit – Net Promoter Score (NPS) and Propensity to Call (PTC)			

In principle, payout of the short-term cash bonus takes place in March of the year following the performance period and is subject to final sign-off by the Board of Directors for Executive Leadership Team members and by the CEO for all other employees. Variable compensation is paid in cash to all employees in the Company Bonus Plan. The Executive Leadership Team and selected Other Top Management members can elect to receive a portion of their short-term incentive in shares (see next chapter).

### 3.2.3.2 Management Long-Term Investment Programs

The purpose of the Management Long-Term Investment Programs is to generate an ownership interest. In 2018, the Board of Directors decided to introduce a new, improved, mandatory, and simpler LTI plan accompanied by share ownership guidelines for the CEO and members of the Executive Leadership Team.

With the introduction of the new LTI plan in 2019, the Management Long-Term Investment Programs will be discontinued as of 2019 and will vest after the regular blocking period. The key features of the Management Long-Term Investment Programs and the new LTI plan are outlined in the table below.

Plan	Participation	Participants	Amount converted into Investment Shares	Performance metric	Performance factor range	Vesting period	Performance factor - target achievement
IPO MLTIP <sup>1</sup>	voluntary	ELT and OTM	personal investment (MEP or cash amount)	TSR	0-1.5	Feb.18	1.18
MLTIP <sup>2</sup>	voluntary	ELT and OTM	personal investment (25-50% of STI)	TSR	0-1.5	Mar. 18; Mar. 19	0.87; N/A
MLTIPE <sup>3</sup>	voluntary	ELT	personal investment	TSR	0-1.5	Apr. 19; Jun. 19; Jun. 20; Jul. 20	N/A
MLTIP Revised <sup>4</sup>	voluntary	ELT and OTM	personal investment (25-50% of STI)	EFCF	0-1.2	Mar. 20; Jun. 20; Mar. 21; Apr. 21	N/A
new LTI <sup>5</sup>	mandatory	ELT and OTM	annual monetary grant	adj. EBITDA EFCF	0-2.0	Mar. 22	N/A

#### Footnotes referring to the table

MLTIP: Management Long-Term Investment Program

MLTIPE: Management Long-Term Investment Program Executive Management

– <sup>5</sup>For details, refer to chapter 3.2.5, 2019 outlook.

– <sup>1-4</sup>Under the Management Long-Term Investment Programs, the Investment Shares are blocked for a period of three years. After the blocking period, subject to continued employment and satisfying the performance target of the plans, participants are eligible to obtain, if any, an additional number of Performance Shares (see performance factor range) free of charge for every Investment Share the participant holds during the blocking period. Under the MLTIP Revised<sup>4</sup>, selected Other Top Management members (OTM) will be allocated Matching Shares subject to continued employment. OTM are eligible to obtain one Matching Share free of charge for each Investment Share the participant holds during the blocking period.

– <sup>3</sup>One-time opportunity for newly appointed members of the Executive Leadership Team (ELT) to invest in the plan at the time of the execution of the contract. Minimum and maximum amounts are determined by the Board of Directors on a case-by-case basis.

– MLTIPE Revised: For the 2018 financial year, Sunrise decided to amend the MLTIPE by aligning the plan with the performance criteria of the MLTIP Revised. The plan was never applied in 2018 because if the period between the public announcement of the appointment of the participant to the Executive Leadership Team and the start of the employment exceeds three months, the Board of Directors has the right to define exceptional rules.

– <sup>1-3</sup>TSR: Sunrise total shareholder return (TSR) as compared to two peer groups.

– <sup>4</sup>EFCF: cumulative equity free cash flow. The measurement period is the period of three consecutive financial years starting on January 1 of the year of the grant date. Performance Shares are allocated in accordance with the graph below.

The relevant share price for the allocation of Investment Shares is the

– <sup>1</sup>IPO offer price.

– <sup>2,4</sup>average closing price of the shares on the SIX Swiss Exchange in the ten trading days immediately preceding the payout date (as a rule, March 25) of the corresponding short-term incentive.

– <sup>3</sup>average of the closing prices of the shares on SIX Swiss Exchange on the ten trading days starting after ten trading days following the public announcement of the appointment of the participant to the Executive Leadership Team.

#### Termination of employment

– <sup>1,2</sup>Upon termination of employment for any reason, the blocking period on Investment Shares and the right to receive Performance Shares under this plan will lapse with immediate effect on the effective date of termination.

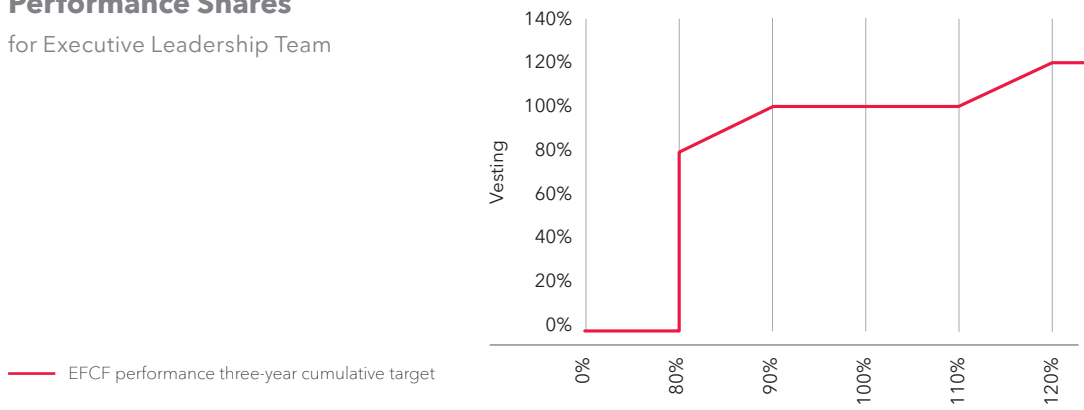
– <sup>4</sup>Upon termination of employment for any reason, the blocking period on Investment Shares remains until the end of the regular blocking period. As a general rule, the right to receive Performance Shares and Matching Shares lapses with immediate effect on the relevant termination date. In the event that the good leaver provision applies, awards in the form of Performance Shares and Matching Shares vest immediately pro rata for the duration of employment until the relevant termination date, however, awards in the form of Performance Shares will only be allocated at the end of the performance period, whereas Matching Shares are immediately allocated.

– <sup>3</sup>Upon termination of employment for any reason, the blocking period on the Investment Shares will lapse with immediate effect on the effective date of termination. As a general rule, the right to receive Performance Shares lapses with immediate effect on the relevant termination date. The good leaver provision is only applicable to the CEO.

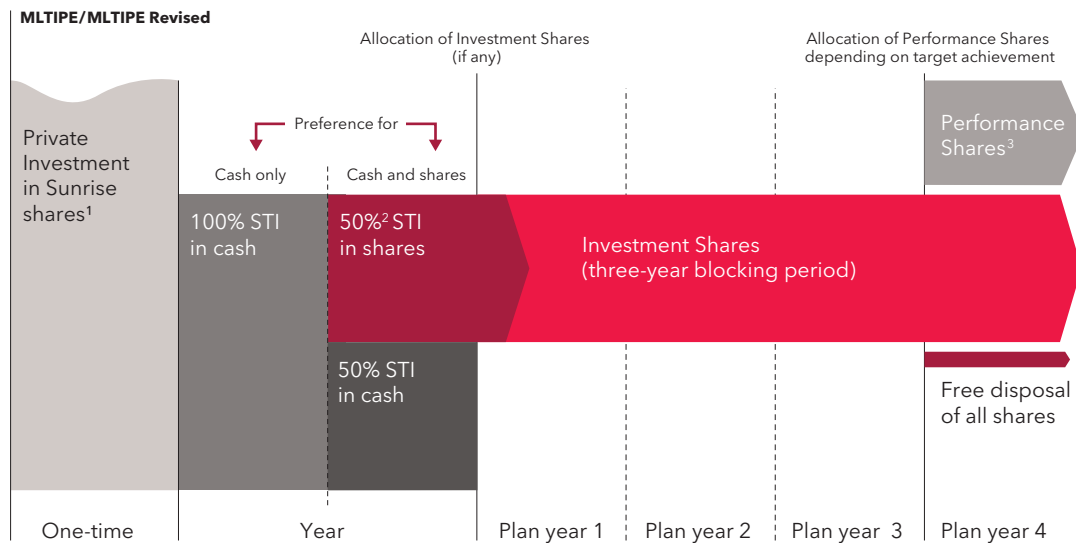
– <sup>3-4</sup>The participant is considered a good leaver if he or she (i) ceases to be employed as a result of his or her death, (ii) becomes permanently disabled for health reasons, (iii) is dismissed or removed from office without good cause, or (iv) resigns for good cause.

## MLTIP Revised - Performance Shares

for Executive Leadership Team



## Variable compensation for Executive Leadership Team



<sup>1</sup> Only for newly appointed members of the Executive Leadership Team (voluntary and one-time participation). The amount that can be invested in Investment shares of the MLTIPE Revised is determined by the Board of Directors on a case-by-case basis.

<sup>2</sup> Participant may choose a portion ranging from 25% to 50% to invest into shares.

<sup>3</sup> Depending on meeting certain performance targets, the number of Performance Shares under MLTIPE and MLTIP ranges from 0 to 1.5 shares per Investment Share, whereas for the MLTIP Revised the number of Performance Shares ranges from 0 to 1.2 shares per Investment Share.

### 3.2.4 Benefits

Sunrise offers a competitive benefits package including health management, retirement plans, disability and life insurance and other fringe benefits in line with market practices in the industry. Executive Leadership Team members receive a monthly flat-rate expense allowance as well as a Bel-Etage Pension Plan. Contributions are fully paid by Sunrise. Members of the Executive Leadership Team also receive either a company car or a monthly cash allowance for vehicle use.

### 3.2.5 Outlook 2019

Under the new LTI, participants (Executive Leadership Team members and selected Other Top Management members) will receive a monetary amount on an annual basis. This amount will be converted into

Performance Share Units (PSU), with one PSU conferring an entitlement to receive between zero and two Sunrise shares. Two performance objectives would determine how many of the granted PSUs would actually vest: 50% of the PSUs would be determined based on the adjusted EBITDA in year three of the performance cycle and 50% on the equity free cash flow in year three. Sunrise is convinced that the projected changes to the 2019 compensation system for the Executive Leadership Team and selected Other Top Management offer greater simplicity, support the long-term success of Sunrise, enhance the link between pay and long-term performance, and support retention.

## 4 Board of Directors Compensation

### 4.1 General

Compensation for members of the Board of Directors includes a fixed component for membership as well as additional amounts based on individual roles as shown in the table below. In order to ensure the independence of the Board of Directors in its supervisory role over the Executive Leadership Team, the members of the Board of Directors do not receive variable compensation linked to the performance of the Company.

Base compensation consists of a cash component plus a payment in the form of Sunrise shares (targeted at  $\frac{1}{3}$  of base compensation for the Chairman and  $\frac{1}{2}$  of base compensation for all other members of the Board of Directors). These shares are subject to a blocking period of three years to ensure long-term interest. To avoid any conflict of interest, no Performance Shares will be granted in addition to these blocked Sunrise shares. Any additional amounts for the committee chairperson position or committee membership are paid solely in cash. The amounts below are gross values before deduction of employee social security and taxes. Board fees for the 2018 financial year were paid out in cash in quarterly installments (payment months: April 2018, July 2018, October 2018 and January 2019) as well as in the form of shares (share allocation date: April 12, 2018).

Role	Amount in cash CHFk	Amount in shares CHFk
<b>Base compensation</b>		
Chairman of the Board	200	100
Member of the Board	50	50
<b>Committee membership fees</b>		
Chairman of the AC	60	
Chairman of the NCC	50	
Member of committee	30	

The members of the Board of Directors are reimbursed for travel and other related expenses associated with their responsibilities as members of the Sunrise Board of Directors.

### 4.2 Board of Directors Compensation in 2018

The compensation paid to individual members of the Board of Directors for the 2017 and 2018 financial years is shown at the end of this section. The footnotes contain explanatory information on the amounts indicated and specific compensation details for the Board of Directors. The accrual principle is applied.

For the 2018 financial year, members of the Board of Directors received total compensation of CHF 1.345 million in the form of cash and shares plus employer-paid social security contributions. The level of base compensation and committee membership fees did not change in 2018. The increase in total compensa-

tion from CHF 1.266 million in 2017 to CHF 1.345 million in 2018 is due to the increased number of Board of Directors members.

### Maximum Overall Compensation for the 2018/2019 Term of Office

The Annual General Meeting approves the maximum aggregate compensation of the Board of Directors for its term of office, i.e., from the Annual General Meeting (each April) until the next Annual General Meeting (the following April). The present Compensation Report refers to the financial year and therefore takes December 31, 2018, as its cut-off date for all compensation information disclosed. The 2018 Annual General Meeting approved the maximum aggregate compensation of CHF 1.50 million for the members of the Board of Directors for the period until the next Annual General Meeting in 2019. The total compensation paid to the members of the Board of Directors (mid-April to December 2018) plus amounts yet to be paid in 2019 (January to mid-April 2019) are within the maximum aggregate compensation approved by the 2018 Annual General Meeting.

### Total Board of Directors compensation 2018 / 2017

CHFk	Base compensation/committee membership in cash	Base compensation in shares	Employer-paid social security	Total 2018	Total 2017
Peter Kurer, Chairman <sup>1,3</sup>	260	100	21	381	374
Peter Schöpfer, Vice-Chairman <sup>2</sup>	100	50	11	161	161
Robin Bienenstock, Board Member <sup>3</sup>	80	50	9	139	140
Ingrid Deltenre, Board Member <sup>1</sup>	60	50	8	118	
Michael Krammer, Board Member <sup>1</sup>	80	50	0	130	130
Jesper Ovesen, Board Member <sup>4</sup>	110	50	3	163	165
Joachim Preisig, Board Member <sup>3</sup>	73	50	0	123	130
Christoph Vilanek, Board Member <sup>1</sup>	80	50	0	130	130
<b>Total Compensation paid to members of the Board of Directors</b>	<b>843</b>	<b>450</b>	<b>52</b>	<b>1,345</b>	<b>1,230</b>
Lorne Somerville, Board Member	0	0	0	0	36
<b>Total Compensation paid to members of the Board of Directors leaving the board</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>36</b>
<b>Total Compensation paid to members of the Board of Directors plus Total Compensation paid to members of the Board of Directors leaving the board</b>	<b>843</b>	<b>450</b>	<b>52</b>	<b>1,345</b>	<b>1,266</b>

- All base compensation, committee membership fees and shares are gross values before the deduction of applicable tax and employee social security. Sunrise cost for social security contributions is stated separately.
- Sunrise share purchase price as of April 12, 2018: CHF 79.49 per share.
- For Michael Krammer, Joachim Preisig and Christoph Vilanek, there is no employer social security to be paid.
- Members of the Board of Directors are not on a Sunrise pension plan.
- As per the Articles of Incorporation (Art. 25) ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)), no loans or credits are granted to the Board of Directors.

<sup>1</sup> Member of the Nomination and Compensation Committee.  
<sup>2</sup> Chairman of the Nomination and Compensation Committee.  
<sup>3</sup> Member of the Audit Committee.  
<sup>4</sup> Chairman of the Audit Committee.

## 5 Executive Leadership Team Compensation

The general principles and elements of Executive Leadership Team compensation are described in the preceding sections of the Compensation Report.

### 5.1 Achievement of 2018 Company Targets and Short-Term Incentive Payout

Both business and individual performance impact the actual variable compensation paid to all employees including the members of the Executive Leadership Team. The weightings of the company and individual targets for the CEO and the members of the Executive Leadership Team are disclosed in the following table.

	CEO	Executive Leadership Team
<b>Company targets</b>	<b>80%</b>	<b>70%</b>
– Adjusted EBITDA		
– Company gross profit		
– NPS & PTC		
<b>Individual targets</b>	<b>20%</b>	<b>30%</b>
– Discretionary target based on the Sunrise Performance Scorecard		
– Internal peer comparison for the Executive Leadership Team only		
<b>Total</b>	<b>100%</b>	<b>100%</b>

The NCC conducts the performance assessment of the CEO and reviews the performance assessments of the members of the Executive Leadership Team conducted by the CEO before submitting them for approval by the Board of Directors.

The Sunrise quality strategy paid off again in 2018, leading to year-on-year growth in all key financials and further beating the market with increased revenue (+1.2%), gross profit (+2.2%), and adjusted EBITDA (+3.4%, excluding higher network service fees following the disposal of the subsidiary Swiss Towers AG in August 2017). Across all quarters, Sunrise Mobile Postpaid trading outperformed its competitors and led to market share gain, with a peak performance in Q4. B2B achieved a continuation of its strong sales momentum, reflected by important strategic wins such as Nestlé, Procter & Gamble and Swiss International Air Lines. In addition, the quality KPIs Net Promoter Score and Employee Engagement reached all time high values. The combination of the described trends resulted in overall target achievement of 130%. Overall target achievement was 138% for the CEO and between 127.5% and 135% for the members of the Executive Leadership Team.

### 5.2 Total Compensation

The table Total Executive Leadership Team compensation 2018/2017 shows the total compensation paid to the Executive Leadership Team for the 2018 and 2017 financial years, broken down into individual compensation elements, including the highest amount paid to one individual. The footnotes contain explanatory information on the amounts indicated. The accrual principle is applied to all compensation elements except Performance Shares, which were evaluated based on their fair value on the grant date according to IFRS 2 (including grossed-up employer social security). In addition, the table shows the fair value of other benefits/cash allowances as well as retirement benefits.

#### Compensation in 2018

- **Base salary:** The individual base salary of two Executive Leadership Team members increased by CHF 0.03 million within the scope of the annual performance management process and the corresponding salary review. The individual base salaries of the CEO did not change in 2018.

- **Short-term incentive:** The total short-term incentive amounted to CHF 2.304 million for the Executive Leadership Team (of which CHF 0.704 million was for the CEO).
- **MLTIP Revised:** Performance Shares were granted under MLTIP Revised at a target value of CHF 0.749 million for the Executive Leadership Team (of which CHF 0.301 million was for the CEO).
- **Total compensation:** Taking into account other benefits/cash allowances, employer social security contributions and retirement benefits, total compensation of the Executive Leadership Team in 2018 came to CHF 8.050 million (thereof CHF 2.191 million for the CEO). Including the compensation paid to the members stepping down from the Executive Leadership Team, total compensation amounted to CHF 8.367 million.

#### **Compensation in 2018 Compared to 2017**

As a result of overall target achievement in 2018, the individual short-term incentives paid to the members of the Executive Leadership Team increased from CHF 1.950 million in 2017 to CHF 2.304 million in 2018.

Compared to 2017, the total compensation paid to members of the Executive Leadership Team decreased from CHF 9.248 million to CHF 8.367 million (including compensation paid to individuals stepping down from the Executive Leadership Team). The main reasons for this were:

- There was no new member joining the Executive Leadership Team in 2018, whereas in 2017 there were two new members of the Executive Leadership Team investing a private amount in MLTIP (CHF 0.679 million).
- Overall, base salaries decreased from CHF 3.219 million to CHF 3.191 million in 2018, mainly due to the pro-rata base salaries of one member stepping down from the Executive Leadership Team being replaced by another member of the Executive Leadership Team on an interim basis.

Of the 2017 MLTIP Performance Shares with a target value of CHF 0.498 million, a portion equal to CHF 0.109 million will not vest because of service conditions that will not be met.

#### **Maximum Overall Compensation for the 2018 Financial Year**

The 2017 Annual General Meeting approved the maximum aggregate compensation of CHF 11.92 million for the Executive Leadership Team. The total compensation of CHF 8.367 million paid to the members of the Executive Leadership Team for the 2018 financial year is within the maximum aggregate compensation resolved at the Annual General Meeting on April 11, 2017.

#### **Additional Information**

No loans or credits are granted to the members of the Executive Leadership Team, and their maximum termination period is six months.



## Total Executive Leadership Team compensation 2018/2017

CHFk	2018		2017	
	Total Executive Leadership Team	Thereof Olaf Swantee (CEO)	Total Executive Leadership Team	Thereof Olaf Swantee (CEO)
Base salary	3,191	850	3,219	850
Short-Term Incentive (STI) to be paid in March of the following year	2,304	704	1,950	606
MLTIP Revised: Performance Shares (relating to STI of the prior year)	749	301	498	159
Other benefits/cash allowances	479	37	267	14
Social security	511	139	453	120
Retirement benefits	816	160	831	160
<b>Compensation 2018/2017</b>	<b>8,050</b>	<b>2,191</b>	<b>7,218</b>	<b>1,909</b>
MLTIP Revised: special grant made for buyout for new ELT member (Investment Shares and Performance Shares) <sup>1</sup>			132	
Social security on MLTIP Revised – special grant for buyout			9	
One-time MLTIPE Performance Shares			679	
Social security on MLTIPE			48	
<b>Total compensation to members of the Executive Leadership Team<sup>2</sup></b>	<b>8,050</b>	<b>2,191</b>	<b>8,086</b>	<b>1,909</b>
Compensation paid to member(s) of the Executive Leadership Team after stepping down from the Executive Leadership Team in the current year <sup>3</sup>	317		812	
Compensation paid to former member(s) of the Executive Leadership Team after stepping down from the Executive Leadership Team in the previous year <sup>4</sup>			350	
<b>Total compensation to members of the Executive Leadership Team plus compensation paid to those members stepping down from the Executive Leadership Team</b>	<b>8,367</b>		<b>9,248</b>	
Ratio of performance-related variable compensation to fixed compensation (excluding the MLTIPE)	68.04%	95.94%	56.71%	74.71%
Ratio of performance-related variable compensation to fixed compensation (including the MLTIPE)	68.04%	95.94%	72.43%	

Footnotes refer to 2018 unless other years are indicated

- All base salary, Short-Term Incentive and Performance Share amounts are gross values before deduction of applicable tax, employee social security and other statutory charges.
- Sunrise cost for social security and retirement benefit contributions is stated separately.
- For the MLTIPE, MLTIP and MLTIP Revised, the figures are based on 100% target achievement (1 Performance Share for 1 Investment Share).
- Performance Share valuation method for MLTIP and MLTIPE: Monte Carlo.
- Performance Share valuation method for MLTIP Revised: fair value at grant date.
- Fair value per share on grant date, in CHF for MLTIP Revised June 2017 PSU: 64.02
- Fair value per share on grant date, in CHF for MLTIPE June 2017 PSU: 85.35
- Fair value per share on grant date, in CHF for MLTIPE July 2017 PSU: 77.35
- Fair value per share on grant date, in CHF for MLTIP Rev March 2018 PSU: 80.75
- Fair value per share on grant date, in CHF for MLTIP Rev April 2018 PSU: 77.75
- The ratio calculation does not include social security as this is essentially distributed proportionately between variable and fixed compensation.

<sup>1</sup> One-off grant for new ELT member was made in September 2017. The total market value of the Investment Shares amounted to CHFk 66 (market value per Investment Share on grant date in CHF: 81.40). The corresponding Performance Shares allocated are subject to the normal three-year vesting and performance conditions. Total market value of the Performance Shares is CHFk 66 (fair value per share on grant date in CHF PSU: 81.40).

<sup>2</sup> Includes the compensation of the eight Executive Leadership Team (ELT) members incl. the compensation of two ELT members stepping down from the ELT in 2018. The compensation paid to these two members amounts to CHF 0.536 million and is paid for the period from January 1, 2018, until the day of release from the ELT. The amount includes the pro-rata company bonus consistent with the plan rules.

<sup>3</sup> The amount includes compensation after the day of release from ELT duty up to the end of the reporting year including employer-paid social security, retirement benefits, cash allowances, etc. The amount includes the pro-rata company bonus consistent with the plan rules.

<sup>4</sup> The amount includes compensation from January 1, 2017, up to the end of the notice period in 2017 including employer-paid social security, retirement benefits, cash allowances, etc. The amount includes the pro-rata company bonus consistent with the plan rules.

### 5.3 Retrospective Disclosure

The first two Management Long-Term Investment Programs (MLTIP) vested in 2018. The MLTIP<sub>0</sub> was a specific plan designed in connection with the IPO, which gave members of the Executive Leadership Team and selected Other Top Management a onetime opportunity to participate in the future business performance of Sunrise at the time of the IPO.

The MLTIP required participants to purchase shares (Investment Shares) which were locked for trading over the vesting period of three years. Up to 1.5 Performance Shares were allocated to each Investment Share based on Sunrise total shareholder return performance over the three-year performance period relative to two peer groups. Up to 0.75 Performance Shares were based on Sunrise TSR relative to the constituents of the SMIM over the three-year performance period. The remaining up to 0.75 Performance Shares were based on Sunrise TSR relative to a peer group of international telecoms companies. This peer group included Swisscom, O2 Germany, Elisa and Tele2 Sweden.

For members of the Executive Leadership Team, Performance Shares under the two MLTIP vested in line with the table below. The performance achievement relative to target of the two MLTIP differ due to different share price appreciation over the respective periods. Participants leaving the Company before the vesting period expired lost their entitlement to Performance Shares.

	Allocation date	Number of Investment Shares <sup>1</sup>	Vesting date	Performance achievement relative to target	Number of Investment Shares <sup>2</sup>	Number of Performance Shares <sup>3</sup>	CHFk value of Performance Shares <sup>4</sup>
<b>MLTIP<sub>0</sub></b>	Feb. 06, 2015	107,676	Feb. 06, 2018	1.18	32,941	38,871	3,341
<b>MLTIP<sub>2015</sub></b>	Mar. 27, 2015	6,497	Mar. 27, 2018	0.87	2,453	2,136	175

<sup>1</sup> Number of Investment Shares entitled to receive Performance Shares at allocation date

<sup>2</sup> Number of Investment Shares entitled to receive Performance Shares at vesting date

<sup>3</sup> Number of Performance Shares awarded at vesting date

<sup>4</sup> CHFk value at grant date relevant for deduction of applicable tax, employee social security and other statutory charges.

Sunrise is committed to disclosing the target achievement of long-term incentive plans at the end of the three-year performance period. This will allow shareholders to assess the link between company performance and compensation of the Executive Leadership Team members. The retrospective approach is the most reasonable since disclosing the future target before the end of the relevant performance period would give substantial insight into the confidential, future strategies of Sunrise. This could lead to a competitive disadvantage.

## 6 Shareholdings of the Board of Directors and Executive Leadership Team

As of December 31, 2018, the members of the Board of Directors held the shares listed in the following table. No related parties held any shares.

### Number of shares held by the members of the Board of Directors

	2018	2017
Peter Kurer, Chairman	7,723	6,466
Peter Schöpfer, Vice-Chairman	2,061	1,433
Robin Bienenstock, Board Member	2,061	1,433
Ingrid Deltenre, Board Member	628	
Michael Krammer, Board Member	2,061	1,433
Jesper Ovesen, Board Member	6,891	6,263
Joachim Preisig, Board Member	2,061	1,433
Christoph Vilanek, Board Member	2,061	1,433
<b>Total</b>	<b>25,547</b>	<b>19,894</b>

As of December 31, 2018, the members of the Executive Leadership Team held the shares listed in the following table. No related parties held any shares.

### Number of shares held by the members of the Executive Leadership Team

	2018	2017
Olaf Swantee, CEO	29,310	25,441
André Krause	27,421	34,575
Françoise Clemes	8,674	7,395
Bruno Duarte	4,950	4,364
Elmar Grasser	3,932	25,674
Robert Wigger	5,066	4,766
Patrick Alain Meier <sup>1</sup>	293	
<b>Total</b>	<b>79,646</b>	<b>102,215</b>

<sup>1</sup> CAO ad interim

To the General Meeting of  
**Sunrise Communications Group AG, Zurich**

Zurich, February 27, 2019

## Report of the statutory auditor on the compensation report

We have audited the compensation report of Sunrise Communications Group AG for the year ended 31 December 2018. The audit was limited to the information according to articles 14-16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in sections "4 Board of Directors Compensation" and section "5 Executive Leadership Team Compensation" on pages 88 to 93 of the compensation report.



### Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance. The Board of Directors is also responsible for designing the compensation system and defining individual compensation packages.



### Auditor's responsibility

Our responsibility is to express an opinion on the compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14-16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14-16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of compensation, as well as assessing the overall presentation of the compensation report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



**Opinion**

In our opinion, the compensation report for the year ended 31 December 2018 of Sunrise Communications Group AG complies with Swiss law and articles 14-16 of the Ordinance.

Ernst&Young Ltd

Willy Hofstetter  
Licensed audit expert  
(Auditor in charge)

Tobias Meyer  
Licensed audit expert

# Consolidated Financial Statements

Sunrise Communications Group AG

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## **97 Consolidated Financial Statements**

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# Consolidated Statements of Income

CHFk January 1 - December 31	Note	2018	2017 <sup>1</sup>
<b>Revenue</b>	<b>7,8</b>	<b>1,876,464</b>	<b>1,854,175</b>
Transmission costs and costs of goods sold		(657,345)	(661,549)
Other operating expenses		(425,471)	(395,839)
Wages, salaries and pension costs	9	(213,880)	(214,604)
Other income	10	25,493	10,436
Other expenses	10	(2,957)	(286)
<b>Income before depreciation and amortization, net financial items and income taxes</b>		<b>602,304</b>	<b>592,333</b>
Amortization	15	(256,184)	(253,484)
Depreciation and impairment losses	16	(169,508)	(174,660)
<b>Operating income</b>		<b>176,612</b>	<b>164,189</b>
Foreign currency gains, net		2,265	1,162
Financial income		15,071	105
Financial expenses		(50,757)	(52,431)
<b>Net financial items</b>	<b>11</b>	<b>(33,421)</b>	<b>(51,164)</b>
Gain on disposal of subsidiary	12	-	419,589
<b>Income before income taxes</b>		<b>143,191</b>	<b>532,614</b>
Income taxes	13	(36,273)	(27,822)
<b>Net income</b>		<b>106,918</b>	<b>504,792</b>
<b>Net income attributable to equity holders of the parent company</b>		<b>106,918</b>	<b>504,792</b>
<b>Basic earnings per share (in CHF)</b>	<b>14</b>	<b>2.37</b>	<b>11.22</b>
<b>Diluted earnings per share (in CHF)</b>	<b>14</b>	<b>2.37</b>	<b>11.18</b>

<sup>1</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

The accompanying Notes form an integral part of the consolidated financial statements.

# Consolidated Statements of Comprehensive Income

CHFk  
January 1 - December 31

	2018	2017 <sup>1</sup>
<b>Net income</b>	<b>106,918</b>	<b>504,792</b>
Actuarial gain related to defined benefit pension plans	4,772	20,743
Income tax effect	(969)	(4,233)
<b>Net other comprehensive income not to be reclassified to profit and loss in subsequent periods</b>	<b>3,803</b>	<b>16,510</b>
<b>Other comprehensive income, net of tax</b>	<b>3,803</b>	<b>16,510</b>
<b>Total comprehensive income</b>	<b>110,721</b>	<b>521,302</b>
<b>Comprehensive income attributable to equity holders of the parent company</b>	<b>110,721</b>	<b>521,302</b>

<sup>1</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

The accompanying Notes form an integral part of the consolidated financial statements.



# Consolidated Statements of Financial Position

## Assets

CHFk December 31	Note	2018	2017 <sup>1</sup>
<b>Non-current assets</b>			
Intangible assets	15	2,088,238	2,210,359
Property, plant and equipment	16	823,763	795,576
Non-current portion of trade and other receivables	17	56,813	58,206
Non-current portion of contract assets	8,17	4,067	-
Non-current portion of prepaid expenses	18	631	248
Contract costs	8	45,933	-
<b>Total non-current assets</b>		<b>3,019,445</b>	<b>3,064,389</b>
<b>Current assets</b>			
Inventories	19	46,329	57,474
Current portion of trade and other receivables	17	325,960	435,217
Current portion of contract assets	8,17	99,682	-
Current portion of prepaid expenses	18	8,886	6,481
Cash and cash equivalents	20	420,919	272,486
<b>Total current assets</b>		<b>901,776</b>	<b>771,658</b>
<b>Total assets</b>		<b>3,921,221</b>	<b>3,836,047</b>

<sup>1</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

The accompanying Notes form an integral part of the consolidated financial statements.

## Equity and liabilities

CHFk	Note	2018	2017 <sup>1</sup>
<b>Equity</b>			
Common shares		45,069	45,000
Share premium		2,162,727	2,342,653
Other reserves		(776,143)	(776,143)
Accumulated profit/(deficit)		49,524	(101,229)
<b>Total equity</b>	<b>21</b>	<b>1,481,177</b>	<b>1,510,281</b>
<b>Non-current liabilities</b>			
Non-current portion of loans and notes	24	1,568,262	1,389,956
Non-current portion of financial leases	24	2,774	4,597
Non-current portion of trade and other payables	26	368	5,308
Deferred tax liabilities	13	155,744	160,691
Non-current portion of provisions	27	54,372	70,892
Employee benefit obligations	23	84,881	84,769
Non-current portion of deferred income	28	-	9,136
Non-current portion of contract liabilities	8,28	5,958	-
<b>Total non-current liabilities</b>		<b>1,872,359</b>	<b>1,725,349</b>
<b>Current liabilities</b>			
Current portion of financial leases	24	1,973	4,899
Current portion of trade and other payables	26	501,016	540,989
Income tax payable	13	26,735	23,886
Current portion of provisions	27	6,005	3,574
Current portion of deferred income	28	-	26,984
Current portion of contract liabilities	8,28	31,510	-
Other current liabilities		446	85
<b>Total current liabilities</b>		<b>567,685</b>	<b>600,417</b>
<b>Total liabilities</b>		<b>2,440,044</b>	<b>2,325,766</b>
<b>Total equity and liabilities</b>		<b>3,921,221</b>	<b>3,836,047</b>

<sup>1</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

The accompanying Notes form an integral part of the consolidated financial statements.

# Consolidated Statements of Cash Flow

CHFk January 1 - December 31	Note	2018	2017 <sup>1</sup>
<b>Income before income taxes</b>		<b>143,191</b>	<b>532,614</b>
Amortization	15	256,184	253,484
Depreciation and impairment losses	16	169,508	174,660
Gain on disposal of property, plant and equipment		(766)	(3,532)
Gain on disposal of subsidiary	12	-	(419,589)
Movement in pension		4,197	3,481
Movement in provisions		(12,617)	(3,877)
Change in net working capital	29	(48,939)	32,317
<b>Cash flow from operating activities before net financial items and tax</b>		<b>510,758</b>	<b>569,558</b>
Financial income	11	(15,071)	(105)
Financial expense	11	50,757	52,431
Foreign currency gains, net		(2,265)	1,967
Interest received		16	96
Interest paid		(30,237)	(39,454)
Corporate income and withholding tax paid		(50,052)	(31,185)
<b>Total cash flow from operating activities</b>		<b>463,906</b>	<b>553,308</b>
Purchase of property, plant and equipment	16	(181,756)	(207,471)
Purchase of intangible assets	15	(121,257)	(107,545)
Sale of property, plant and equipment		9,568	18
Net proceeds from subsidiary disposal	12	-	449,502
<b>Total cash flow (used in)/from investing activities</b>		<b>(293,445)</b>	<b>134,504</b>
Proceeds from long-term loans and notes		690,201	(321)
Repayments of long-term loans and notes	24	(500,000)	(450,000)
Cost of early debt redemption		(5,315)	-
Costs relating to capital increase		(73)	-
Repayments of capital leases	24	(6,966)	(7,337)
Dividend payment		(180,276)	(149,850)
Other financing activities		(21,479)	(20,026)
<b>Total cash flow used in financing activities</b>		<b>(23,908)</b>	<b>(627,534)</b>
<b>Total cash flow</b>		<b>146,553</b>	<b>60,278</b>
Cash and cash equivalents as of January 1		272,486	214,175
Foreign currency impact on cash	11	1,880	(1,967)
<b>Cash and cash equivalents as of December 31</b>		<b>420,919</b>	<b>272,486</b>

<sup>1</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

The accompanying Notes form an integral part of the consolidated financial statements.

# Consolidated Statements of Changes in Equity

CHFk	Common shares	Share premium	Other reserves	Accumulated profit/(deficit)	<b>Total</b>
<b>Equity as of January 1, 2017<sup>1</sup></b>	<b>45,000</b>	<b>2,489,962</b>	<b>(776,143)</b>	<b>(622,531)</b>	<b>1,136,288</b>
Net income for the period	-	-	-	504,792	504,792
Other comprehensive income	-	-	-	16,510	16,510
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>521,302</b>	<b>521,302</b>
Share-based payment	-	2,541	-	-	2,541
Dividend payment	-	(149,850)	-	-	(149,850)
<b>Equity as of December 31, 2017<sup>1</sup></b>	<b>45,000</b>	<b>2,342,653</b>	<b>(776,143)</b>	<b>(101,229)</b>	<b>1,510,281</b>
<b>Equity as of January 1, 2018</b>	<b>45,000</b>	<b>2,342,653</b>	<b>(776,143)</b>	<b>(101,229)</b>	<b>1,510,281</b>
Impact of change in accounting policies <sup>2</sup>	-	-	-	40,032	40,032
<b>Adjusted equity as of January 1, 2018</b>	<b>45,000</b>	<b>2,342,653</b>	<b>(776,143)</b>	<b>(61,197)</b>	<b>1,550,313</b>
Net income for the period	-	-	-	106,918	106,918
Other comprehensive income	-	-	-	3,803	3,803
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>110,721</b>	<b>110,721</b>
Share-based payment	-	(4,201)	-	-	(4,201)
Dividend payment	-	(180,276)	-	-	(180,276)
Capital increase	69	4,551	-	-	4,620
<b>Equity as of December 31, 2018</b>	<b>45,069</b>	<b>2,162,727</b>	<b>(776,143)</b>	<b>49,524</b>	<b>1,481,177</b>

<sup>1</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

<sup>2</sup> For further details see Note 5

The accompanying Notes form an integral part of the consolidated financial statements.

# Notes to the Consolidated Financial Statements

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**NOTE 1****General information**

Sunrise Communications Group AG (SCG or the Company) was incorporated in Switzerland on January 13, 2015. The registered offices of the Company are located at Binzmühlestrasse 130, CH-8050 Zurich, Switzerland.

The consolidated financial statements for the year ended December 31, 2018, comprise SCG and its subsidiaries (together referred to as the Group or Sunrise). The Group's principal operating company, Sunrise Communications AG, is the second-largest full-range telecommunications provider in Switzerland and offers mobile voice and data, landline services (retail and wholesale voice, business and integration services) and landline Internet including Internet Protocol Television (IPTV) services to both Residential and Business customers as well as to other operators. Sunrise has its own national backbone landline and IP network as well as its own mobile network based on GSM/GPRS/EDGE/UMTS/HSPA and 4G/4G+ technologies. In connection with the services it provides, Sunrise also resells handsets manufactured by third party suppliers.

These consolidated financial statements were authorized for issue by the Group's Board of Directors on February 27, 2019, and are subject to shareholder approval at the Annual General Meeting to be held on April 10, 2019.

**NOTE 2****Basis of preparation**

The consolidated financial statements of the Group as of and for the year ended December 31, 2018, have been prepared in accordance with IFRS as issued by the International Accounting Standards Board.

The consolidated financial statements have been prepared on a historical cost basis. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures at the reporting date. The accounting estimates and judgments considered material to the preparation of the financial statements are summarized in Note 4 on pages 107 et seq.

The Group applied IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments for the first time in 2018. Changes to significant accounting policies are described in Note 5 on page 113. In order to comply with the requirements of the new standards, certain balances in the consolidated statements of financial position were reclassified (see Note 8 on pages 120 et seq.).

Except where otherwise indicated, numbers are shown in CHF thousand in all tables and in CHF million in the text.

Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided. All ratios and variances are calculated using the precise underlying amount rather than the presented rounded amount.

**NOTE 3****Critical accounting estimates and judgments**

The preparation of the Group's consolidated financial statements requires management to make assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the fiscal period. These estimates are based on management's best knowledge of current events and actions that the Group may undertake in the future. However, actual results could differ from those estimates and judgments.

The following estimates and judgments are considered important when portraying the Group's financial position:

- Useful life of intangible assets and property, plant and equipment as shown in Note 4 on pages 107 et seq. is assigned based on periodic studies of the actual useful life and intended use of those assets. Such studies are completed or updated whenever new events occur with the potential to impact the way the useful life of the asset is determined, such as events or circumstances that indicate that the carrying value of the asset may not be recoverable and should therefore be tested for impairment. Any change in the estimated useful life of these assets is recognized in the financial statements as soon as any such change is determined. For details, see Notes 15 and 16 on pages 129 et seq. and 132 et seq., respectively.
- Intangible assets comprise a significant portion of the Group's total assets. Impairment tests on goodwill are performed at least annually and, if necessary, whenever events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. The measurement of intangibles is a complex process that requires significant management judgment in determining various assumptions, such as cash flow projections, discount rate and terminal growth rates. The sensitivity of the estimated measurement to these assumptions, combined or individually, can be significant. Furthermore, the use of different estimates or assumptions when determining the fair value of such assets may result in different values and could result in impairment charges. For details, see Note 15 on pages 129 et seq.
- Net periodic pension cost for defined benefit plans is estimated based on certain actuarial assumptions, the most significant of which relate to discount rate and future salary increases. As shown in Note 23 on pages 139 et seq., the assumed discount rate reflects changes in market conditions. The Group believes these assumptions illustrate current market conditions.
- Estimates of deferred taxes and significant items giving rise to deferred assets and liabilities are shown in Note 13 on pages 125 et seq. These reflect the assessment of future taxes to be paid on items in the financial statements, giving consideration to both the timing and probability of these estimates. In addition, such estimates reflect expectations about the amount of future taxable income and, where applicable, tax planning strategies. Actual income taxes and income for the period may vary from these estimates as a result of changes in expectations about future taxable income, future changes in income tax law or the final review of tax returns by tax authorities.
- Provisions for asset retirement obligations are made for costs incurred in connection with the future dismantling of mobile stations and restoration of property owned by third parties. These provisions are primarily based on estimates of future costs for dismantling and restoration and the timing of the dismantling. See Note 27 on page 150.
- Costs to obtain a contract consist of costs directly related to the acquisitions and retention of contracts with customers (e.g., commission paid to vendor or retailers). Management judgment is required to determine if costs are directly attributable and incremental and to define the appropriate amortization period consistent with the type of the underlying service contract (mobile pre- or postpaid, fixnet). See Note 8 on pages 120 et seq.
- In the context of the sale of one subsidiary to a third party (see Note 12 on page 125) Sunrise entered into a service level agreement and a transitional service agreement for the use of the towers sold to the third party. Management concluded that the transaction qualifies as a services, as the criteria for a lease agreement are not fulfilled.

## Significant accounting policies

### Principles of consolidation

#### Subsidiaries

Subsidiaries are all companies over which the Group has control. Control is achieved when the Group is exposed or has the right to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. The assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. Gains and losses related to divestment of subsidiaries are recognized as the difference between the fair value of the proceeds (less divestment expenses) and the carrying value of net assets (including goodwill).

The balance sheet date for all consolidated subsidiaries is December 31, 2018.

#### Business combination

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit and loss.

#### Foreign currency translation

The financial statements are presented in Swiss francs, which is the functional currency of the parent company and each of its subsidiaries. The functional currency is the currency applied in the primary economic environment of each enterprise's operations. Transactions in currencies other than the functional currency are transactions in foreign currencies.

Such transactions are translated at the transaction-date exchange rates. Foreign exchange gains and losses arising from differences between transaction-date and settlement-date rates are recognized as net financial items in the statement of income. Cash, loans and other amounts receivable or payable in foreign currencies (monetary assets and liabilities), if any, are translated into the functional currency at the official exchange rates as quoted at the reporting date.



The following table summarizes the principal exchange rates used by the Group (shown against CHF):

CURRENCY	BALANCE SHEET		INCOME STATEMENT AND CASH FLOW	
	December 31, 2018	December 31, 2017	January 1 - December 31, 2018	January 1 - December 31, 2017
CHF				
Euro	1.1255	1.1703	1.1709	1.1131
US Dollar	0.9821	0.9743	0.9873	0.9979

### Revenue recognition

Revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognized when the customer obtains control of the promised goods or services.

Significant sources of revenue are recognized in the statement of income as follows:

- Revenue from telephony is recognized at the time the call is made
- Revenue from the sale of prepaid services is deferred and revenue is recognized at the time of use
- Wholesale revenue from voice carrier services is recognized at the time of use
- Revenue from leased lines is recognized over the rental period
- Revenue from subscription and flat-rate service fees is recognized over the subscription period
- Revenue from non-refundable up-front connection fees is deferred and amortized over the agreed minimum contract term
- Revenue from the sale of handsets is recognized upon delivery
- Revenue from the maintenance of equipment is recognized over the contract period

The revenue related to each element is recorded in accordance with the accounting policies stated below.

Revenue comprises goods and services provided during the year after deduction of VAT and rebates relating directly to sales. For multi-component contracts (mobile subscription with subsidized mobile hardware), the transaction price is generally allocated to each separate performance obligation (including undelivered elements) in proportion to the stand-alone selling prices, and the revenue is recognized when the customer obtains control of the separate components.

In the balance sheet, this leads to the recognition of a contract asset, i.e., a legally not yet entitled right to consideration from a contract with a customer. In contrast, activation fees lead to the recognition of a contract liability, i.e., the obligation to transfer goods or services to a customer for which the entity has received consideration from the customer. Contract assets and liabilities are determined at the contract level and not at the performance obligation level. Each performance obligation within a contract is aggregated into a single contract asset or liability and recorded net in the statement of financial position.

Accrued income and deferred discounts will be classified as part of contract assets. Payments for services to be rendered in subsequent periods (e.g., deferred sales related to prepaid services and leased lines) will be classified as a contract liability.

Revenue is recognized gross when the Group acts as a principal in a transaction. For content-based services and the resale of services from content providers where the Group acts as an agent, revenue is recognized net of direct costs.

#### **Other income and other expenses**

Other income and other expenses primarily include significant amounts that cannot be attributed to the normal course of operations, such as net collectible fees earned from early termination of contracts, revenue from subleases, cost and revenue from the sale of network-related assets, disposal of property, plant and equipment as well as any reversals of provisions and accruals.

#### **Intangible assets**

Goodwill is recognized at cost less accumulated impairment losses. Goodwill is allocated from the acquisition date to cash-generating units for the purpose of impairment testing. The carrying value of goodwill is tested for impairment annually in the fourth quarter. If there is any indication during the year that goodwill may be impaired, the cash-generating unit is tested for impairment at that time. Goodwill is subsequently written down to the recoverable amount through the statement of income if the recoverable amount is exceeded by the carrying value. Impairment losses on goodwill are not reversed.

Brands, subscriber base, licenses, proprietary rights, patents, etc., are measured at cost less accumulated amortization and impairment losses and are amortized on a straight-line basis over their estimated useful lives.

Development projects, including costs of computer software purchased or developed for internal use, are recognized as intangible assets if the costs can be calculated reliably and if they are expected to generate future economic benefits. Costs of development projects include wages and external charges. Development projects that do not meet the criteria for recognition in the statement of financial position are expensed as incurred in the statement of income.

The main amortization periods are as follows:

UMTS and spectrum licenses	6-16 years
Subscriber base	5-11 years
Brands	4-10 years
Other rights	2-10 years
Development projects/software	3 years

Development projects in process are tested for impairment at least annually and written down to their recoverable amount in the statement of income if their recoverable amount is exceeded by their carrying value.

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated write-down for impairment.

#### **Property, plant and equipment**

Property, plant and equipment are measured at cost less accumulated depreciation and write-down for impairment.

Costs comprise purchase price and costs directly attributable to the acquisition until the date on which the asset is ready for use, as well as the estimated costs of dismantling and restoring the site. The costs of self-constructed assets include directly attributable payroll costs, materials, parts purchased and services rendered by sub-suppliers during the construction period. Costs also include estimated asset retirement costs on a discounted basis if the related obligation meets the conditions for recognition as a provision.

The depreciation base is measured at cost less residual value and any write-downs. Depreciation is provided on a straight-line basis over the estimated useful life of the assets as follows:

Cable installations	20 years
Exchange installations and base stations	10-15 years
Leasehold improvements	10 years <sup>1</sup>
Other telecommunications installations	3-7 years
Computer equipment	3-5 years
Other installations	5-7 years
Customer premises equipment	3 years <sup>1</sup>

<sup>1</sup> Or shorter if the contract period is shorter.

Property, plant and equipment that have been disposed of or scrapped are eliminated from accumulated costs and accumulated depreciation. Gains and losses arising from the sale of property, plant and equipment are measured as the difference between the sales price less selling expenses and the carrying value at the time of sale. The resulting gain or loss is recognized in the statement of income under Other income and expenses.

Software that is an integral part of a tangible asset (e.g., telephone exchange installations) is presented together with the related tangible assets.

If indications exist that the value of an asset may be impaired, the recoverable amount of the asset is determined. If the recoverable amount of the asset, which is the higher of the fair value less costs to sell and the value in use, is less than its carrying amount, the carrying amount is reduced to the recoverable amount.

### **Contract cost**

Incremental costs of obtaining and fulfilling a contract are capitalized if they are directly related to obtaining a contract with a customer. Such commissions paid to retailers or employees (contract costs) are capitalized and recognized in Other operating expenses or Wages, salaries and pension costs over the initial contractual term or over a longer period if management anticipates a customer will renew a contract and the costs also relate to goods and services that are expected to be transferred during renewal periods.

### **Inventories**

Inventories are measured at the lower of cost and net realizable value. The costs of merchandise include purchase price and delivery costs. The costs of work in progress comprise direct costs of merchandise, direct labor, other direct costs and related production overheads. The costs of inventories are determined using the standard costing method. The difference between standard costs and the sale price of handsets sold as part of a subscriber arrangement is recognized as subscriber acquisition or retention costs and shown in Other operating expenses upon completion of the sale.

### **Trade receivables and other receivables**

Receivables are measured at amortized cost net of an allowance for uncollectible amounts. An allowance for trade receivables and contract assets are always measured at an amount equal to lifetime expected credit loss (ELC). When determining whether the credit risk of a financial asset has increased significantly, the Group considers both quantitative and qualitative information and analysis based on its historical experience, internal credit assessment and forward-looking information. Allowances for anticipated uncollectible amounts are based on individual assessments of major receivables and historically experienced losses on uniform groups of other receivables. This allowance is equal to the difference between the carrying amount and the present value of the amounts expected to be recovered. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired. The loss is recognized in the statement of income within Other operating expenses.

When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against Other operating expenses in the statement of income.

### **Income taxes**

Income taxes include all current and deferred taxes based on the taxable profits of the Group. Other taxes not based on income such as property or capital taxes are recorded as other operating expenses.

### **Current income tax**

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustments to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

### **Deferred taxes**

Deferred tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements at the reporting date, except for temporary differences arising from the initial recognition of goodwill and other items in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit. Deferred tax expenses are measured on the basis of tax rates enacted or substantively enacted at the end of the reporting period.

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available, against which temporary differences or unused tax losses can be utilized. Deferred tax is charged or credited in the statement of income, except when it relates to items recognized in other comprehensive income, in which case the deferred tax is treated accordingly.

Current and deferred tax assets and liabilities are offset only if they relate to the same taxing authority and taxable entity.

### **Provisions**

Provisions are recognized when - as a consequence of an event occurring before or on the reporting date - the Group has a present obligation (legal or constructive), it is probable that economic benefits will be sacrificed to settle the obligation, and the amount of the obligation can be estimated reliably.

Restructuring provisions are recognized when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected and a detailed estimate of the associated costs, and an appropriate timeline has been established. Furthermore, the affected employees must have been notified of the plan's main features.

An asset retirement obligation is recognized when the Group has a legal or constructive obligation to remove the asset and restore the site where the asset was used at the end of the lease term. The Group has estimated and capitalized the net present value of the obligations and increased the carrying amount of the asset by the respective amount. The estimated cash flows are discounted using a risk-adjusted interest rate and recognized as a provision. Subsequently, the unwinding of the discount is expensed in Net financial items. The capitalized amount is amortized over the expected lease period, including the potential extension option if this is expected to be exercised. Provisions are measured at management's best estimate of the amount at which the liability is expected to be settled. If the timing of the settlement has a significant impact on the measurement of the liability, such liability is discounted.

### **Pensions**

The Group's pension plans comprise defined benefit plans established under Swiss pension legislation. Obligations are determined quarterly by independent qualified actuaries using the Projected Unit Credit Method assuming that each year of service gives rise to an additional unit of benefit entitlement and each unit is measured separately to build up the final obligations. The Group recognizes in the statement of income a gain or loss on curtailment when a commitment is made to significantly reduce the number of employees, generally as a result of a restructuring or disposal/discontinuation of part of the business or the outsourcing of business activities. Gains or losses on curtailment or settlement of pension benefits are recognized in the statement of income when the curtailment or settlement occurs.

Differences between projected and realized changes in pension assets and pension obligations are referred to as actuarial gains and losses and are recognized in other comprehensive income when such gains and losses occur.

In case of changes in benefits relating to employees' previous service periods, a change in the estimated present value of the pension obligations will be immediately recognized.

The present value of the pension obligation is measured using a discount rate based on the interest rate on high quality corporate bonds where the currency and terms of the corporate bonds are consistent with the currency and estimated terms of the defined benefit obligation.

### **Financial liabilities**

Interest-bearing loans issued by Sunrise are recognized initially at the proceeds received net of debt issuance expenses incurred. In subsequent periods, loans are measured at amortized cost using the effective interest method. Other financial liabilities are measured at amortized cost.

### **Leases**

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that substantially transfers all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

#### **Statements of cash flow, cash and cash equivalents**

Cash flow from operating activities is presented under the indirect method and is based on income before income taxes and adjusted for amortization, depreciation, non-cash operating items, cash-flow-related changes in net working capital, financial income and expenses, interest received and paid as well as income taxes paid.

Cash flow from investing activities comprises acquisition and divestment of subsidiaries; purchase and sale of intangible assets, property, plant and equipment as well as other non-current assets; and purchase and sale of securities that are not recognized as cash and cash equivalents. Cash flows from acquired subsidiaries are recognized from the time of acquisition, while cash flows from subsidiaries divested are recognized up to the time of divestment.

Cash flow from financing activities comprises repayments and proceeds from loans and notes, settlement of derivative instruments including related costs such as early redemption costs, repayments of capital leases and issuance and/or redemption of share capital.

Cash and cash equivalents are readily convertible into a known amount of cash within original maturities of three months or less. For the purpose of the statement of cash flow, cash and cash equivalents comprise cash at banks and in hand, deposits held on call with banks and other short-term highly liquid investments, net of bank overdrafts.

#### **Share capital**

Ordinary shares are classified as equity. The share premium consists of additional paid-in capital net of transaction costs that are incremental and directly attributable to the issuance of new shares and share-based payment.

#### **NOTE 5**

#### **New accounting standards**

The Group has initially adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from January 1, 2018. A number of amendments to existing standards are effective from January 1, 2018, but they do not have a material effect on the Company's financial statements.

### **IFRS 15 Revenue from contracts with customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces old revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. The Group has adopted the new standard on the required effective date using the modified retrospective method through a corresponding adjustment to equity as of January 1, 2018 (cumulative method).

According to IFRS 15 Revenue from Contracts with Customers, revenue is recognized to depict the transfer of control over goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard provides for a single, principles-based, five-step model which is to be applied to all contracts with customers and where the transaction price is generally allocated to each separate performance obligation in proportion to the stand-alone selling prices. Also, revenue is recognized when the customer obtains control of the promised goods or services.

The effect of initially applying IFRS 15 is mainly attributed to the following effects:

- Capitalization of costs to obtain a contract
- Reallocation of revenue to hardware sales
- Recognition of activation fees and uneven discounts

### **IFRS 9 Financial instruments**

IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments Recognition and Measurement. It includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model (ECL) for calculating impairment of financial assets (including accrued income/credit notes and contract assets regarding IFRS 15) as well as new general hedge accounting requirements. The Group applied the modified retrospective approach and accordingly did not restate comparative figures.

The Group has determined that the application of IFRS 9's impairment requirements as of January 1, 2018, results in additional impairment allowances amounting to CHF 2.4 million as follows (net of tax: CHF 1.9 million):

- Trade and other receivables: CHF 1.8 million,
- Contract assets: CHF 0.6 million.

Furthermore IFRS 9 includes new guidance relating to non-substantial modifications or exchanges of financial liabilities. A gain or loss resulting from non-substantial modifications in debt must be recognized through Profit and Loss at the time of the modification. The gain is equal to the difference between the present value of the cash flows under the original and modified terms discounted by the original effective interest rate.

Since the approach related to debt modification adjustments needs to be applied retrospectively, the Group recognized an adjustment of CHF 10.7 million (net of tax: CHF 8.5 million) linked to the repricing from December 2016 (25 bp reduction) in accumulated deficit on January 1, 2018. The adjustment resulted in an increase in equity. The refinancing transactions in June 2018 that included a repricing of the existing term loan had a total effect on the consolidated statements of income of CHF 11.4 million in 2018 and is reflected in Net financial items.

### Impact on the financial statements

The effect of applying IFRS 15 led to an equity increase of CHF 42.0 million before tax (net of tax: CHF 33.5 million). For IFRS 9, the effect of the initial application led to an equity increase of CHF 8.3 million (net of tax: CHF 6.6 million).

The following tables summarize the impact of adopting IFRS 9 and IFRS 15 on the Group's consolidated statements of income and cash flow for the year 2018 and on its consolidated statements of financial position as of December 31, 2018.

IMPACT OF CHANGES IN ACCOUNTING POLICIES			
CHFk January 1 - December 31, 2018	As reported	Adjustments	Balances without adoption of new accounting policies
<b>Income Statement</b>			
Revenue	1,876,464	(447)	1,876,017
Transmission costs and cost of goods sold	(657,345)	4,215	(653,130)
Other operating expenses	(425,471)	(8,872)	(434,343)
Wages, salaries and pension costs	(213,880)	(1,401)	(215,281)
Financial income	15,071	(15,051)	20
Financial expenses	(50,757)	3,625	(47,132)
Income taxes	(36,273)	3,640	(32,633)
Other <sup>1</sup>	(400,891)	-	(400,891)
<b>Net income</b>	<b>106,918</b>	<b>(14,291)</b>	<b>92,627</b>
Basic and diluted earnings per share (in CHF)	2.37	(0.32)	2.05

<sup>1</sup> Includes all other line items not affected by the change in accounting policies

IMPACT OF CHANGES IN ACCOUNTING POLICIES			
CHFk January 1 - December 31, 2018	As reported	Adjustments	Balances without adoption of new accounting policies
<b>Cash Flow</b>			
Income before income taxes	143,191	(17,931)	125,260
Change in net working capital	(48,939)	6,505	(42,434)
Financial income	(15,071)	15,051	(20)
Financial expenses	50,757	(3,625)	47,132
Other <sup>1</sup>	333,968	-	333,968
<b>Total cash flow from operating activities</b>	<b>463,906</b>	<b>-</b>	<b>463,906</b>
<b>Total cash flow used in investing activities</b>	<b>(293,445)</b>	<b>-</b>	<b>(293,445)</b>
<b>Total cash flow used in financing activities</b>	<b>(23,908)</b>	<b>-</b>	<b>(23,908)</b>

<sup>1</sup> Includes all other line items not affected by the change in accounting policies



**IMPACT OF CHANGES IN ACCOUNTING POLICIES**

CHFk December 31, 2018	As reported	Adjustments	Balances without adoption of new accounting policies
<b>Assets</b>			
Non-current portion of trade and other receivables	56,813	2,443	59,256
Non-current portion of contract assets	4,067	(4,067)	-
Contract costs	45,933	(45,933)	-
Other non-current assets <sup>1</sup>	2,912,632	-	2,912,632
<b>Total non-current assets</b>	<b>3,019,445</b>	<b>(47,557)</b>	<b>2,971,888</b>
Current portion of trade and other receivables	325,960	100,619	426,579
Current portion of contract assets	99,682	(99,682)	-
Other current assets <sup>1</sup>	476,134	-	476,134
<b>Total current assets</b>	<b>901,776</b>	<b>937</b>	<b>902,713</b>
<b>Total assets</b>	<b>3,921,221</b>	<b>(46,620)</b>	<b>3,874,601</b>
<b>Liabilities</b>			
Non-current portion of loans and notes	1,568,262	22,096	1,590,358
Deferred tax liabilities	155,744	(14,232)	141,512
Non-current portion of deferred income	-	5,578	5,578
Non-current portion of contract liabilities	5,958	(5,958)	-
Other non-current liabilities <sup>1</sup>	142,395	-	142,395
<b>Total non-current liabilities</b>	<b>1,872,359</b>	<b>7,484</b>	<b>1,879,843</b>
Income tax payable	26,735	498	27,233
Current portion of deferred income	-	30,893	30,893
Current portion of contract liabilities	31,510	(31,510)	-
Other current liabilities <sup>1</sup>	509,440	-	509,440
<b>Total current liabilities</b>	<b>567,685</b>	<b>(119)</b>	<b>567,566</b>
<b>Total liabilities</b>	<b>2,440,044</b>	<b>7,365</b>	<b>2,447,409</b>
<b>Equity</b>			
Accumulated profit/(deficit)	49,524	(53,985)	(4,461)
Other <sup>1</sup>	1,431,653	-	1,431,653
<b>Total equity</b>	<b>1,481,177</b>	<b>(53,985)</b>	<b>1,427,192</b>

<sup>1</sup> Includes all other line items not affected by the change in accounting policies

**NOTE 6****Standards issued but not yet effective**

A number of new standards are effective for annual periods beginning after January 1, 2019, and earlier application is permitted; however, the Group has not adopted any new or amended standards early in preparing these consolidated financial statements.

Of those standards that are not yet effective, IFRS 16 is expected to have a material impact on the Group's financial statements in the period of initial application.

**IFRS 16 Leasing**

The Group is required to adopt IFRS 16 Leases as of January 1, 2019. IFRS 16 introduces a single, on-balance-sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

The Group will apply IFRS 16 initially on January 1, 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

The Group will recognize new assets and liabilities for its operating leases of properties (e.g., offices, retail shops), mobile sites (e.g., antennas, tunnels), transmission equipment (e.g., leased lines) and cars. The nature of expenses related to those leases will now change as the Group will recognize a depreciation charge for right-of-use assets and interest expense on lease liabilities instead of other operating expenses and transmission costs and costs of goods sold.

The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements. As of January 1, 2019, Sunrise expects an increase of assets and liabilities between CHF 275 million and CHF 285 million. Since the modified retrospective transition method was applied, no impact on equity is expected. Furthermore the expected positive impact on EBITDA lies between CHF 40 million and CHF 45 million. The increase in depreciation and interest expenses is expected between CHF 49 million and CHF 51 million. Therefore net income is expected to be negatively impacted within a range of CHF -4 million and CHF -11 million.

**Other standards**

The following new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements:

- IFRIC 23 Uncertainty over Income Tax Treatments, effective January 1, 2018
- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- Annual Improvements to IFRS Standards 2015-2017 Cycle - various standards
- Amendments to References to Conceptual Framework in IFRS Standards
- IFRS 17 Insurance Contracts

**NOTE 7****Segment reporting**

Operating segments have been determined based on management reports reviewed by the Board of Directors. The Group's organizational structure reflects the different customer groups to which the Group provides its telecommunications products and services: Residential, Business, Wholesale, and a reportable Head Office segment that includes the finance, IT and technology functions of the Group.

Residential provides fixed-line and mobile services to residential end customers as well as sales of handsets. Through its investments in local loop unbundling and IPTV as well as its contractual arrangements with Swiss Fibre Net AG, a joint venture of local energy providers in Switzerland, and Swisscom, Sunrise focuses on selling its products in the Swiss telecommunications market by marketing bundled offers in Fixnet/Internet, mobile and IPTV.

Business provides a full range of products and services, from fixed-line and mobile communications to Internet and data services as well as integration services to different business areas: small office and home office, small and medium-sized enterprises and large corporate clients.

The Wholesale product portfolio covers voice, data, Internet and infrastructure services such as carrier and roaming services, which are marketed to national and international telecom service providers as well as mobile virtual network operators.

Head Office activities comprise support units such as Network, IT and Operations (customer care) as well as staff functions like Finance, Human Resources and Strategy. Furthermore, certain fees and sundry revenue and payments of reminder fees are allocated to this operating segment.

Performance is measured based on EBITDA as included in the internal financial reports reviewed by the Board of Directors. EBITDA is defined as operating income before depreciation and amortization, net financial result items and income tax expenses. The EBITDA earned by each segment is considered an adequate measure of the operating performance of the segments reported to the Board of Directors for the purposes of resource allocation and performance assessment. Assets and liabilities are not allocated to operating segments in the management reports reviewed by the Board of Directors, as the review focuses on changes in net working capital on a Group level.

## Activities

CHFk January 1 - December 31	RESIDENTIAL		BUSINESS		WHOLESALE <sup>1</sup>		HEAD OFFICE ACTIVITIES		TOTAL	
	2018	2017 <sup>2</sup>	2018	2017 <sup>2</sup>	2018	2017 <sup>2</sup>	2018	2017 <sup>2</sup>	2018	2017 <sup>2</sup>
<b>Revenue</b>										
External customers	1,351,929	1,317,198	285,326	267,570	198,747	230,538	40,462	38,869	1,876,464	1,854,175
Inter-segment revenue	-	-	-	-	-	1,232	-	-	-	1,232
<b>Total</b>	<b>1,351,929</b>	<b>1,317,198</b>	<b>285,326</b>	<b>267,570</b>	<b>198,747</b>	<b>231,770</b>	<b>40,462</b>	<b>38,869</b>	<b>1,876,464</b>	<b>1,855,407</b>
<b>Transmission costs and costs of goods sold</b>										
External customers	(444,152)	(421,285)	(97,222)	(87,031)	(115,862)	(153,233)	(109)	-	(657,345)	(661,549)
Inter-segment costs	-	(1,232)	-	-	-	-	-	-	-	(1,232)
<b>Total</b>	<b>(444,152)</b>	<b>(422,517)</b>	<b>(97,222)</b>	<b>(87,031)</b>	<b>(115,862)</b>	<b>(153,233)</b>	<b>(109)</b>	<b>-</b>	<b>(657,345)</b>	<b>(662,781)</b>
Other operating expenses	(137,466)	(139,733)	(21,614)	(18,562)	(4,117)	(4,549)	(262,274)	(232,995)	(425,471)	(395,839)
Wages, salaries and pension costs	(58,135)	(59,991)	(41,734)	(39,308)	(4,651)	(4,576)	(109,360)	(110,729)	(213,880)	(214,604)
Other income	-	296	-	-	-	-	25,493	10,140	25,493	10,436
Other expenses	(32)	-	-	-	-	-	(2,925)	(286)	(2,957)	(286)
<b>EBITDA<sup>2</sup></b>	<b>712,144</b>	<b>695,253</b>	<b>124,756</b>	<b>122,669</b>	<b>74,117</b>	<b>69,412</b>	<b>(308,713)</b>	<b>(295,001)</b>	<b>602,304</b>	<b>592,333</b>

<sup>1</sup> Including hubbing revenue of CHF 95.6 million for 2018 and CHF 128.3 million for 2017.

<sup>2</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

## Reconciliation of net income before interest, tax, depreciation and amortization (EBITDA)

CHFk January 1 – December 31	2018	2017 <sup>1</sup>
<b>EBITDA from reportable segments</b>	<b>602,304</b>	<b>592,333</b>
Unallocated:		
– Amortization	(256,184)	(253,484)
– Depreciation	(169,508)	(174,660)
– Net financial items	(33,421)	(51,164)
– Gain on disposal	-	419,589
<b>Income before income taxes</b>	<b>143,191</b>	<b>532,614</b>

<sup>1</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

## NOTE 8

### Revenue from contracts with customers

CHFk January 1 – December 31	2018	2017 <sup>1</sup>
Sales of goods	281,165	298,833
Sales of services	1,595,299	1,555,342
<b>Total</b>	<b>1,876,464</b>	<b>1,854,175</b>

<sup>1</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

CHFk January 1 – December 31	2018	2017 <sup>1</sup>
Mobile services	1,270,891	1,231,048
– <i>Thereof mobile postpaid</i>	802,204	767,804
– <i>Thereof mobile prepaid</i>	96,273	122,340
– <i>Thereof mobile hardware</i>	279,403	255,686
– <i>Thereof other</i>	93,011	85,218
Landline services	325,331	378,276
– <i>Thereof landline voice</i>	125,997	137,353
– <i>Thereof hubbing</i>	95,580	128,253
– <i>Thereof other</i>	103,754	112,670
Landline Internet and TV	280,242	244,851
<b>Total</b>	<b>1,876,464</b>	<b>1,854,175</b>

<sup>1</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

Mobile services include revenue from voice and data traffic, subscription and connection fees for mobile devices and interconnection traffic as well as roaming revenue from group subscribers traveling abroad.

Landline services include revenue from traffic, subscription and connection for PSTN/ISDN and Voice over Internet Protocol and other revenue from services, which primarily relate to business services.

Internet services comprise revenue from subscription fees for xDSL, related traffic charges for Internet traffic and IPTV services.

Sales of goods include sales of mobile hardware and distribution and sales of ICT and telecommunications products in the e-business sector as well as installation, operation and maintenance services for these products.

The following is a description of the principal activities – separated by reportable segments – from which the Group generates its revenue. For more detailed information about reportable segments, see Note 7 on pages 118 et seq.

The residential segment generates revenue from mobile calling, landline, Internet and TV services from a single source. Mobile voice and data services are provided on both a postpaid and prepaid basis. Contracts for mobile subscriptions have no contract duration, whereas home products have a minimal contract duration of 12 months. The major part of the contracts do not contain a bundle arrangement of hardware and service. For this segment, the Group recognizes the revenue on a contract by contract basis.

The business segment generates revenue from a range of products and services, from mobile offers and landline voice, Internet and data solutions to systems integration and management of services. The specific needs of customers are met with a portfolio of standardized products for small businesses, as well as customized, scalable and secure offers for large enterprises. For part of this segment, a portfolio approach was applied in which the most significant adjustments reallocate a portion of the revenue to be received over the contract duration related to mobile hardware delivered at contract inception.

The wholesale segment generates revenue from mobile voice and data as well as Internet services to other national and international carriers.

### Contract balances

The following table provides information about trade receivables, contract assets and contract liabilities from contracts with customers.

CHFk	<b>December 31, 2018</b>	January 1, 2018
Trade receivables	382,773	400,018
Contract assets	103,749	94,507
Contract liabilities	(37,468)	(37,442)

Contract assets primarily relate to the Group's rights to consideration for hardware sold within a bundle arrangement but not yet billed. In order to comply with IFRS 15, accrued revenue in the amount of CHF 91.6 million, which was part of trade receivables in the prior

year, was reclassified to contract assets as of January 1, 2018. From the balance as of January 1, 2018, CHF 92.3 million were transferred to receivables during 2018.

Contract liabilities primarily relate to the advance consideration received from customers for activation fees for which revenue is recognized over the term of the service contract. In order to comply with IFRS 15, deferred income in the amount CHF 30.9 million was reclassified to contract liability as of January 1, 2018.

The following table includes revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date.

	2019	2020	2021	Total
Telecommunications services (mobile and landline)	57,208	7,766	337	65,311

### Contract costs

According to IFRS 15, commission fees directly attributable to a contract are capitalized and recognized as expenses over the contract term. This means that capitalized commission fees are amortized when the related revenues are recognized.

in CHFk	Contract cost
Balance as of January 1, 2018	39,821
Additional capitalized contract cost	35,267
Amortized contract cost	(29,155)
<b>Balance as of December 31, 2018</b>	<b>45,933</b>

## NOTE 9

### Wages, salaries and pension costs

CHFk January 1 - December 31	2018	2017 <sup>1</sup>
Wages and salaries	(193,975)	(197,048)
Pension expenses	(20,953)	(20,221)
Other social security costs	(18,268)	(16,132)
<b>Total</b>	<b>(233,196)</b>	<b>(233,401)</b>
<i>Thereof capitalized as non-current assets</i>	19,316	18,797
<b>Total</b>	<b>(213,880)</b>	<b>(214,604)</b>

<sup>1</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

Remuneration of the Executive Leadership Team and the Board of Directors is shown below:

### Remuneration of the Executive Leadership Team and the Board of Directors

CHFk January 1 – December 31	EXECUTIVE LEADERSHIP TEAM		BOARD OF DIRECTORS	
	2018	2017	2018	2017
Wages and salaries	(6,305)	(5,464)	(1,203)	(1,174)
Pension expenses	(808)	(837)	-	-
Other social security costs	(450)	(422)	(49)	(44)
<b>Total</b>	<b>(7,563)</b>	<b>(6,723)</b>	<b>(1,252)</b>	<b>(1,218)</b>

#### NOTE 10

### Other income and expenses

CHFk January 1 – December 31	2018	2017
<b>Other income</b>		
Early termination fees	4,252	2,133
Sub-leases	1,917	3,597
Reversal of asset retirement obligations <sup>1</sup>	10,243	-
Reversal of provision and accruals	2,321	1,404
Sale of network related assets	4,837	-
Gain on disposal of property, plant and equipment	1,853	3,236
Other	70	66
<b>Total</b>	<b>25,493</b>	<b>10,436</b>

<sup>1</sup> For further information, see Note 27.

CHFk January 1 – December 31	2018	2017
<b>Other expenses</b>		
Reversal of provisions from prior periods	483	-
Cost related to sale of network related assets	(2,654)	-
Litigation and claims	-	105
Loss on asset sales	(607)	-
Other	(179)	(391)
<b>Total</b>	<b>(2,957)</b>	<b>(286)</b>



## NOTE 11

## Net financial items

CHFk January 1 - December 31, 2018	Debt modification adjustment	Debt redemption costs	Interest	Total financial income/ (expenses) before foreign currency	Net foreign currency gains/(losses)	Total
<b>Income</b>						
Cash and cash equivalents	-	-	-	-	1,880	1,880
Financial liabilities measured at amortized cost	15,051	-	-	15,051	-	15,051
Other	-	-	20	20	385	405
<b>Total</b>	<b>15,051</b>	<b>-</b>	<b>20</b>	<b>15,071</b>	<b>2,265</b>	<b>17,336</b>
<b>Expenses</b>						
Cash and cash equivalents	-	-	(3)	(3)	-	(3)
Financial liabilities measured at amortized cost	-	(5,315)	(39,457)	(44,772)	-	(44,772)
Other	-	-	(5,982)	(5,982)	-	(5,982)
<b>Total</b>	<b>-</b>	<b>(5,315)</b>	<b>(45,442)</b>	<b>(50,757)</b>	<b>-</b>	<b>(50,757)</b>
<b>Net financial items</b>	<b>15,051</b>	<b>(5,315)</b>	<b>(45,422)</b>	<b>(35,686)</b>	<b>2,265</b>	<b>(33,421)</b>

CHFk January 1 - December 31, 2017 <sup>1</sup>	Debt modification adjustment	Debt redemption costs	Interest	Total financial income/ (expenses) before foreign currency	Net foreign currency gains/(losses)	Total
<b>Income</b>						
Cash and cash equivalents	-	-	1	1	-	1
Other	-	-	104	104	3,129	3,233
<b>Total</b>	<b>-</b>	<b>-</b>	<b>105</b>	<b>105</b>	<b>3,129</b>	<b>3,234</b>
<b>Expenses</b>						
Financial liabilities measured at amortized cost	-	-	(47,512)	(47,512)	-	(47,512)
Other	-	-	(4,919)	(4,919)	-	(4,919)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>(52,431)</b>	<b>(52,431)</b>	<b>(1,967)</b>	<b>(54,398)</b>
<b>Net financial items</b>	<b>-</b>	<b>-</b>	<b>(52,326)</b>	<b>(52,326)</b>	<b>1,162</b>	<b>(51,164)</b>

<sup>1</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

**NOTE 12****Disposal of subsidiary**

On August 3, 2017, Sunrise sold Swiss Towers AG (the "subsidiary") to a consortium led by Cellnex Telecom S.A. for a total consideration of CHF 502.3 million. The net result recorded on the transaction amounts to a gain of CHF 419.6 million and is recognized as a gain on disposal in the consolidated statements of income.

The result of the disposal of the subsidiary in 2017 is as follows:

CHFk January 1 - December 31	<b>2017</b>
Total sales proceeds	502,250
Disposal-related expenses	(5,548)
Forgiveness of loan	(4,196)
Disposal of net assets	(72,917)
<b>Gain on disposal of subsidiary</b>	<b>419,589</b>
Disposal of net assets	72,917
Disposal of cash and cash equivalents	(43,004)
<b>Net cash flow from disposal of subsidiary</b>	<b>449,502</b>

**NOTE 13****Income taxes****Analysis of income taxes**

CHFk January 1 - December 31	<b>2018</b>	2017 <sup>1</sup>
Current income tax expense	(52,913)	(53,960)
Adjustments recognized for current tax of prior periods	34	287
Deferred tax income	16,606	25,851
<b>Total income tax expense recognized in statement of income</b>	<b>(36,273)</b>	<b>(27,822)</b>
Income before income taxes	143,192	532,614
Expected tax expense at applicable tax rate of 20.8% (2017: 20.8%) <sup>2</sup>	(29,784)	(110,784)
Effect of income taxed at differing tax rates than 20.8% (2017: 20.8%) <sup>3</sup>	(102)	(26,085)
Non-deductible items	(3,629)	(3,288)
Additional tax deductions	26	1,617
Tax exempt disposal of subsidiary <sup>3</sup>	-	115,219
Tax effects of unrecognized tax losses	(2,818)	(5,333)
Adjustments to deferred tax balances arising from tax rate changes	-	908
Adjustments recognized for current tax of prior periods	34	287
Other effects	-	(363)
<b>Total income tax expense recognized in statement of income</b>	<b>(36,273)</b>	<b>(27,822)</b>

<sup>1</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

<sup>2</sup> The applicable income tax rate of 20.8% corresponds to the applicable tax rate of the main operating company Sunrise Communications AG in the current period.

<sup>3</sup> Related to the tax-exempt disposal of Swiss Towers AG on August 3, 2017, by Group companies in Luxembourg.

As of December 31, 2018, tax liabilities for income taxes totaling CHF 26.7 million (December 31, 2017: CHF 23.9 million) are recorded as "Income tax payable." Income tax receivables are recorded within "Current portion of trade and other receivables" and total CHF 0.5 million as of December 31, 2018 (December 31, 2017: CHF 0.1 million).

### Deferred tax assets and liabilities

Deferred tax assets are recognized in the statement of financial position in non-current assets. Deferred tax liabilities are recognized in the statement of financial position in non-current liabilities. The Group offsets tax assets and liabilities only if it has a legally enforceable right to offset current tax assets and current tax liabilities, and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

### Analysis of deferred tax assets and liabilities

CHFk December 31, 2018	Assets	Liabilities	Net amount
Intangible assets <sup>1</sup>	-	(157,660)	(157,660)
Property, plant and equipment	-	(1,683)	(1,683)
Customer acquisition costs	-	(4,713)	(4,713)
IFRS 15 net contract assets	-	(2,284)	(2,284)
Deferred income	1,753	(497)	1,256
Employee benefit obligations	17,231	-	17,231
Transaction fees	-	(3,336)	(3,336)
Revaluation of loans and notes	-	(4,485)	(4,485)
Other	-	(70)	(70)
<b>Total</b>	<b>18,984</b>	<b>(174,728)</b>	<b>(155,744)</b>
<i>Thereof deferred tax assets</i>			-
<i>Thereof deferred tax liabilities</i>			(155,744)

CHFk December 31, 2017 <sup>2</sup>	Assets	Liabilities	Net amount
Intangible assets <sup>1</sup>	-	(183,515)	(183,515)
Property, plant and equipment	-	(1,814)	(1,814)
Customer acquisition costs	9,263	-	9,263
Tax loss carryforwards	921	-	921
Deferred income	2,032	(575)	1,457
Employee benefit obligations	17,209	-	17,209
Transaction fees	-	(4,102)	(4,102)
Other	-	(110)	(110)
<b>Total</b>	<b>29,425</b>	<b>(190,116)</b>	<b>(160,691)</b>
<i>Thereof deferred tax assets</i>			-
<i>Thereof deferred tax liabilities</i>			(160,691)

<sup>1</sup> This deferred tax liability arises primarily from intangible assets recognized during the purchase price allocation (PPA) of Sunrise Communications AG, such as customer base and brands.

<sup>2</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

As of December 31, 2018, and 2017, no (net) deferred tax assets were recognized for Group companies that incurred a loss in the current period.

### Unrecognized deferred tax assets

Deferred tax assets relating to tax loss carryforwards or deductible temporary differences are recognized when it is probable that such tax deductions can be utilized in the future. As of December 31, 2018, the Group has the following unused tax loss carryforwards and deductible temporary differences for which no deferred tax assets are recognized.

### Unrecognized tax loss carryforwards/temporary differences

CHFk December 31	2018	2017
Due to expire within 1 year	4,578	-
Due to expire within 2 to 5 years	1,694	6,332
Due to expire within 6 to 10 years	126	239
Due to expire within 10 to 20 years	33,813	19,961
Amount not due to expire	726,716	723,318
<b>Total</b>	<b>766,927</b>	<b>749,850</b>

Of these amounts, CHF 4.9 million relate to operating companies (2017: CHF 4.8 million) and CHF 762.0 million relate to holding and financing companies (2017: CHF 745.0 million).

### Specification of deferred taxes

CHFk 2018	Deferred tax assets/ (liabilities) net, January 1	Deferred tax (expense)/ income	Deferred tax through OCI	Impact of change in accounting policy <sup>2</sup>	Deferred tax assets/ (liabilities) net, December 31
Intangible assets <sup>1</sup>	(183,515)	25,855	-	-	(157,660)
Property, plant and equipment	(1,814)	131	-	-	(1,683)
Customer acquisition costs	9,263	(5,892)	-	(8,084)	(4,713)
IFRS 15 net contract assets	-	(1,844)	-	(440)	(2,284)
Tax loss carryforwards	921	(921)	-	-	-
Deferred income	1,457	(201)	-	-	1,256
Employee benefit obligations	17,209	991	(969)	-	17,231
Transaction fees	(4,102)	766	-	-	(3,336)
Revaluation of loans and notes	-	(2,319)	-	(2,166)	(4,485)
Other	(110)	40	-	-	(70)
<b>Total</b>	<b>(160,691)</b>	<b>16,606</b>	<b>(969)</b>	<b>(10,690)</b>	<b>(155,744)</b>

<sup>1</sup> This deferred tax liability arises primarily from intangible assets recognized during the purchase price allocation (PPA) of Sunrise Communications AG, such as customer base and brands.

<sup>2</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see note 5).

CHFk 2017 <sup>1</sup>	<b>Deferred tax assets/ (liabilities) net, January 1</b>	Deferred tax (expense)/ income	Deferred tax through OCI	Change in consolidation scope due to disposal of subsidiary <sup>2</sup>	<b>Deferred tax assets/ (liabilities) net, December 31</b>
Intangible assets <sup>1</sup>	(211,659)	28,144	-	-	(183,515)
Property, plant and equipment	(2,849)	(1,300)	-	2,335	(1,814)
Customer acquisition costs	10,885	(1,622)	-	-	9,263
Tax loss carryforwards	2,901	(1,980)	-	-	921
Deferred income	1,623	(166)	-	-	1,457
Employee benefit obligations	20,873	765	(4,233)	(196)	17,209
Transaction fees	(6,203)	2,101	-	-	(4,102)
Other	(19)	(91)	-	-	(110)
<b>Total</b>	<b>(184,448)</b>	<b>25,851</b>	<b>(4,233)</b>	<b>2,139</b>	<b>(160,691)</b>

<sup>1</sup> This deferred tax liability arises primarily from intangible assets recognized during the PPA of Sunrise Communications AG, such as customer base and brands.

<sup>2</sup> Related to the disposal of Swiss Towers AG on August 3, 2017.

**NOTE 14****Earnings per Share**

Basic Earnings per Share is calculated by dividing net profit for the period attributable to ordinary equity holders of the parent company by the weighted number of ordinary shares outstanding during the period.

January 1 – December 31	2018	2017
<b>Basic earnings per share</b>		
Net income attributable to equity holders of SCG (CHFk)	106,918	504,792
Weighted average number of shares outstanding	45,062,317	45,000,000
<b>Basic earnings per share (in CHF)<sup>1</sup></b>	<b>2.37</b>	<b>11.22</b>
<b>Diluted earnings per share</b>		
Net income attributable to equity holders of SCG (CHFk)	106,918	504,792
Weighted average number of shares outstanding	45,153,679	45,155,374
<b>Diluted earnings per share (in CHF)</b>	<b>2.37</b>	<b>11.18</b>

<sup>1</sup> In 2017, the net gain of CHF 419.6 million resulting from the sale of Swiss Towers AG positively impacted the earnings per share positively.

If the vesting conditions were fully met as of December 31, 2018, a maximum of 98,870 shares (December 31, 2017: 191,920) would have a dilutive effect.

**NOTE 15****Intangible assets**

CHFk 2018	Goodwill	Subscriber base	Other rights, software, licenses and brands	Intangibles under development	Total
Costs as of January 1	1,147,769	1,218,683	1,234,531	41,680	3,642,663
Additions <sup>1</sup>	-	-	42,909	91,154	134,063
Transferred to/(from) other items	-	-	28,072	(28,072)	-
Assets disposed of or fully amortized during the period	-	-	(3,681)	-	(3,681)
<b>Costs as of December 31</b>	<b>1,147,769</b>	<b>1,218,683</b>	<b>1,301,831</b>	<b>104,762</b>	<b>3,773,045</b>
Accumulated amortization and write-downs as of January 1	-	(805,729)	(626,575)	-	(1,432,304)
Amortization for the period	-	(107,727)	(148,457)	-	(256,184)
Assets disposed of or fully amortized during the period	-	-	3,681	-	3,681
<b>Accumulated amortization and write-downs as of December 31</b>	<b>-</b>	<b>(913,456)</b>	<b>(771,351)</b>	<b>-</b>	<b>(1,684,807)</b>
<b>Net carrying value as of December 31</b>	<b>1,147,769</b>	<b>305,227</b>	<b>530,480</b>	<b>104,762</b>	<b>2,088,238</b>

<sup>1</sup> Thereof cash additions CHF 121.3 million.

CHFk 2017	Goodwill	Subscriber base	Other rights, software, licenses and brands	Intangibles under development	<b>Total</b>
Costs as of January 1	1,147,769	1,218,683	1,223,444	19,647	3,609,543
Additions <sup>1</sup>	-	-	73,625	41,318	114,943
Transferred to/(from) other items	-	-	19,285	(19,285)	-
Assets disposed of or fully amortized during the period	-	-	(81,823)	-	(81,823)
<b>Costs as of December 31</b>	<b>1,147,769</b>	<b>1,218,683</b>	<b>1,234,531</b>	<b>41,680</b>	<b>3,642,663</b>
Accumulated amortization and write-downs as of January 1	-	(692,379)	(568,264)	-	(1,260,643)
Amortization for the period	-	(113,350)	(140,134)	-	(253,484)
Assets disposed of or fully amortized during the period	-	-	81,823	-	81,823
<b>Accumulated amortization and write-downs as of December 31</b>	<b>-</b>	<b>(805,729)</b>	<b>(626,575)</b>	<b>-</b>	<b>(1,432,304)</b>
<b>Net carrying value as of December 31</b>	<b>1,147,769</b>	<b>412,954</b>	<b>607,956</b>	<b>41,680</b>	<b>2,210,359</b>

<sup>1</sup> Thereof cash additions CHF 107.5 million.

Subscriber base, which comprises both residential and business customers, is defined as total Sunrise business excluding prepaid mobile. Its useful life corresponds to the weighted average useful life of the different subscriber types of the Company.

Licenses, software, brands and other rights represent the various equipment required to operate the business, software developed or customized by Sunrise as well as the brands under which the Company markets its mobile voice and data services. Other rights include primarily Indefeasible Rights of Use (IRU) to transfer capacity from one point to another.

In 2018 and 2017 no write-downs for impairment of other rights, software, licenses and brands were recognized. In the year ended December 31, 2018, internal costs capitalized totaled CHF 11.6 million (2017: CHF 10.6 million). No interest was capitalized during the years ended December 31, 2018, and December 31, 2017.

Additions from third parties in 2018 and 2017 include software licenses, IRU, product development as well as investments in process digitalization.

The carrying value of intangible assets not yet amortized is CHF 104.8 million for the year ended December 31, 2018, and mainly comprises assets under construction and not yet used IRUs (2017: CHF 41.7million).

As of December 31, 2018, and December 31, 2017, the carrying value of intangible assets is not pledged.

### Impairment tests for goodwill

Goodwill is allocated as of the acquisition date to the Group's cash-generating units (CGUs). The Group's CGUs consist of the Residential, Business and Wholesale operating segments, and the impairment test was carried out on these CGUs in the fourth quarter of 2018. An operating-segment-level summary of goodwill allocation is presented below:

#### Goodwill allocation

CHFk December 31	2018	2017
Residential	905,319	905,319
Business	190,029	190,029
Wholesale	52,421	52,421
<b>Total</b>	<b>1,147,769</b>	<b>1,147,769</b>

Goodwill has an indefinite useful life and is therefore analyzed for impairment on an annual basis. In 2018, there are no other recorded intangible assets with indefinite useful lives (2017: CHF nil). The recoverable amount of all CGUs has been determined based on its value-in-use using a discounted cash flow (DCF) method. The key assumptions used are listed below:

#### Key assumptions used for goodwill testing

CHFk December 31	2018	2017
Long-term growth rate	0.1%	0.0%
WACC (pre-tax)	5.3%	5.6%

The calculation basis for the DCF model is the Group's business plan as approved by the Board of Directors. The detailed planning horizon of the business plan covers three years. The free cash flows beyond the three-year planning period were extrapolated using a long-term growth rate. The discount rate is the weighted average cost of capital (WACC) before tax of the Group. Budgeted gross margin and growth rates are based on past performance and management's expectations of market development. As of the impairment test date, the recoverable amount for all CGUs was higher than the carrying amount.

#### Sensitivity analysis

Management performed sensitivity analyses, which

- increased the discount rate to 7.0% by stable other key assumptions
- set the long-term growth rate to –1.0% by stable other key assumptions
- combined the discount rate of 5.5% with a growth rate of 0%

The results of the sensitivity analyses demonstrated that the above changes in the key assumptions would not cause the carrying value of goodwill to exceed the recoverable amount for any of the three CGUs as of December 31, 2018.



**NOTE 16****Property, plant and equipment**

CHFk 2018	Telecommunica- tions installations	Other installations	Property, plant and equipment under construction	<b>Total</b>
Costs as of January 1	1,617,940	109,163	111,327	1,838,430
Additions <sup>1</sup>	108,068	4,257	87,313	199,638
Transferred to/(from) other items	83,116	7,616	(90,732)	-
Assets disposed of during the period	(25,692)	(20)	-	(25,712)
<b>Costs as of December 31</b>	<b>1,783,432</b>	<b>121,016</b>	<b>107,908</b>	<b>2,012,356</b>
Accumulated depreciation and write-downs as of January 1	(956,761)	(86,093)	-	(1,042,854)
Depreciation for the period	(157,677)	(11,831)	-	(169,508)
Assets disposed of during the period	23,749	20	-	23,769
<b>Accumulated depreciation and write-downs as of December 31</b>	<b>(1,090,689)</b>	<b>(97,904)</b>	<b>-</b>	<b>(1,188,593)</b>
<b>Net carrying value as of December 31</b>	<b>692,743</b>	<b>23,112</b>	<b>107,908</b>	<b>823,763</b>
<b>Thereof carrying value of finance leases as of December 31</b>	<b>3,987</b>	<b>-</b>	<b>-</b>	<b>3,987</b>

<sup>1</sup> Thereof cash additions CHF 181.8 million.

CHFk 2017	Telecommunica- tions installations	Other installations	Property, plant and equipment under construction	<b>Total</b>
Costs as of January 1	1,713,786	128,170	56,850	1,898,806
Additions <sup>1</sup>	101,608	4,800	99,032	205,440
Transferred to/(from) other items	40,208	2,983	(43,191)	-
Assets disposed of during the period	(16,952)	(26,790)	-	(43,742)
Change in consolidation scope due to disposal of subsidiary	(220,710)	-	(1,364)	(222,074)
<b>Costs as of December 31</b>	<b>1,617,940</b>	<b>109,163</b>	<b>111,327</b>	<b>1,838,430</b>
Accumulated depreciation and write-downs as of January 1	(917,743)	(97,271)	-	(1,015,014)
Depreciation for the period	(159,622)	(15,038)	-	(174,660)
Assets disposed of during the period	12,365	26,216	-	38,581
Change in consolidation scope due to disposal of subsidiary	108,239	-	-	108,239
<b>Accumulated depreciation and write-downs as of December 31</b>	<b>(956,761)</b>	<b>(86,093)</b>	<b>-</b>	<b>(1,042,854)</b>
<b>Net carrying value as of December 31</b>	<b>661,179</b>	<b>23,070</b>	<b>111,327</b>	<b>795,576</b>
<b>Thereof carrying value of finance leases as of December 31</b>	<b>5,530</b>	<b>-</b>	<b>-</b>	<b>5,530</b>

<sup>1</sup> Thereof cash additions CHF 207.5 million.

In 2018, the Group recognized CHF 2.6 million in write-downs (2017: CHF 2.5 million). These were primarily attributable to the replacement of the mobile network equipment.

In the period ended December 31, 2018, capitalized internal costs totaled CHF 7.7 million (2017: CHF 8.2 million). In 2018 and 2017 no interest was capitalized. Additions from third parties in 2018 include a decrease of CHF 2.1 million in asset retirement obligations without cash effect due to lower cost assumptions (2017: increase of CHF 3.9 million). The Group has recourse guarantee obligations for payment and performance in connection with lease contracts (see Note 32 on page 154).

**NOTE 17**
**Trade and other receivables**

CHFk December 31	2018	2017
Trade and other receivables	382,773	401,794
Accrued revenue <sup>1</sup>	-	91,629
Contract assets <sup>1</sup>	103,749	-
<b>Total</b>	<b>486,522</b>	<b>493,423</b>
<i>Thereof current portion of trade and other receivables</i>	<i>325,960</i>	<i>435,217</i>
<i>Thereof current portion of contract assets</i>	<i>99,682</i>	<i>-</i>
<i>Thereof non-current portion of trade and other receivables</i>	<i>56,813</i>	<i>58,206</i>
<i>Thereof non-current portion of contract assets</i>	<i>4,067</i>	<i>-</i>

<sup>1</sup> In order to be compliant with IFRS 15 accrued revenue is newly classified as contract assets. As of December 31, 2018, contract assets includes assets arising from multi-component contracts (as described in note 4) of CHF 12.2 million.

CHFk December 31	2018	2017 <sup>1</sup>
Allowances for uncollectible amounts as of January 1	(93,193)	(87,025)
Increase of allowances for uncollectible amounts, net	(16,959)	(6,168)
<b>Total allowances for uncollectible amounts</b>	<b>(110,152)</b>	<b>(93,193)</b>

<sup>1</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

CHFk December 31, 2018	Not due	1-36 days	37-67 days	68-98 days	> 99 days	Trade and other receivables	Not due	Contract assets
Gross amount	328,232	32,092	13,328	7,297	111,410	492,359	104,315	104,315
Expected credit loss	(5,520)	(2,268)	(2,359)	(2,606)	(96,833)	(109,586)	(566)	(566)
<b>Net amount</b>	<b>322,712</b>	<b>29,824</b>	<b>10,969</b>	<b>4,691</b>	<b>14,577</b>	<b>382,773</b>	<b>103,749</b>	<b>103,749</b>

CHFk December 31, 2017	Not due	1-36 days	37-67 days	68-98 days	> 99 days	Trade and other receivables	Not due	Accrued income
Gross amount	347,143	26,479	13,502	6,467	101,396	494,987	91,629	91,629
Expected credit loss	(1,473)	(4,417)	(2,089)	(2,395)	(82,819)	(93,193)	-	-
<b>Net amount</b>	<b>345,670</b>	<b>22,062</b>	<b>11,413</b>	<b>4,072</b>	<b>18,577</b>	<b>401,794</b>	<b>91,629</b>	<b>91,629</b>

The total net amount of trade receivables past due as of December 31, 2018, was CHF 60.1 million (2017: CHF 56.1 million). The carrying value of receivables was not pledged as of December 31, 2018, or as of December 31, 2017.

**NOTE 18****Prepaid expenses**

CHFk December 31	<b>2018</b>	2017
Prepaid lease payments	336	417
Other prepaid expenses	9,181	6,312
<b>Total</b>	<b>9,517</b>	<b>6,729</b>
<i>Thereof current</i>	8,886	6,481
<i>Thereof non-current</i>	631	248

**NOTE 19****Inventories**

CHFk December 31	<b>2018</b>	2017
Finished goods and merchandise	43,412	53,008
Work in progress	2,917	4,466
<b>Total</b>	<b>46,329</b>	<b>57,474</b>

Write-downs of inventories to the net realizable value totaled CHF 3.6 million in 2018 (2017: CHF 3.4 million). The carrying amount of inventories recognized as an expense in Transmission costs and cost of goods sold and Other operating expenses totaled CHF 240.6 million (2017: CHF 202. million). No inventories were expected to be sold after more than one year.

**NOTE 20****Cash and cash equivalents**

CHFk December 31	<b>2018</b>	2017
Cash and cash equivalents	420,919	272,486
<b>Total</b>	<b>420,919</b>	<b>272,486</b>

Cash and cash equivalents comprise primarily short-term bank deposits with mainly Swiss banks with a high credit rating. The Group does not hold any outstanding term deposits as of December 31, 2018 (December 31, 2017: CHF nil).

As of December 31, 2018, the Group had no pledged cash and cash equivalents (December 31, 2017: CHF nil).

**NOTE 21****Equity**

CHFk December 31	<b>2018</b>	2017 <sup>1</sup>
Common shares	45,069	45,000
Share premium <sup>2</sup>	2,162,727	2,342,653
Other reserve	(776,143)	(776,143)
Accumulated profit/(deficit)	49,524	(101,229)
<b>Total equity</b>	<b>1,481,177</b>	<b>1,510,281</b>

<sup>1</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

<sup>2</sup> Share premium includes reserves which are freely available for distribution of dividends.

**Share capital**

As of December 31, 2018, the total number of authorized and issued ordinary shares comprised 45,069,028 shares with a nominal value of CHF 1 each. Holders of these shares are entitled to dividends and one vote per share at General Meetings of the Company. In connection with the management long-term incentive programs, and as approved by the Annual General Meeting on April 15, 2016, the share capital was increased by means of an authorized capital increase of 69,028 shares on February 9, 2018.

**Other reserve**

Other reserve represents the difference in the fair value of the contribution in kind and the book value of assets and liabilities as part of the business restructuring in 2015. Please see the 2015 financial report for more information.

**Accumulated profit / (deficit)**

Actuarial gains and losses, net of taxes, the impact of the business restructuring, the results for the current period and earnings or losses carried forward are recognized in accumulated profit/(deficit).

**Dividend**

CHFk	<b>2018</b>	2017
Cash dividends on ordinary shares declared and paid:		
Final dividend for 2017: CHF 4.00 per share (2016: CHF 3.33)	180,276	149,850
Proposed dividends on ordinary shares:		
Proposed cash dividend for 2018: CHF 4.20 per share (2017: CHF 4.00)	189,290	180,276

At the Annual General Meeting on April 11, 2018, the payment of an ordinary dividend from statutory reserves from capital contributions in the amount of CHF 180.3 million (CHF 4.0 per share) in respect of the 2017 financial year was approved. The dividend payment was made on April 18, 2018.

The Board of Directors will propose a payment of an ordinary dividend of CHF 4.20 per share at the Annual General Meeting in respect of the 2018 financial year. This equates to a total dividend distribution of CHF 189.3 million. The dividend payment is planned for April 16, 2019. Proposed dividends on ordinary shares are subject to approval at the Annual General Meeting and are not recognized as a liability as of December 31, 2018.

**NOTE 22****Share-based payment**

CHFk January 1 – December 31	2018	2017
Equity-settled share-based payment	1,610	2,702
– <i>Thereof MLTIPZero</i>	141	680
– <i>Thereof MLTIP</i>	27	191
– <i>Thereof MLTIP Revised</i>	655	240
– <i>Thereof MLTIPE</i>	787	1,060
– <i>Thereof portion of short-term incentive paid in shares<sup>1</sup></i>	-	531
Portion of short-term incentive settled in cash <sup>1</sup>	-	1,447
<b>Total expenses for share-based payment</b>	<b>1,610</b>	<b>4,149</b>

<sup>1</sup> The MLTIP Revised is discontinued and therefore the 2018 bonus will be fully paid out in cash and does not impact the equity as of December 31, 2018.

The Company allocated shares to employees in the following employee incentive plans:

**Management Long-Term Investment Programs (MLTIPZero, MLTIP, MLTIP Revised and MLTIPE)**

Certain members of the Executive Leadership Team and selected Other Top Management were offered the opportunity to take part in Management Long-Term Investment Programs. These plans grant a certain number of shares (Performance Shares) for each held Investment Share. As a general rule, Performance Shares do not vest until the employees have completed a three-year period of service. The related expense is recognized over the service period and adjusted by the expected number of employees eligible for Performance Shares.

**MLTIPZero**

Participants in this program could purchase a certain number of Sunrise shares (Investment Shares) at the initial public offering price of CHF 68. Purchasers of such offered shares are subject to a blocking period of three years from the first day of trading. There were no minimum service requirements for employees for Investment Shares; however, the matching number of Performance Shares awarded at the end of the blocking period was subject to continued employment and satisfaction of certain performance targets. In February 2018, the blocking period for this plan ended and 69,028 Performance Shares were awarded.

**MLTIP**

Under this plan, eligible participants were allowed to elect to receive a portion of their annual short-term incentive, capped at a maximum of 50% of said short-term incentive, in the form of shares (Investment Shares), which are then blocked for a three-year period. There were no minimum service requirements for employees for Investment Shares; however, the matching number of Performance Shares awarded at the end of the blocking period was subject to continued employment and satisfaction of certain performance targets. In February 2018, the blocking period for this plan ended and 69,028 Performance Shares were awarded.

**MLTIP Revised**

The rules of this plan are similar to the MLTIP. For members of the Executive Leadership Team, shares, if any, will be allocated as Performance Shares subject to continued employment and satisfying the performance target of the plan. In the event that the good leaver provision applies, awards in the form of Performance Shares vest immediately pro-rata of the expired performance period. However, the shares to be allocated for such vesting of Performance Shares will only be allocated at the end of the performance period. For selected Other Top Management members shares will be allocated in form of Matching

Shares subject to continued employment. In the event that the good leaver provision applies, Matching Shares are immediately allocated on a pro-rata basis for the duration of employment until the relevant termination date. As of December 31, 2018, 6,067 MLTIP Revised Investment Shares (2017: 7,774) out of the 2016 short-term incentive are eligible for Performance Shares with a value at grant date of CHF 64.02 per share. 8,120 MLTIP Revised Investment Shares (2017: 9,138) out of the 2016 short-term incentive are eligible for Matching Shares with a value at grant date of CHF 62.72 per share for shares granted in March 2017 and CHF 64.02 per share for shares granted in June 2017. As of December 31, 2018, 9,544 MLTIP Revised Investment Shares (2017: nil) out of the 2017 short-term incentive were eligible for Performance Shares with a value at grant date of CHF 80.75 per share for shares granted in March 2018 and CHF 77.75 per share for shares granted in April 2018. 7,651 MLTIP Revised Investment Shares (2017: nil) out of the 2017 short-term incentive are eligible for Matching Shares with a value at grant date of CHF 80.75 per share for shares granted in March 2018 and CHF 77.75 per share for shares granted in April 2018. As of December 31, 2018, 808 MLTIP Revised Investment Shares (2017: 808) are eligible for Performance Shares with a value at grant date of CHF 81.40.

#### MLTIPE

Participants in this program could purchase a certain number of Sunrise shares at the share price on the date of purchase.

The same rules as for the MLTIP apply, and the CEO benefits from the good leaver clause as in the MLTIP Revised plan. In 2018, 40,249 MLTIPE Investment Shares (2017: 46,771) were eligible for Performance Shares with a value at grant date of CHF 69.55 for shares granted in April 2016, CHF 65.03 for shares granted in June 2016, CHF 85.35 for shares granted in June 2017 and CHF 77.35 per share for shares granted in July 2017.

In 2018 and 2017, the allocation and cost of share-based payments to the members of the Board of Directors and the Executive Leadership Team were as follows:

CHFk January 1 – December 31	<b>2018</b>	2017
Members of the Board of Directors	389	244
Members of the Executive Leadership Team	1,329	2,010
<b>Total</b>	<b>1,718</b>	<b>2,254</b>

**NOTE 23****Employee benefit obligations**

The Group provides retirement benefits to its employees as required by Swiss law by means of a pension fund that is a separate legal entity. The Sunrise Pension Fund is a separate, semi-autonomous foundation governed by the Occupational Pensions and Foundations Office of the Canton of Zurich. Risks for invalidity and death are reinsured by Elips Life. The fixed assets of the Sunrise Pension Fund are managed by Credit Suisse Asset Management in Zurich in accordance with organizational guidelines and investment regulations. The Board of Trustees consists of an equal number of employer and employee representatives and is responsible for managing the Foundation in accordance with Swiss law. Per the Occupational Pensions Act, a temporary funding shortfall is permitted. The Board of Trustees must take appropriate measures to solve the shortfall within a reasonable timeframe. If those measures do not lead to the desired results, the Pension Fund may temporarily charge remedial contributions to employers, insured persons and pensioners. The employer contribution must at least equal the aggregate contributions levied from the insured persons.

The pension fund operates a basic pension plan for all staff and a supplemental plan for employees having an insured annual salary of more than CHF 150,000. All Swiss plans qualify as defined benefit plans under IAS 19. The pension fund of Sunrise Communications AG is overfunded by 16% as of December 31, 2018 (December 31, 2017: 21.9%). Future pension benefits are based primarily on years of credited service and on contributions made by the employee and employer over the service period, which vary according to age as a percentage of insured salary. The rate of annual interest credited to employee accounts on the balance representing the minimum amount required under pension law is defined by the Swiss government. In addition, the conversion factor used to convert the accumulated capital upon retirement into an annual pension is also defined by the Swiss government. In the case of overfunding it may be possible to a limited extent to reduce the level of contributions from both employer and employee. A distribution of excess funds from the pension fund to the Group is not possible. These defined benefit plans expose the Group to actuarial risks, such as currency risk, interest rate risk and market (investment) risk.

**Pension costs resulting from defined benefit plans**

CHFk January 1 – December 31	2018	2017
Current service costs	(20,953)	(20,221)
Interest costs on benefit obligations	(687)	(679)
<b>Pension costs recognized in the statement of income</b>	<b>(21,640)</b>	<b>(20,900)</b>

**Assets and obligations**

CHFk December 31	2018	2017
Fair value of plan assets	(316,915)	(313,676)
Defined benefit obligation	401,796	398,445
<b>Employee benefit obligations recognized in the statement of financial position</b>	<b>84,881</b>	<b>84,769</b>



### Movement in defined benefit obligations

CHFk	2018	2017
Balance as of January 1	398,445	399,112
Reduction of subsidiaries	-	(961)
<b>Included in the statement of income</b>		
– Current service costs	21,155	20,330
– Interest costs on defined benefit obligation	2,611	2,492
<b>Included in other comprehensive income</b>		
Actuarial (gain)/loss arising from:		
– Demographic assumptions	-	-
– Financial assumptions	(13,460)	(1,478)
– Experience adjustment	(3,562)	(1,608)
<b>Other</b>		
Employee contributions	10,519	10,399
Benefits paid/transferred	(13,912)	(29,841)
<b>Total defined benefit obligations</b>	<b>401,796</b>	<b>398,445</b>

### Movement in fair value of plan assets

CHFk	2018	2017
Balance as of January 1	(313,676)	(296,878)
<b>Included in the statement of income</b>		
Interest income	(2,126)	(1,922)
<b>Included in other comprehensive income</b>		
Return on plan assets excluding interest income	12,250	(22,270)
Actuarial losses	-	4,613
<b>Other</b>		
Company contributions	(16,756)	(16,661)
Employee contributions	(10,519)	(10,399)
Benefits paid	13,912	29,841
<b>Total fair value of plan assets</b>	<b>(316,915)</b>	<b>(313,676)</b>

## Asset allocation of plan assets

CHFk	DECEMBER 31, 2018		DECEMBER 31, 2017	
	Quoted prices	Unquoted prices	Quoted prices	Unquoted prices
Cash and cash equivalents	(5,229)	-	(6,681)	-
Equity securities	-	111,015	-	117,785
Debt securities	-	151,961	-	144,542
Real estate	32	46,396	31	44,260
Other	-	12,740	-	13,739
<b>Total</b>	<b>(5,197)</b>	<b>322,112</b>	<b>(6,650)</b>	<b>320,326</b>

Plan assets do not include any property used by Group companies as of December 31, 2018. Furthermore, the defined benefit plans do not hold any shares of Sunrise Communications Group AG.

Periodically, an asset-liability matching study is performed by the pension fund's asset manager, in which the consequences of the strategic investment policies are analyzed (the latest study was conducted in 2017). The strategic investment policy of the pension fund can be summarized as follows: a strategic asset mix comprising 27.5% to 42.5% equity securities, 40.5% to 49.5% government bonds, 11% to 19% real estate, 0.0% to 2.0% cash in banks and 0.8% to 7.2% other investments.

## Principal actuarial assumptions

%	2018	2017
Discount rate	0.85	0.67
Future salary increases	2.00	2.00

As of December 31, 2018, the weighted average duration of the defined benefit obligation was 18.2 years (2017: 17.4 years). For 2019, the Group's projected contributions to its pension funds total CHF 15.5 million.

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

## Sensitivity analysis

CHFk	Increase	Decrease
Effect on defined benefit obligation on December 31, 2018:		
- Discount rate (0.5 ppt movement)	(33,578)	39,417
- Future salary increases (1 ppt movement)	11,789	(10,821)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

## NOTE 24

## Borrowings

CHFk December 31	Nominal value at inception	Capitalized debt issuance cost <sup>1</sup>	Debt modification revaluation <sup>5</sup>	Debt repayments	2018	2017 <sup>1</sup>
<b>Floating rate</b>						
Term loan B3 - CHF <sup>2</sup>	1,410,000	(18,683)	(22,096)	-	1,369,221	894,331
<b>Fixed rate</b>						
Senior secured notes - CHF <sup>3</sup>	500,000	-	-	(500,000)	-	495,625
Senior secured notes - CHF <sup>4</sup>	200,000	(959)	-	-	199,041	-
<b>Total loans and notes</b>	<b>2,110,000</b>	<b>(19,642)</b>	<b>(22,096)</b>	<b>(500,000)</b>	<b>1,568,262</b>	<b>1,389,956</b>
<b>Other</b>						
Debt relating to finance leases	-	-	-	(6,966)	4,747	9,496
<b>Total borrowings</b>					<b>1,573,009</b>	<b>1,399,452</b>
<i>Thereof current</i>					1,973	4,899
<i>Thereof non-current</i>					1,571,036	1,394,553

<sup>1</sup> At issuance of the borrowings or at the debt modification date

<sup>2</sup> Issued February 13, 2015 (CHF 1,000.0 million), February 18, 2015 (CHF 360.0 million); partially repaid on August 4, 2017 (CHF 450.0 million) and issued June 19, 2018 (CHF 500.0 million)

<sup>3</sup> Issued February 18, 2015, repaid on June 20, 2018

<sup>4</sup> Issued June 27, 2018

<sup>5</sup> Thereof CHF 15.1 million reflected in financial income, CHF 3.6 million in financial expenses and CHF 10.7 million in accumulated deficit as of January 1, 2018

The Group's financial indebtedness is governed by financial covenants specified in the senior facilities agreement dated February 9, 2015, and as amended and restated from time to time, most recently on June 15, 2018. The sole financial covenant is the leverage ratio. The Group performs such covenant test biannually on June 30 and December 31. The last covenant test, performed as of December 31, 2018, showed that the Group was in compliance with the applicable financial covenant.

Liabilities relating to finance leases are related to lease agreements on fiber networks.

In Q2 2018 the Group completed the amendment and extension as well as repricing of its existing senior facilities agreement. The existing term loan B facility ("TLB") has been increased by CHF 500 million to CHF 1,410 million. The revolving credit facility ("RCF") remains unchanged at CHF 200 million and is currently undrawn. The leverage-dependent margins of the facilities were reduced by 25 and 30 bps throughout the margin grid for the TLB and the RCF, respectively. The new facilities have a maturity of 5 years.

The proceeds from the increased TLB were used to prematurely redeem the CHF 500 million 2.125% senior secured notes due in March 2022. Furthermore, the Group placed CHF 200 million inaugural Swiss domestic senior secured notes due in 2024 with a coupon of 1.5%. The issue price was set at 100.2% of the nominal amount and redemption will be at par. In connection with the repricing transaction, the Group incurred transaction costs in the amount of CHF 9.7 million which are capitalized as debt issuance cost on the consolidated statement of financial position.

## NOTE 25

## Financial instruments

CHFk December 31, 2018	Financial assets at amortized cost	Financial liabilities measured at amortized cost	Total
<b>Non-current financial assets</b>			
Non-current portion of trade and other receivables	56,813	-	56,813
<b>Total non-current financial assets</b>	<b>56,813</b>	<b>-</b>	<b>56,813</b>
<b>Current financial assets</b>			
Current portion of trade and other receivables	325,424	-	325,424
Cash and cash equivalents	420,919	-	420,919
<b>Total current financial assets</b>	<b>746,343</b>	<b>-</b>	<b>746,343</b>
<b>Total financial assets</b>	<b>803,156</b>	<b>-</b>	<b>803,156</b>
<b>Non-current financial liabilities</b>			
Non-current portion of loans and notes	-	(1,568,262)	(1,568,262)
Non-current portion of financial leases	-	(2,774)	(2,774)
Non-current portion of trade payables and other payables	-	(368)	(368)
<b>Total non-current financial liabilities</b>	<b>-</b>	<b>(1,571,404)</b>	<b>(1,571,404)</b>
<b>Current financial liabilities</b>			
Current portion of financial leases	-	(1,973)	(1,973)
Current portion of trade payables and other payables	-	(494,450)	(494,450)
Other current liabilities	-	(446)	(446)
<b>Total current financial liabilities</b>	<b>-</b>	<b>(496,869)</b>	<b>(496,869)</b>
<b>Total financial liabilities</b>	<b>-</b>	<b>(2,068,273)</b>	<b>(2,068,273)</b>
<b>Total</b>	<b>803,156</b>	<b>(2,068,273)</b>	<b>(1,265,117)</b>

CHFk December 31, 2017 <sup>1</sup>	Financial assets at amortized cost	Financial liabilities measured at amortized cost	Total
<b>Non-current financial assets</b>			
Non-current portion of trade and other receivables	58,206	-	58,206
<b>Total non-current financial assets</b>	<b>58,206</b>	<b>-</b>	<b>58,206</b>
<b>Current financial assets</b>			
Current portion of trade and other receivables	435,153	-	435,153
Cash and cash equivalents	272,486	-	272,486
<b>Total current financial assets</b>	<b>707,639</b>	<b>-</b>	<b>707,639</b>
<b>Total financial assets</b>	<b>765,845</b>	<b>-</b>	<b>765,845</b>
<b>Non-current financial liabilities</b>			
Non-current portion of loans and notes	-	(1,389,956)	(1,389,956)
Non-current portion of financial leases	-	(4,597)	(4,597)
Non-current portion of trade payables and other payables	-	(5,308)	(5,308)
<b>Total non-current financial liabilities</b>	<b>-</b>	<b>(1,399,861)</b>	<b>(1,399,861)</b>
<b>Current financial liabilities</b>			
Current portion of financial leases	-	(4,899)	(4,899)
Current portion of trade payables and other payables	-	(530,772)	(530,772)
Other current liabilities	-	(85)	(85)
<b>Total current financial liabilities</b>	<b>-</b>	<b>(535,756)</b>	<b>(535,756)</b>
<b>Total financial liabilities</b>	<b>-</b>	<b>(1,935,617)</b>	<b>(1,935,617)</b>
<b>Total</b>	<b>765,845</b>	<b>(1,935,617)</b>	<b>(1,169,772)</b>

<sup>1</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

The Group operates a centralized risk management system that distinguishes between strategic and operating risks. The Group's overall risk management program focuses on the unpredictability of financial market risks and seeks to minimize potential adverse effects on the Group's financial condition or performance. All identified risks are quantified (according to their realization probability and impact) and noted on a risk schedule. This risk schedule is subject to an annual detailed review and discussion process by the Board of Directors.

The Group is exposed to a variety of financial risks, namely market risk, credit risk and liquidity risk. Financial risk management is governed by policies approved by key management personnel. These policies provide guidelines for overall risk management as well as specific areas such as interest rate risk.

#### **A: Foreign currency exposures**

The Group is predominantly active in the domestic market. All outstanding financial debt continues to be denominated in CHF.

The following table shows the impact of a possible change in the euro and the US dollar against the Swiss franc, all other variables held constant. The impact on the Group's profit before tax is mainly driven by foreign exchange gains/losses of euro- and US-dollar-denominated cash and cash equivalents, trade and other receivables as well as trade and other payables. As of December 31, 2018, and December 31, 2017, the Group has no other material exposure to foreign currencies.

### Foreign currency sensitivity

CHFk	NET EXPOSURE			EFFECT ON PROFIT BEFORE TAX	
	December 31, 2018	December 31, 2017	Change in %	December 31, 2018	December 31, 2017
EUR/CHF	5,548	(5,134)	+/-10%	+/-564	+/-513
USD/CHF	784	(3,790)	+/-10%	+/-78	+/-379

### B: Interest rate risk

The Group's interest rate risk mainly arises from third party borrowings. As at the balance sheet date, interest-bearing liabilities consisted of senior secured notes bearing a fixed coupon and a term loan with a variable interest rate (CHFLIBOR plus margin with ratchets depending on leverage ratio).

The following table shows the impact of a possible change in interest rates on the Group's borrowings as of December 31, 2018, and December 31, 2017, all other variables held constant. The interest rate of the Group's floating rate borrowings consists of a base rate, being the higher of the LIBOR or 0%, plus a variable margin. With the relevant LIBOR in Swiss francs currently being negative, the Group would not benefit from a lower interest rate level.

### Interest rate sensitivity

CHFk December 31	INCREASE/ DECREASE IN BASIS POINTS	EFFECT ON PROFIT BEFORE TAX	
		2018	2017 <sup>1</sup>
CHF interest rates	+10ppt	(1,451)	(1,017)
CHF interest rates	-10ppt	-	-

<sup>1</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

Cash flow forecasting is performed by the Group treasury. Rolling forecasts of the Group's liquidity requirements are established on a regular basis to ensure sufficient cash is available to meet operational needs and to honor the Group's obligations under its financing arrangements, including the maintenance of borrowing limits and covenant compliance.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted cash flows. All interest payments and repayments of financial liabilities are based on contractual agreements. Interest payments are determined using

zero-coupon rates. For floating rate instruments, the calculation is computed using the base rate and applicable margin prevailing as of December 31, 2018.

### C: Maturity profiles

CHFk December 31, 2018	< 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Trade payables and other payables	(494,450)	(368)	-	-	(494,818)
Borrowings - notional	-	-	(1,369,221)	(199,041)	(1,568,262)
Borrowings - interest	(24,444)	(24,503)	(61,934)	(3,000)	(113,881)
Financial leases	(1,973)	(488)	(808)	(1,478)	(4,747)
Other current liabilities	(446)	-	-	-	(446)
<b>Total financial liabilities</b>	<b>(521,313)</b>	<b>(25,359)</b>	<b>(1,431,963)</b>	<b>(203,519)</b>	<b>(2,182,154)</b>

CHFk December 31, 2017 <sup>1</sup>	< 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Trade payables and other payables	(530,772)	(5,308)	-	-	(536,080)
Borrowings - notional	-	-	(1,389,956)	-	(1,389,956)
Borrowings - interest	(29,179)	(29,078)	(66,501)	-	(124,758)
Financial leases	(4,899)	(1,823)	(1,047)	(1,727)	(9,496)
Other current liabilities	(85)	-	-	-	(85)
<b>Total financial liabilities</b>	<b>(564,935)</b>	<b>(36,209)</b>	<b>(1,457,504)</b>	<b>(1,727)</b>	<b>(2,060,375)</b>

<sup>1</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

### D: Undrawn credit lines

The Group had the following undrawn borrowing facilities:

CHFk December 31	2018	2017
Revolving Credit Facility (RCF)	200,000	200,000
<i>Thereof ancillary facility</i>	25,000	25,000
<b>Total RCF</b>	<b>200,000</b>	<b>200,000</b>

As part of the Senior Facilities Agreement the Group benefits from a multi-currency revolving credit facility (RCF) with a total commitment equal to CHF 200 million. From this amount CHF 25.0 million (2017: CHF 25.0 million) are available as an ancillary facility.

As at the balance sheet date, any amounts drawn under the RCF would bear a margin of CHFLIBOR (capped at zero percent) +1.20%. For any committed and undrawn amounts, a commitment fee of 35% of the corresponding margin applies, i.e., 0.42% per annum as at the balance sheet date. No utilization has been made under the revolving credit facility during financial year 2018.

The ancillary facility of CHF 25.0 million (December 31, 2017: CHF 25.0 million) is currently undrawn and bears a facility fee of 0.12% per annum. As of the balance sheet date, the Group has CHF 23.9 million (2017: CHF 22.6 million) in guarantees outstanding under the ancillary facility, on which a fee of currently 0.72% per annum is charged.

**E: Credit risk**

Credit risk arises when a customer or counterparty may fail to perform its contractual obligations. The maximum exposure to credit risk is represented in the consolidated statement of financial position by the carrying value of each financial asset, including derivative financial instruments.

Credit risk arising from supplying telecommunications services is managed by assessing the credit quality of the customer, taking into account its financial position, past experience, payment history and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The Group periodically assesses the financial reliability of its customers and their credit limits.

Concentrations of credit risk with respect to trade receivables and contract assets are limited due to the nature of the Group's business with very low customer concentration (see Note 17 on page 134 for detailed information on receivables).

**F: Capital management**

The Group's objectives in managing capital are to secure its ongoing financial needs, to continue as a going concern, to meet its financial targets, to provide returns to its shareholders and to maintain a cost-efficient and risk-optimized capital structure.

The Group's managed capital structure consists of equity (as disclosed in Note 21 on page 136), current and non-current borrowings (see Note 24 on page 142) less cash and cash equivalents.

In order to maintain this capital structure, the Group manages its liquidity to ensure its ability to service its borrowings.

**G: Fair value estimation**

The fair value of current financial assets and liabilities at amortized cost is assumed to approximate their carrying amounts due to the short-term nature of these financial instruments.

**Fair value hierarchy**

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: Techniques that use inputs with a significant effect on the recorded fair value and that are not based on observable market data

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where available and rely as little as possible on entity-specific estimates. If all significant inputs required to calculate the fair value of an instrument are observable, the instrument is included in Level 2.

There were no transfers between the different hierarchy levels in 2018 and 2017.

The table below shows a comparison by class of the carrying amounts and fair values of the Group's financial instruments carried in the consolidated financial statements:



<b>CARRYING AMOUNT (BY MEASUREMENT BASIS)</b>			
CHFk December 31, 2018	Amortized cost	<b>Total</b>	Comparison Fair value <sup>1</sup>
<b>Financial assets</b>			
Cash	420,919	420,919	
Trade and other receivables	382,237	382,237	
<b>Financial liabilities</b>			
Trade payables and other payables	(494,818)	(494,818)	
Loans and notes	(1,568,262)	(1,568,262)	(1,611,900)
Financial leases	(4,747)	(4,747)	
Other current liabilities	(446)	(446)	

<sup>1</sup> The fair value of borrowings for disclosure purposes is based on quoted prices in an active market for identical liabilities.

<b>CARRYING AMOUNT (BY MEASUREMENT BASIS)</b>			
CHFk December 31, 2017 <sup>1</sup>	Amortized cost	<b>Total</b>	Comparison Fair value <sup>2</sup>
<b>Financial assets</b>			
Cash	272,486	272,486	
Trade and other receivables	493,359	493,359	
<b>Financial liabilities</b>			
Trade payables and other payables	(536,080)	(536,080)	
Loans and notes	(1,389,956)	(1,389,956)	(1,415,150)
Financial leases	(9,496)	(9,496)	
Other current liabilities	(85)	(85)	

<sup>1</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

<sup>2</sup> The fair value of borrowings for disclosure purposes is based on quoted prices in an active market for identical liabilities.

### Changes in liabilities arising from financing activities

CHFk	Loans and notes	Financial lease liabilities	Trade and other payables	Total
<b>Balance as of January 1, 2018</b>	<b>1,389,956</b>	<b>9,496</b>	<b>546,297</b>	<b>1,945,749</b>
Proceeds from long-term loans and notes	690,201	-	-	690,201
Repayment of long-term loans and notes	(500,000)	-	-	(500,000)
Addition to capital leases	-	2,217	-	2,217
Repayment of capital leases	-	(6,966)	-	(6,966)
Other financing activities	-	-	(21,479)	(21,479)
<b>Total changes from financing cash flows</b>	<b>190,201</b>	<b>(4,749)</b>	<b>(21,479)</b>	<b>163,973</b>
Other movements not relating to financing activities	(11,895)	-	(23,434)	(35,329)
<b>Balance as of December 31, 2018</b>	<b>1,568,262</b>	<b>4,747</b>	<b>501,384</b>	<b>2,074,393</b>

CHFk	Loans and notes	Financial lease liabilities	Trade and other payables	Total
<b>Balance as of January 1, 2017</b>	<b>1,828,327</b>	<b>16,833</b>	<b>492,314</b>	<b>2,337,474</b>
Proceeds from long-term loans and notes	(321)	-	-	(321)
Repayment of long-term loans and notes	(450,000)	-	-	(450,000)
Repayment of capital leases	-	(7,337)	-	(7,337)
Other financing activities	-	-	(20,026)	(20,026)
<b>Total changes from financing cash flows</b>	<b>(450,321)</b>	<b>(7,337)</b>	<b>(20,026)</b>	<b>(477,684)</b>
Other movements not relating to financing activities	11,950	-	74,009	85,959
<b>Balance as of December 31, 2017</b>	<b>1,389,956</b>	<b>9,496</b>	<b>546,297</b>	<b>1,945,749</b>

#### NOTE 26

### Trade and other payables

CHFk December 31	2018	2017
Trade payables	457,794	485,404
Interest payable	2,271	2,719
Other payables and accruals	41,319	58,174
<b>Total</b>	<b>501,384</b>	<b>546,297</b>
<i>Thereof current</i>	501,016	540,989
<i>Thereof non-current</i>	368	5,308

## NOTE 27

## Provisions

CHFk	Asset retirement obligations <sup>1</sup>	Restructuring obligations	Other provisions	Total
Provisions as of January 1, 2018	71,939	1,288	1,239	74,466
Provisions made during the period	(2,144)	-	41	(2,103)
Change in present value	1,136	-	-	1,136
Provisions used during the period	(567)	(203)	-	(770)
Unused provisions reversed during the period	(11,252)	(595)	(505)	(12,352)
<b>Provisions as of December 31, 2018</b>	<b>59,112</b>	<b>490</b>	<b>775</b>	<b>60,377</b>
<i>Thereof current</i>	4,740	490	775	6,005
<i>Thereof non-current</i>	54,372	-	-	54,372
Provisions as of January 1, 2017	118,750	3,500	2,118	124,368
Provisions made during the period	3,931	1,116	336	5,383
Change in present value	1,199	-	-	1,199
Provisions used during the period	(957)	(2,461)	(140)	(3,558)
Unused provisions reversed during the period	(708)	(867)	(1,075)	(2,650)
Change in consolidation scope due to disposal of subsidiary	(50,276)	-	-	(50,276)
<b>Provisions as of December 31, 2017</b>	<b>71,939</b>	<b>1,288</b>	<b>1,239</b>	<b>74,466</b>
<i>Thereof current</i>	1,047	1,288	1,239	3,574
<i>Thereof non-current</i>	70,892	-	-	70,892

<sup>1</sup> Decrease of asset retirement obligations (ARO) in 2017 is mainly related to the disposal of the subsidiary (see Note 12 on page 125) in 2017. In 2018, an updated cost estimate led to a reversal of ARO provisions with an impact on the consolidated statements of income of CHF 10.2 million.

Provisions for asset retirement obligations relate to the future dismantling of mobile stations and restoration of property owned by third parties. Those leases generally contain provisions that require the Group to remove the asset and restore the sites to their original condition at the end of the lease term. The uncertainties relate primarily to the timing of the related cash outflows. The majority of these obligations are not expected to result in cash outflow within a year.

Other provisions are related to warranties, litigations and legal claims.

## NOTE 28

## Contract liability and deferred income

CHFk December 31	2018	2017
Deferred income from dark fibers	7,434	7,859
Deferred income from other telecommunications services	30,034	28,261
<b>Total<sup>1</sup></b>	<b>37,468</b>	<b>36,120</b>
<i>Thereof current portion of deferred income</i>	-	26,984
<i>Thereof current portion of contract liabilities</i>	31,510	-
<i>Thereof non-current portion of deferred income</i>	-	9,136
<i>Thereof portion of non-current contract liabilities</i>	5,958	-

<sup>1</sup> In order to be compliant with IFRS 15, deferred income is newly classified as a contract liability and includes the liability arising from activation fees of CHF 1.0 million (see Note 8).

**NOTE 29****Change in net working capital**

CHFk December 31	<b>2018</b>	2017 <sup>1</sup>
Change in inventories	11,145	(28,733)
Change in trade and other receivables	10,368	(36,106)
Change in trade and other payables	(54,736)	79,347
Change in contract assets	(9,241)	-
Change in contract liabilities	26	-
Change in contract costs	(6,112)	-
Change in other items, net	(389)	17,809
<b>Total</b>	<b>(48,939)</b>	<b>32,317</b>

<sup>1</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

Net working capital represents short-term assets reduced by short-term liabilities. Net working capital includes current assets and liabilities as well as non-current prepaid expenses, trade receivables, trade payables and deferred income. Changes in trade and other payables related to the mobile license and non-cash capital expenditures related to Indefeasible Rights of Use (IRU) are excluded.

For 2018, the change in net working capital resulted in a negative change of CHF 48.9 million. This is mainly driven by changes in trade and other payables (CHF 54.7 million) caused by payments of mobile phones and tablets bought in Q4 2017 and roaming settlements. This was also impacted by a negative change related to IFRS 15 accounts (CHF 15.3 million). These effects were partly offset by the reduction of inventory (CHF 11.1 million) and by a positive change in trade and other receivables (CHF 10.4 million).

Compared to 2017, the change in net working capital showed a decline of CHF 81.3 million. This was mainly driven by movements in roaming discount settlements, which had a positive impact in 2017 and reversed in 2018, the disposal of Swiss Towers AG in 2017 and by the application of new IFRS accounting standards (IFRS 9 and IFRS 15).

**NOTE 30****Overview of Group companies**

Company name	Operating purpose	Registered office	Currency	Share capital in thousands	Voting rights	Consolidation method
<b>Switzerland</b>						
Sunrise Communications Group AG	Holding	Zurich	CHF	45,069		
Sunrise Communications AG	Telecommunications services	Zurich	CHF	50,000	100	Full
TelCommunication Services AG	Telecommunications services	Zurich	CHF	2,000	100	Full
YOL Services AG	Telecommunications services	Zurich	CHF	105	100	Full
<b>Luxembourg</b>						
Mobile Challenger Intermediate Group S.A.	Subholding	Luxembourg	CHF	1,346	100	Full
Sunrise Communications Holdings S.A.	Subholding	Luxembourg	CHF	1,000	100	Full
Sunrise Communications International S.A.	Subholding	Luxembourg	CHF	1,000	100	Full
Skylight S.à r.l.	Subholding	Luxembourg	CHF	1,500	100	Full

**NOTE 31****Related parties**

Name of related party	Nature of relationship	Domicile
Pensionskasse Sunrise	Pension fund	Zurich

As described in Note 22 on pages 137 et seq., certain managers and employees of Sunrise Communications AG participate in a management equity program and employee participation program involving Sunrise Communications Group AG.

The key management of Sunrise is composed of:

**Sunrise Communications Group AG****Board of Directors**

Peter Kurer	Chairman
Peter Schöpfer	Vice-Chairman
Robin Bienenstock	Member
Ingrid Deltenre	Member
Michael Krammer	Member
Jesper Ovesen	Member
Joachim Preisig <sup>1</sup>	Member
Christoph Vilanek	Member

<sup>1</sup> Joachim Preisig resigned from the Board of Directors as of December 31, 2018.

## Sunrise Communications AG (main operating entity of the Group)

### Board of Directors

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Peter Schöpfer	Chairman
André Krause	Member
Olaf Swantee	Member

### Executive Leadership Team

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Olaf Swantee	Chief Executive Officer (CEO)
André Krause	Chief Financial Officer (CFO)
Françoise Clèmes	Chief Services Officer (CSO)
Bruno Duarte	Chief Consumer Officer (CCO)
Elmar Grasser	Chief Technology Officer (CTO)
Robert Wigger	Chief Business Officer (CBO)
Patrick Alain Meier	a.i. Chief Administrative Officer (CAO)
Dominik Rubli (until September 2018)	Chief Administrative Officer (CAO)
Karin Schmidt (until May 2018)	Chief Human Resources Officer (CHRO)

During 2018, Dominik Rubli and Karin Schmidt left the company. Marcel Huber and Tobias Foster were appointed the new Chief Administrative Officer and Chief Human Resources Officer, respectively. They will join the Executive Leadership Team in 2019.

Related party transactions in 2018 are limited to the payment of salaries and bonuses.

**NOTE 32****Other financial commitments**

CHFk December 31	2018	2017
<b>Non-cancelable lease commitments for operating leases</b>		
Rental expense relating to properties and mobile sites in the period of interminability	191,062	201,281
Lease commitments for machinery, equipment, computers and other equipment	12,290	14,981
<b>Total</b>	<b>203,352</b>	<b>216,262</b>
Broken down as follows:		
– Less than 6 months	26,028	24,378
– Between 6 and 12 months	22,531	22,710
– Between 1 and 2 years	25,613	29,850
– Between 2 and 5 years	53,355	52,810
– Over 5 years	75,825	86,514
<b>Total</b>	<b>203,352</b>	<b>216,262</b>
<b>Total rental expense recognized for all operating leases</b>		
Minimum lease payments	56,995	77,355
Sublease receipts	(2,360)	(3,597)
<b>Total</b>	<b>54,635</b>	<b>73,758</b>
Contractual and purchase commitments <sup>1</sup>	468,911	87,689

<sup>1</sup> Contractual and purchase commitments relate to investments in property, plant and equipment and intangible assets.

**NOTE 33****Contingencies**

The Sunrise Group is party to certain pending lawsuits and cases with public authorities and complaint boards. Based on a legal assessment of the possible outcome of each of these lawsuits and cases, management is of the opinion that these will have no significant adverse effect on the Sunrise Group's financial position.

Under the terms of the financing documents, certain entities of the Group are guarantors. For the financial years ending December 31, 2018, and December 31, 2017, the maximum guarantee totals the value of the shares, preferred equity certificates and intercompany receivables.

**NOTE 34****Events after the balance sheet date**

On February 27, 2019, Sunrise announced that it has entered into a Share Purchase Agreement and a Transitional Services Agreement with Liberty Global plc regarding the acquisition of UPC Switzerland GmbH. Completion of the Transaction is subject to receipt of regulatory clearance and the approval of a capital increase by the company's shareholders.

The Group entered into an agreement with Swiss Towers AG regarding the sale of 133 telecom towers for a consideration of CHF 28.6 million, effective as of January 1, 2019.



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To the General Meeting of  
**Sunrise Communications Group AG, Zurich**

Zurich, February 27, 2019

## Statutory auditor's report on the audit of the consolidated financial statements



### Opinion

We have audited the consolidated financial statements of Sunrise Communications Group AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 97 to 154) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.



### Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.





### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

### **Revenue Recognition**

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#### **Area of focus**

The Group's revenues amounted to CHF 1,876 million for the year ended 31 December 2018. Revenue is predominantly derived from services including mobile voice and data, landline voice and internet, and IPTV. Corresponding accounting policies are discussed in note 4 to the consolidated financial statements. Disclosures regarding sales and disaggregation of revenues are included in notes 7 and 8 to the consolidated financial statements.

There is an inherent risk around the accuracy of revenue recorded given the complexity of systems and the impact of the frequent changes in product and service options to revenue recognition (tariff structures, incentive arrangements, discounts etc.). Therefore we identified the occurrence and completeness of revenue as key focus areas of our audit.

#### **Our audit response**

We evaluated the Company's internal controls over revenue recognition. As part of our procedures, we assessed the timing of revenue recognition, the accounting for transactions involving multiple elements and the accounting judgments associated with dealer and agency relationships (including the presentation of revenue on a net or gross basis and the treatment of discounts, incentives and commissions). We performed data analytics procedures and analyzed trends per revenue segment and product category month over month as well as year over year. Furthermore, we tested individual transactions, accruals and contracts on a sample basis.

Our audit procedures did not lead to any reservations concerning the occurrence, completeness and measurement of revenue disclosed by the Group for the year ended 31 December 2018.

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## **Impairment Test for Goodwill**

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### **Area of focus**

Goodwill represents 29% of the Group's total assets and 77% of the Group's total equity as at 31 December 2018. As stated in note 3 to the consolidated financial statements, the carrying value of goodwill is tested annually for impairment. The Company performed its annual impairment test of goodwill in the fourth quarter of 2018 and determined that there was no impairment. Key assumptions concerning the impairment test are disclosed in note 15 to the consolidated financial statements. In determining the value in use of cash-generating units, the Company must apply judgment in estimating – amongst other factors – future revenues and margins, long-term growth and discount rates. Due to the significance of the carrying amount of goodwill and the judgment involved in performing the impairment test, this matter was considered significant to our audit.

### **Our audit response**

We assessed the Company's internal controls over its annual impairment test and key assumptions applied. We involved valuation specialists to assist in examining the Company's valuation model and in analyzing the underlying key assumptions, including future long-term growth and discount rates. We assessed the assumptions regarding future revenues and margins, historical accuracy of the Company's estimates and considered its ability to produce accurate long-term forecasts. We evaluated the sensitivity in the valuation resulting from changes to the key assumptions applied and compared these assumptions to market data, including analyst reports and data from competitors.

We found that the key assumptions used (e.g. long-term growth and discount rates) lie within a range that is customary in the industry. We did not have any reservations concerning the recoverability of goodwill.

## **Capitalization of Property, Plant and Equipment**

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### **Risk**

The Group's investments to property, plant and equipment amounted to CHF 200 million during the year ended 31 December 2018. Corresponding accounting policies are discussed in note 4 and amounts capitalized during the period in note 16 to the consolidated financial statements. There is a risk that items which are not eligible for capitalization are treated as additions to property, plant and equipment, therefore the capitalization process was significant to our audit.

## Capitalization of Property, Plant and Equipment

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**Our audit response** We tested the effectiveness of the Company's internal controls over capitalization of fixed assets. As part of our procedures, we performed data analytics procedures on the capitalization process, evaluated the Company's guidelines for capitalization and tested additions to property, plant and equipment on a sample basis.

Our audit procedures did not lead to any reservations concerning the existence of property, plant and equipment disclosed by the Group for the year ended 31 December 2018.

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## Internal Controls - Information Technology

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**Area of focus** For business continuity, the Company is dependent on a functioning IT infrastructure as its business and finance processes are highly automated. The general IT and automated controls are part of the Company's internal control systems and support the main business and finance processes. As the Company is strongly relying on its IT applications and related controls for the preparation of its consolidated financial statements, we defined the reliability of general IT and automated controls as an area of focus for our audit.

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**Our audit response** With the assistance of our IT audit specialists, we tested controls around change management, access management and the continuity of the IT systems as well as automated controls which are relevant for the preparation of the consolidated financial statements.

We did not have any reservations concerning the reliability of the general IT and automated controls for the preparation of the consolidated financial statements.

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### Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements, the compensation report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our

knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



#### **Responsibility of the Board of Directors for the consolidated financial statements**

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.



#### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: [www.expertsuisse.ch/en/audit-report-for-public-companies](http://www.expertsuisse.ch/en/audit-report-for-public-companies). This description forms part of our auditor's report.



#### **Report on other legal and regulatory requirements**

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

Ernst&Young Ltd



Willy Hofstetter  
Licensed audit expert  
(Auditor in charge)



Tobias Meyer  
Licensed audit expert

# Statutory Financial Statements

Sunrise Communications Group AG

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## **160 Statutory Financial Statements**

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# Income Statement

CHFk January 1 - December 31	Note	2018	2017
Dividend income	3.1	185,000	154,850
Interest income from investments		68	-
<b>Total operating income</b>		<b>185,068</b>	<b>154,850</b>
Other operating expenses		(3,951)	(3,844)
<b>Operating income</b>		<b>181,117</b>	<b>151,006</b>
<b>Income for the period before tax</b>		<b>181,117</b>	<b>151,006</b>
Direct taxes	3.2	(735)	(828)
<b>Income for the period</b>		<b>180,382</b>	<b>150,178</b>

# Balance Sheet

## Assets

CHFk	Note	December 31, 2018	December 31, 2017
Cash and cash equivalents		994	2,046
Other receivables			
<i>due from third parties</i>		282	27
<i>due from investments</i>	3.3	6,771	79
Prepayments and accrued income		88	132
<b>Total current assets</b>		<b>8,135</b>	<b>2,284</b>
Investments	3.4	2,593,630	2,593,630
<b>Total non-current assets</b>		<b>2,593,630</b>	<b>2,593,630</b>
<b>Total assets</b>		<b>2,601,765</b>	<b>2,595,914</b>

## Liabilities and shareholders' equity

CHFk	Note	December 31, 2018	December 31, 2017
Other current liabilities		5	-
Accruals and deferred income			
<i>due from third parties</i>		142	176
<i>due from investments</i>		2,659	2,841
<b>Total short-term liabilities</b>		<b>2,806</b>	<b>3,017</b>
Share capital	3.5	45,069	45,000
Legal capital reserves			
– Reserves from capital contributions	3.6	2,199,925	2,374,314
– Other capital reserves		5,817	5,817
Legal retained earnings			
– General legal retained earnings		9,000	879
– Available earnings			
– <i>Results carried forward</i>		158,766	16,709
– <i>Income for the period</i>		180,382	150,178
<b>Total shareholders' equity</b>		<b>2,598,959</b>	<b>2,592,897</b>
<b>Total liabilities and shareholders' equity</b>		<b>2,601,765</b>	<b>2,595,914</b>

# Notes to the Statutory Financial Statements

## NOTE

- 1 General
- 2 Principles
  - 2.1 General aspects
  - 2.2 Share-based payment
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  - 4.4 Subsequent events after balance sheet date



**NOTE 1****General**

Sunrise Communications Group AG (SCG or the Company) was incorporated on January 13, 2015. The registered offices of the Company are located at Binzmühlestrasse 130, CH-8050 Zurich, Switzerland.

**NOTE 2****Principles****NOTE 2.1****General aspects**

These financial statements were prepared according to the provisions of the Swiss Law on Accounting and Financial Reporting (32<sup>nd</sup> title of the Swiss Code of Obligations). Where not prescribed by law, the significant accounting and valuation principles applied are described below.

**NOTE 2.2****Share-based payment**

The Company allocated shares to employees in the following employee incentive plans:

**Management Long-Term Investment Programs (MLTIPZero, MLTIP, MLTIP Revised and MLTIPE)**

Certain members of the Executive Leadership Team and selected Other Top Management were offered the opportunity to take part in Management Long-Term Investment Programs. These plans grant a certain number of shares (Performance Shares) for each held Investment Share. As a general rule, Performance Shares do not vest until the employees have completed a three-year period of service. The related expense is recognized over the service period and adjusted by the expected number of employees eligible for Performance Shares.

**MLTIPZero**

Participants in this program could purchase a certain number of Sunrise shares (Investment Shares) at the initial public offering price of CHF 68. Purchasers of such offered shares are subject to a blocking period of three years from the first day of trading. There were no minimum service requirements for employees for Investment Shares; however, the matching number of Performance Shares awarded at the end of the blocking period was subject to continued employment and satisfaction of certain performance targets. In February 2018, the blocking period for this plan ended and 69,028 Performance Shares were awarded.

**MLTIP**

Under this plan, eligible participants were allowed to elect to receive a portion of their annual short-term incentive, capped at a maximum of 50% of said short-term incentive, in the form of shares (Investment Shares), which are then blocked for a three-year period. There were no minimum service requirements for employees for Investment Shares; however, the matching number of Performance Shares awarded at the end of the blocking period was subject to continued employment and satisfaction of certain performance targets. In February 2018, the blocking period for this plan ended and 69,028 Performance Shares were awarded.

**MLTIP Revised**

The rules of this plan are similar to the MLTIP. For members of the Executive Leadership Team, shares, if any, will be allocated as Performance Shares subject to continued employment and satisfying the performance target of the plan. In the event that the good leaver provision applies, awards in the form of Performance Shares vest immediately pro-rata of the expired performance period. However, the shares to be allocated for such vesting of Performance Shares will only be allocated at the end of the performance period. For selected Other Top Management members shares will be allocated in the form of Matching Shares subject to continued employment. In the event that the good leaver provision applies,

Matching Shares are immediately allocated on a pro-rata basis for the duration of employment until the relevant termination date.

### MLTIPE

Participants in this program could purchase a certain number of Sunrise shares at the share price on the date of purchase. The same rules as for the MLTIP apply, and the CEO benefits from the good leaver clause as in the MLTIP Revised plan.

As SCG itself does not have any employees, a possible expense related to the buyback of shares at the market price will be charged to Sunrise Communications AG, the operative company indirectly held by SCG.

#### NOTE 2.3

### Foregoing a cash flow statement and additional disclosure in the Notes

As Sunrise Communications Group AG has prepared its consolidated financial statements in accordance with a recognized accounting standard (IFRS), it has decided to forego presenting additional information on interest-bearing liabilities and audit fees in the Notes as well as a cash flow statement in accordance with the law (Art. 961d Para. 1 CO).

#### NOTE 3

### Information on balance sheet and income statement items

#### NOTE 3.1

### Dividend income from investment

In the reporting year, SCG recorded a dividend income of CHF 185.0 million (2017: CHF 154.9 million). The dividend from its directly held investment, Mobile Challenger Intermediate Group S.A., was paid in cash on April 18, 2018.

#### NOTE 3.2

### Direct taxes

Direct taxes are related to capital taxes. As the main income of the Company is related to generally exempt dividend income, there are no expenses related to income taxes.

#### NOTE 3.3

### Other receivables due from investments

CHFk	<b>December 31, 2018</b>	December 31, 2017
Loan due from indirectly held investments	6,681	-
Accrued interest on loan granted	11	-
Other receivable due from investments	79	79
<b>Total</b>	<b>6,771</b>	<b>79</b>

## NOTE 3.4

## Investments

Company	Domicile	CAPITAL IN CHFk		SHARE IN CAPITAL AND VOTING RIGHTS	
		December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Mobile Challenger Intermediate Group S.A.	Luxembourg	1,346	1,346	100% <sup>1</sup>	100% <sup>1</sup>
Sunrise Communications Holdings S.A.	Luxembourg	1,000	1,000	100% <sup>2</sup>	100% <sup>2</sup>
Sunrise Communications International S.A.	Luxembourg	1,000	1,000	100% <sup>2</sup>	100% <sup>2</sup>
Skylight S.à.r.l.	Luxembourg	1,500	1,500	100% <sup>2</sup>	100% <sup>2</sup>
Sunrise Communications AG	Zurich	50,000	50,000	100% <sup>2</sup>	100% <sup>2</sup>
YOL Services AG	Zurich	105	105	100% <sup>2</sup>	100% <sup>2</sup>
TelCommunication Services AG	Zurich	2,000	2,000	100% <sup>2</sup>	100% <sup>2</sup>

<sup>1</sup> Directly held<sup>2</sup> Indirectly held

## NOTE 3.5

## Share capital

Share capital in the amount of CHF 45.1 million consists of 45,069,028 registered shares at a par value of CHF 1.00 each. In connection with the management long-term incentive programs, and as approved by the Annual General Meeting on April 15, 2016, the share capital was increased by means of an authorized capital increase of 69,028 shares on February 9, 2018.

## NOTE 3.6

## Reserves from capital contributions

The reserves from capital contributions consist of the following:

CHFk December 31	2018	2017
Premium from share capital increase due to integration of MCIG	1,319,862	1,319,862
Premium from IPO proceeds	1,339,302	1,339,302
Premium from share capital increase 2018	5,887	-
Accumulated dividend payment	(465,126)	(284,850)
<b>Total</b>	<b>2,199,925</b>	<b>2,374,314</b>

At the Annual General Meeting on April 11, 2018, the payment of an ordinary dividend from reserves from capital contributions in the total amount of CHF 180.3 million (CHF 4.00 per share) in respect of the 2017 financial year was approved. The dividend payment was made on April 18, 2018.

From a fiscal point of view, any distributions made from reserves from capital contributions are treated the same as a repayment of share capital. The Swiss Federal Tax Administration has confirmed that it will recognize disclosed reserves from capital contributions as a capital contribution as per Art. 5 Para. 1bis Withholding Tax Act.

**NOTE 4****Other information****NOTE 4.1****Full-time equivalents**

Sunrise Communications Group AG does not have any employees, as in the prior year.

**NOTE 4.2****Significant shareholders**

The following shareholders owned more than 3% of voting rights as of December 31, 2018, and December 31, 2017:

Shareholder	<b>Voting rights, December 31, 2018<sup>1</sup></b>	Voting rights, December 31, 2017
freenet AG, Büdelsdorf	24.52%	24.56%
Canada Pension Plan Investment Board, Toronto	5.03%	5.03%
BlackRock, Inc., New York	3.19%	3.43%
UBS Fund Management (Switzerland) AG, Basel	<3%	3.06%

<sup>1</sup> In % of total share capital as registered with the commercial register of the Canton of Zurich as of December 31, 2018.

**NOTE 4.3****Shares held by the Executive Leadership Team and the Board of Directors, including any related parties**

In 2018 and 2017, the allocation of shares held by the Board of Directors is as follows:

Board of Directors	<b>Numbers of shares, December 31, 2018</b>	Numbers of shares, December 31, 2017
Peter Kurer	7,723	6,466
Peter Schöpfer	2,061	1,433
Robin Bienenstock	2,061	1,433
Ingrid Deltenre	628	-
Michael Krammer	2,061	1,433
Jesper Ovesen	6,891	6,263
Joachim Preisig <sup>1</sup>	2,061	1,433
Christoph Vilanek	2,061	1,433

<sup>1</sup> Joachim Preisig resigned from the Board of Directors as of December 31, 2018.

As of December 31, 2018, and 2017, the members of the Executive Leadership Team held the shares listed in the following table, all of which were acquired under the Long-Term Investment Programs and/or the Employee Share Purchase Program issued by Sunrise Communications Group AG at the time of the IPO. Investment Shares acquired under the Long-Term Investment Programs are subject to a blocking period of three years from the allocation date.

Executive Leadership Team	Numbers of shares, December 31, 2018	Numbers of shares, December 31, 2017
Olaf Swantee, CEO	29,310	25,411
André Krause, CFO	27,421	34,575
Françoise Clèmes, CSO	8,674	7,395
Bruno Duarte, CCO	4,950	4,364
Elmar Grasser, CTO	3,932	25,674
Robert Wigger, CBO	5,066	4,766
Dominik Rubli (until September 2018), CAO <sup>1</sup>	-	10,307
Karin Schmidt (until May 2018), CHRO <sup>1</sup>	-	3,998
Patrick Alain Meier (ad interim), CAO	293	-

<sup>1</sup> Not a member of the ELT as of December 31, 2018, therefore no shares disclosed.

During 2018, Dominik Rubli and Karin Schmidt left the company. Marcel Huber and Tobias Foster were appointed the new Chief Administrative Officer and Chief Human Resources Officer, respectively. They will join the Executive Leadership Team in 2019.

None of the members of the Board of Directors or the Executive Leadership Team hold conversion or option rights.

#### NOTE 4.4

#### Subsequent events after balance sheet date

On February 27, 2019, Sunrise announced that it has entered into a Share Purchase Agreement and a Transitional Services Agreement with Liberty Global plc regarding the acquisition of UPC Switzerland GmbH. Completion of the Transaction is subject to receipt of regulatory clearance and the approval of a capital increase by the company's shareholders.

# Appropriation of Available Earnings and Capital Reserves

The Board of Directors proposes to:

- carry forward the accumulated earnings
- allocate CHF 189.3 million from the reserves from capital contributions to the dividend reserves
- pay a dividend of CHF 4.20 per share (total of CHF 189.3 million) from the dividend reserves:

CHFk	2018	2017
<b>Appropriation of available earnings</b>		
Balance brought forward from previous years	158,766	16,709
Income of the year	180,382	150,178
<b>Total available earnings</b>	<b>339,148</b>	<b>166,887</b>
Allocation to general reserves	(14)	(8,121)
<b>Accumulated earnings to be carried forward</b>	<b>339,134</b>	<b>158,766</b>
<b>Reserves from capital contributions</b>		
Reserves from capital contributions	2,199,925	2,374,314
Allocation to dividend reserves	(189,290)	(180,276)
<b>Balance to be carried forward</b>	<b>2,010,635</b>	<b>2,194,038</b>
<b>Appropriation of dividend reserves</b>		
Dividend reserves at the end of the year	-	-
Allocation of reserves from capital contributions	189,290	180,276
Distribution proposed by the Board of Directors	(189,290)	(180,276)
<b>Dividend reserves to be carried forward</b>	<b>-</b>	<b>-</b>

To the General Meeting of  
**Sunrise Communications Group AG, Zurich**

Zurich, February 27, 2019

## Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Sunrise Communications Group AG, which comprise the balance sheet, income statement and notes (pages 160 to 169), for the year ended 31 December 2018.



### Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.



### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### Opinion

In our opinion, the financial statements for the year ended 31 December 2018 comply with Swiss law and the company's articles of incorporation.



**Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.



**Report on other legal requirements**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst&Young Ltd



Willy Hofstetter  
Licensed audit expert  
(Auditor in charge)



Tobias Meyer  
Licensed audit expert



# Legal Notice

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## Important dates 2019

### **April 10, 2019**

Annual General Meeting

### **May 16, 2019**

2019 first-quarter results

### **August 22, 2019**

2019 second-quarter results and 2019 half-year report

### **November 13, 2019**

2019 third-quarter results

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