# Sunrise Communications Holdings S.A.

# Interim Financial Report for the six-month period ended June 30, 2012

# Facts & Figures

| | January 1 - June 30, 2012 | January 1 - June 30, 2011 | April 1 – June 30, 2012 | April 1 – June 30, 2011 |
|---|---|---|---|---|
| **Results of Operations** | | | | |
| *(in ‘000 CHF, except where indicated)* | | | | |
| Revenue | | | | |
| Mobile | 639,378 | 608,711 | 322,165 | 317,474 |
| Landline Services | 295,143 | 259,604 | 147,283 | 127,065 |
| *thereof voice hubbing* | *67,330* | *62,852* | *35,584* | *29,799* |
| Landline Internet | 88,576 | 87,461 | 44,366 | 43,951 |
| Total Revenue | 1,023,097 | 955,776 | 513,814 | 488,490 |
| *Revenue (excluding hubbing)* | *955,767* | *892,924* | *478,230* | *458,691* |
| EBITDA[1)] | 311,929 | 287,419 | 159,915 | 146,325 |
| EBITDA margin (%) | 30.5 | 30.1 | 31.1 | 30.0 |
| EBITDA margin (excluding voice hubbing) (%) | 32.6 | 32.2 | 33.4 | 31.9 |
| **Subscriber Base (end of period)** | | | | |
| *(in thousands)* | | | | |
| Mobile subscriber base (excl. M2M) | 2,116.8 | 2,039.9 | - | - |
| Landline voice subscriber base | 486.8 | 540.0 | - | - |
| Landline internet subscriber base | 372.3 | 368.2 | - | - |
| thereof XDSL | 357.1 | 362.3 | - | - |
| thereof LLU | 280.8 | 259.0 | - | - |
| **ARPU** | | | | |
| (in CHF/month) | | | | |
| Mobile Services | 44.3 | 43.3 | 44.9 | 44.7 |
| Landline Voice Services | 44.4 | 44.0 | 44.0 | 44.5 |
| Landline Internet Services | 35.8 | 35.9 | 35.8 | 35.9 |
| **Employees[2)]** | | | | |
| FTEs (end of period) | 2,016 | 1,591 | - | - |

1) EBITDA stands for: operating income before depreciation and amortisation, net financial result and income tax expense.
2) The increase is primarily attributable to increases in customer care organization and shops as well as to the acquisition of Business Sunrise Enterprise Solutions GmbH (BSES), formerly NextiraOne Switzerland GmbH in November 2011.

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# Business

## Overview

Sunrise Communications Holdings S.A. (the “Group” or the “Company”) was incorporated under the laws of Luxembourg as of September 9, 2010. The main operating entity of the Group is Sunrise Communications AG based in Zurich, Switzerland which is the second largest telecommunications provider in Switzerland based on revenues for the six months ended June 30, 2012. Our integrated national mobile and landline network provides us with a strong competitive position. As a total telecommunications provider, we offer mobile voice and data, landline services (retail voice, business services and wholesale voice), landline internet and IPTV services to both residential and business customers as well as to other operators. We are the leading non-incumbent operator in both the mobile and landline retail voice markets, with 2,116.8 thousand and 486.8 thousand subscribers, respectively, as of June 30, 2012. We are also the third-largest landline internet provider with 372.3 thousand subscribers as of June 30, 2012. We provide our landline services through our national landline network and our mobile services through our own mobile network based on GSM/GPRS/EDGE and UMTS/HSPA technologies.

## Financial Data

The financial data in this report covers the period from January 1 to June 30, 2012.

Comparative figures for the three- and six-month periods ended June 30, 2011 are based on unaudited condensed consolidated interim financial statements of the Group for the three- and six month periods ended June 30, 2011.

**Shareholders**

Sunrise Communications Holdings S.A. is ultimately owned by Mobile Challenger Intermediate Group S.A., Luxembourg.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

**Revenue**

Our total revenue was up 7.0% or CHF 67.3 million and amounted to CHF 1,023.1 million for the six months ended June 30, 2012 compared to the same period in 2011. Business Sunrise Enterprise Solutions GmbH (BSES)– which was acquired in November 2011 – contributed with CHF 42.5 million to the increase in revenue. The Group's organic increase in revenue for the six months ended June 30, 2012 compared with first half year 2011 amounted to 2.6% or CHF 24.8 million mainly driven by an increase in mobile revenue.

During the second quarter of the year 2012 we generated net revenues of CHF 513.8 million, an increase of 5.2% compared with the same period in the prior year.

**Mobile**

Mobile revenue increased by 5.0% to 639.4 million from 608.7 million for the six months ended June 30, 2012. Mobile revenues generated in the second quarter were up 1.5% to CHF 322.2 million from CHF 317.4 million. Revenue growth in mobile communications was a result of higher postpaid revenue driven by an increase in the subscriber base. The increase was partially offset by slightly lower prepaid revenue and lower 'roaming in' revenues.

**Landline Services**

Landline services revenue was CHF 295.1 million for the six months ended June 30, 2012, an increase of CHF 35.5 million, or 13.7%, from CHF 259.6 million for the six months ended June 30, 2011. Landline services revenue increased to CHF 147.3 million for the three months ended June 30, 2012, an increase of CHF 20.2 million, or 15.9%, from CHF 127.1 million for the three months ended June 30, 2011. During the first half of the year 2012, BSES contributed with CHF 42.5 million to the increase in landline services revenues. The organic growth of landline services revenue was down by 2.6% or CHF 7.0 million for the first six months of the year ended June 30, 2012, mainly driven by the declining voice revenues.

**Landline Internet**

Landline internet revenue increased from CHF 87.5 million to CHF 88.6 million, or 1.3% for the six months ended June 30, 2012 compared with the same period in 2011. Landline internet revenue was CHF 44.4 million for the three months ended June 30, 2012, an increase of CHF 0.4 million or 0.9% from CHF 44.0 compared to the three months period ending June 30, 2011. The increase in landline internet revenue for the six months ended June 30, 2012, was primarily attributable to the increase in the LLU customer base, which resulted in part from the COGS savings being passed on to the customers (i.e. retail price reduction but higher underlying gross profit contribution).

**IPTV Services**

During the first quarter, we launched our ITPV service 'Sunrise TV' and positioned ourselves as the only alternative quadruple play operator currently in Switzerland. Although we believe that our TV offerings will play an important role in our business going forward, they do not yet play a significant role in the condensed consolidated financial statements for the six months ended June 30, 2012. As of June 30, 2012, we had several thousand subscribers to our IPTV services.

**Transmission Costs and Cost of Goods Sold**

Transmission costs and cost of goods sold were CHF 320.1 million for the six months ended June 30, 2012, an increase of CHF 26.2 million, or 8.9%, from CHF 293.9 million for the six months ended June 30, 2011. Transmission costs and cost of goods sold for the second quarter 2012 were CHF 160.4 million, an increase of CHF 12.9 million, or 8.7%, from CHF 147.5 million reported for the same period in 2011. The increase during the six-month period ended June 30, 2012 is mainly driven by higher retail voice costs of BSES and increased data and voice volumes.

**Other Operating Expenses**

During the first half of the year, other operating expenses increased by CHF 9.7 million, or by 3.4%, from CHF 285.9 million to CHF 295.6 million. We report an increase of CHF 0.8 million or 0.5% from CHF 149.7 to CHF 150.5 million in other operating expenses for the three months ended June 30, 2012. The increase in other operating expenses is attributable to BSES and to higher costs for bad debts which are partially offset by collectible early termination fees recognized in other income and expenses.

**Wages, Salaries and Pension Costs**

Wages, salaries and pension costs amounted to CHF 115.0 million for the six months ended June 30, 2012, an increase of CHF 24.8 million, or 27.5%, from CHF 90.2 million for the same period in the prior year. Wages, salaries and pension costs were CHF 58.7 million for the three months ended June 30, 2012, an increase of CHF 12.4 million, or 26.8%, from CHF 46.3 million for the second quarter ended June 30, 2011. The increase in wages, salaries and pension costs was primarily attributable to an increase in FTEs, mainly in the customer care organization and shops as well as to the acquisition of BSES.

**Other Income and Expenses**

Other income and expenses were a net income of CHF 19.6 million for the six months ended June 30, 2012, an increase of CHF 18.0 million, from a net income of CHF 1.6 million for the six months ended June 30, 2011. Other Income and Expenses were a net income of CHF 15.6 million for the three months ended June 30, 2012, an increase of CHF 14.3 million, from a net income of CHF 1.3 million for the three months ended June 30, 2011. The increase in other income and expenses was primarily attributable to higher amount of collectible early termination fees and to the settlement of interconnection charging disputes relating to prior years partially offset by higher costs related to a contract extension with a network supplier and restructuring costs.

**Depreciation and Amortization**

Depreciation and amortization recorded in the first half year 2012 amounted to CHF 180.1 million, a decrease of CHF 1.1 million, or 0.6%, from CHF 181.2 million compared with the same period in the prior year. Depreciation, amortization and impairment losses were CHF 90.2 million for the three months ended June 30, 2012, an increase of CHF 1.9 million, or 2.2%, from CHF 88.3 million for the three months ended June 30, 2011. The decrease in depreciation and amortization was primarily attributable to lower depreciation on data platform equipment.

**EBITDA**

During the first half year of 2012, the Group generated an EBITDA of CHF 311.9 million, an increase of CHF 24.5 million, or 8.5%, from CHF 287.4 million for the six months ended June 30, 2011. Our EBITDA was CHF 159.9 million for the second quarter ending June 30, 2012, an increase of CHF 13.6 million, or 9.3%, from CHF 146.3 million for the three months ended June 30, 2011.

**Liquidity and Capital Resources**

The Group maintained substantial cash and cash equivalents which at June 30, 2012 amounted to CHF 543.0 million.

As of June 30, 2012, the Group's total indebtedness, consisting of Senior Secured and Unsecured Notes, Term Loans and capital leases amounted to CHF 2,416.4 million of which CHF 81.7 million were expected to be redeemed within 12 months (refer also to Note 18 – Events after the balance sheet date).

**Certain Other Contractual Commitments**

As of June 30, 2012 our other contractual commitments excluding those mentioned above amounted to CHF 379.4 million consisting relating to operating lease agreements as well as open purchase commitments.

For further expansion, operation, and maintenance of our mobile and fixed networks, the Group has entered into a new contract with Huawei effective from September 2012. The total undiscounted contractal obligation amounts to CHF 200.6 million.

**Purchase Price Allocation (PPA)**

The acquisition of Sunrise Communications AG, which gave rise to a change of control, was accounted for using the acquisition method of accounting. As such, the cost of the acquisition is measured as the fair value of the assets transferred, liabilities incurred and the equity interests issued by the acquirer, including the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed are measured initially at their fair values at the acquisition date. The excess of the consideration transferred over the fair value of the acquirer's share of the identifiable net assets acquired is recorded as goodwill. The Group's valuation studies to allocate the purchase price to identifiable net assets were done in Q4'2010 and finalized in Q1'2011.

For clarity of the underlying operational performance, the following table shows the condensed consolidated interim statements of income excluding the fair value adjustments made in relation with the acquisition of Sunrise Communications AG.

Effect of FV adjustments resulting from acquisition of Sunrise Communications AG on the Condensed Consolidated Interim Statements of Income

CHFk

This table has been added for clarity reasons on the operational income of the Group

| | January 1 - June 30, 2012 Before FV adjustments | January 1 - June 30, 2012 Impact of FV adjustments | January 1 - June 30, 2012 Including FV adjustments |
|---|---|---|---|
| **Revenue** | **1,023,687** | **(590)** | **1,023,097** |
| Transmission costs and cost of goods sold | (320,097) | - | (320,097) |
| Other operating expenses | (295,628) | - | (295,628) |
| Wages, salaries and pension costs | (115,037) | - | (115,037) |
| **Total operating expenses before other income and expenses, depreciation and amortization** | **(730,762)** | **-** | **(730,762)** |
| Other income and (expenses), net | 18,194 | 1,400 | 19,594 |
| **Income before depreciation and amortization, net financial items and income taxes** | **311,119** | **810** | **311,929** |
| Depreciation and amortization | (104,418) | (75,691) | (180,109) |
| **Operating income** | **206,701** | **(74,881)** | **131,820** |
| **Net financial items** | **(95,524)** | **(208)** | **(95,732)** |
| **Income/(loss) before income taxes** | **111,177** | **(75,089)** | **36,088** |
| Income taxes | (30,204) | 14,525 | (15,679) |
| **Net income/(loss)** | **80,973** | **(60,564)** | **20,409** |

**Principal Factors Affecting Mobile Services Revenues**

*Mobile Subscriber Base and ARPU Development*

The table below sets forth selected subscriber data for our mobile business for the periods indicated, including an analysis by type of subscriber.

| Mobile Subscriber Base | June 30, 2012 | June 30, 2011 |
|---|---|---|
| | | '000 |
| Subscribers at end of period[1] | 2,116.8 | 2,039.9 |
| *Subscriber growth over prior period* | *3.8%* | - |
| Of which: | | |
| Postpaid[1][2] | 1,145.6 | 1,047.9 |
| Prepaid[1][3] | 971.2 | 992.0 |

(1) Excludes MVNO subscribers but includes reseller-originated and yallo subscribers. Excludes machine-to-machine SIM cards (M2M).
(2) Postpaid mobile subscribers are counted in our subscriber base as long as they have an active contract.
(3) Prepaid mobile subscribers are counted in our subscriber base if they have had an activity event, such as a usage or refill, within the last 91 days.

| Mobile ARPU (CHF/month) | January 1 - June 30, 2012 | January 1 - June 30, 2011 | April 1 – June 30, 2012 | April 1 – June 30, 2011 |
|---|---|---|---|---|
| Mobile ARPU[1] | 44.3 | 43.3 | 44.9 | 44.7 |
| *Growth over prior period* | *2.3%* | - | *0.4%* | - |

(1) The Group defines mobile ARPU as the total mobile revenue in the period divided by the average number of mobile subscribers in the period, which is subsequently divided by the number of months in the period. The average number of mobile subscribers during a period is calculated by adding together the number of active mobile SIM cards at the beginning and end of each month during the period, dividing by two and then averaging the results from all months during the period.

The total number of our mobile subscribers increased by 76.9 thousand or 3.8%, to 2.1 million as of June 30, 2012 from 2.0 million as of June 30, 2011. The Group estimates its total mobile market share, including MVNOs and resellers on its network, to be at 24.0% as of March 31, 2012, stable compared to June 30, 2011. The Group believes that new subscriber activations during this period were primarily attributed to its competitive flat rate and mobile data plans as well as attractive hardware offers.

Mobile ARPU rose by CHF 1.0, or 2.3%, to CHF 44.3 for the six months ended June 30, 2012, from CHF 43.3 for the six months ended June 30, 2011. Mobile ARPU increased by CHF 0.2, or 0.4%, to CHF 44.9 for the three months ended June 30, 2012, from CHF 44.7 for the three months ended June 30, 2011. The increases are primarily attributable to the change in our customer mix towards customers subscribing to higher value rate plans such as flat rate subscriptions and a migration from prepaid to postpaid subscribers generating higher average revenue per user.

**Mobile Churn**

Our prepaid and postpaid blended mobile churn rate for the six months ended June 30, 2012 decreased to 18.2% from 18.8% for the six months ended June 30, 2011, which we attribute primarily to a decreased churn in our Sunrise subscriber base.

**Mobile Termination Rates**

The rates in effect for 2009 were CHF 0.15 per minute for mobile calls terminating on the Swisscom's mobile network and CHF 0.18 per minute for mobile calls terminating on either our or Orange's networks. As of January 1, 2011 rates in effect are CHF 0.07 per minute for mobile calls terminating on Swisscom's mobile network and CHF 0.0875 per minute for mobile calls terminating on either Orange's network or our network.

**Principal Factors Affecting Landline Services Revenues**

*Subscriber Base*

The table below sets forth selected subscriber data for our landline retail voice subscribers.

| Retail Voice Subscriber Base (1) | | '000 |
|---|---|---|
| | June 30, 2012 | June 30, 2011 |
| Retail Voice | 486.8 | 540.0 |
| *Decrease over prior period* | *(9.9%)* | - |
| Of which: | | |
| LLU | 280.8 | 259.0 |
| *Growth over prior period* | *8.4%* | |

(1) In our retail voice business, we report subscribers based on activity within the last month.

The total number of our retail voice subscribers fell by about 53.2 thousand, or 9.9%, as of June 30, 2012 to 0.49 million from 0.54 million as of June 30, 2011. We attribute the decreases primarily to the departure of retail voice-only CPS customers, including customers acquired as part of the acquisition of Tele2 Switzerland in 2008.

*ARPU*

The table below sets forth our retail voice ARPU for the periods indicated.

| Landline Services ARPU | | | | CHF / month |
|---|---|---|---|---|
| | January 1 - June 30, 2012 | January 1 - June 30, 2011 | April 1 – June 30, 2012 | April 1 – June 30, 2011 |
| Retail Voice ARPU (1) | 44.4 | 44.0 | 44.0 | 44.5 |
| *Growth / (Decrease) over prior period* | *0.9%* | - | *-1.1%* | - |

(1) We define landline retail voice ARPU as the total retail voice revenue in the period divided by the average number of retail voice subscribers in the period, which is subsequently divided by the number of months in the period.. The average number of retail voice subscribers in a period is calculated by adding together the number of retail voice subscribers at the beginning and end of each month during the period, dividing by two and then averaging the results from all months during the period.

Retail voice ARPU grew by CHF 0.4, or 0.9%, to CHF 44.4 for the six months ended June 30, 2012, from CHF 44.0 for the previous period ended June 30, 2011. Retail voice ARPU decreased by CHF 0.5, or 1.1%, to CHF 44.0 for the three months ended June 30, 2012, from CHF 44.5 for the three months ended June 30, 2011. We attribute the year-on-year increase for the six month period primarily to increased fees resulting from the migration of subscribers from carrier preselect based services to access rebilling and LLU based services.

**Principal Factors Affecting Landline Internet Revenues**

*Subscriber Base*

The table below sets forth selected subscriber data for our landline internet subscribers.

| Landline Internet Subscriber Base(1) | | '000 |
|---|---|---|
| | June 30, 2012 | June 30, 2011 |
| Landline internet | 372.3 | 368.2 |
| *Growth over period* | *1.1%* | |
| Of which: | | |
| Broadband BBCS | 88.4 | 103.3 |
| *Decrease over period* | *-14.4%* | |
| Broadband LLU | 280.8 | 259.0 |
| *Increase over period* | *8.4%* | |

(1) In our landline internet business, we report broadband connectivity services (BBCS) subscribers without ARB based on technical installations, while we report BBCS subscribers with ARB and LLU subscribers based on the number of active contracts. We currently pay fees to Swisscom of CHF 15.80 per month for each LLU line and CHF 28.00 per month for each BBCS line.

The total number of our landline internet subscribers increased by 4.1 thousand or 1.1%, as of June 30, 2012 to 372.3 from 368.2 as of June 30, 2011. The total number of broadband subscribers, including both LLU and BBCS services, likewise grew by 7.0 thousand, or 1.9%, as of June 30, 2012 to 369.3 from 362.3 as of June 30, 2011. We attribute the migration from BBCS to LLU primarily to our attractive LLU and bundled mobile, landline and TV offerings.

*ARPU*

The table below sets forth our landline internet ARPU for the periods indicated.

| Landline Internet ARPU | | | | CHF / month |
|---|---|---|---|---|
| | January 1 - June 30, 2012 | January 1 - June 30, 2011 | April 1 – June 30, 2012 | April 1 – June 30, 2011 |
| Landline Internet ARPU (1) | 35.8 | 35.9 | 35.8 | 35.9 |
| *Decrease over period* | *-0.3%* | - | *-0.3%* | - |

(1) We define landline internet ARPU as the total landline internet ADSL revenue in the period divided by the average number of landline internet ADSL subscribers in the period, which is subsequently divided by the number of months in the period. The average number of landline internet ADSL subscribers in a period is calculated by adding together the number of landline internet ADSL subscribers at the beginning and end of each month during the period, dividing by two and then averaging the results from all months during the period. For purposes of calculating landline internet ARPU, landline internet revenue includes revenue generated from monthly subscription fees but does not include dial-up revenue and revenue from the sale of customer premises equipment, such as modems.

Landline internet ARPU decreased by CHF 0.1, or 0.3%, to CHF 35.8 for the six months ended June 30, 2012, from CHF 35.9 for the six months ended June 30, 2011. Landline internet ARPU decreased by CHF 0.1, or 0.3%, to CHF 35.8 for the three months ended June 30, 2012, from CHF 35.9 for the three months ended June 30, 2011. We attribute the decrease to mobile and fixnet bundles which is partially offset by an increase in LLU customer base, which resulted in part of the COGS savings being passed on to the customer (i.e., the retail price reduction in exchange for higher underlying profit).

**Material Affiliate Transactions**
Sunrise Communications AG acts as a central counterparty to external financial institutions for all derivative instrument transactions of the Group (refer to note 11). Back-to-back agreements between reporting entities are in place between Sunrise Communications AG and the respective debt holding group entities mirroring the external agreements with financial institutions.

**Material Contractual Arrangements**
Sunrise Communications AG extended the contract with Alcatel-Lucent for the construction and maintenance of its entire telecommunications network until August 31, 2012 in order to ensure a smooth hand-over of activities.

For the further expansion, operation, and maintenance of its mobile and fixed networks, Sunrise Communications AG has elected Huawei as its new technology partner, effective from September 1, 2012.

**Material Debt Instruments**
In March and June 2012, the Company made partial repayments and prepayments on Term Loans A and B amounting to CHF 13.5 million and CHF 30.9 million respectively.

**Credit Ratings**
On April 20, 2012, Standard & Poor's Ratings Services ("S&P") lowered our long-term corporate credit rating to 'B+' from 'BB-'. The outlook is stable. At the same time, the ratings on Sunrise's senior secured notes was lowered to 'BB-' from 'BB' and on the group's subordinated notes to 'B-' from 'B'.

On May 23, 2012 Sunrise received a new initial credit rating from Fitch Ratings Ltd. ("Fitch"). Fitch assigned Sunrise a Foreign Currency Long-Term Issuer Default Rating (IDR) of 'BB-'. The Senior Credit Facilities and Senior Secured Notes were rated 'BB' and the Senior Notes 'B'.

**Material Risk Factors**
Sunrise operates a centralized risk management system which distinguishes between strategic and operating risks.

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 discussion process in the Board of Directors.

On June 25, 2012 Swisscom announced new flat-rate postpaid mobile tariffs. Swisscom's flat-rate plans are now based on access speed, which represents a new model not yet tested in the Swiss market

Except the new price-plan announcement made by Swisscom no changes to any material risk factor associated to the Group occurred during the six-month period ended June 30, 2012.

**Material Recent Developments**
At the spectrum auction of all mobile frequencies that ended on Wednesday, February 22, 2012, Sunrise successfully participated and secured almost 40% of the valuable sub-GHz frequency bands. Sunrise acquired a total of 160 MHz (up/down), spread out over 16 blocks for CHF 481.7 million. A breakdown of the individual frequency blocks is shown below:

- 2 blocks with 10 MHz each within the 800 MHz range/digital dividend (Category A)
- 3 blocks with 10 MHz each within the 900 MHz range (Category B)
- 4 blocks with 10 MHz each within the 1800 MHz range (Category D)
- 2 blocks with 10 MHz each within the 2100 MHz range (Category H)
- 5 blocks with 10 MHz each within the 2600 MHz range (Category I)

On June 6, 2012, Sunrise Communications AG received the concession for the mobile license spectrum awarded during the auction in February 2012 from the Federal Communications Commission (ComCom). Sunrise Communications AG opted to pay the license fee in three installments which are the following:

- 60% or CHF 289.0 million are due for payment on August 6, 2012
- 20% or CHF 96.35 million as of June 30, 2015 including 3% compounding interest
- 20% as CHF 96.35 million of December 31, 2016 including 3% compounding interest

**Material Acquisition, Dispositions and Recapitalizations**
During the reporting period, no material acquisitions, dispositions and recapitalizations occurred.

# Sunrise Communications Holdings S.A.

# Condensed consolidated interim financial statements for the six-month period ended June 30, 2012 (unaudited)

Condensed Consolidated Interim Statements of Income CHFk

| | Note | January 1– June 30, 2012 Unaudited | January 1 - June 30, 2011 Unaudited | April 1– June 30, 2012 Unaudited | April 1 – June 30, 2011 Unaudited |
|---|---|---|---|---|---|
| **Revenue** | **5,6** | **1,023,097** | **955,776** | **513,814** | **488,490** |
| Transmission costs and cost of goods sold | | (320,097) | (293,860) | (160,386) | (147,472) |
| Other operating expenses | | (295,628) | (285,941) | (150,450) | (149,671) |
| Wages, salaries and pension costs | | (115,037) | (90,164) | (58,654) | (46,290) |
| **Total operating expenses before other income and expenses, depreciation and amortization** | | **(730,762)** | **(669,965)** | **(369,490)** | **(343,433)** |
| Other income and (expenses), net | 7 | 19,594 | 1,608 | 15,591 | 1,268 |
| **Income before depreciation and amortization, net financial items and income taxes** | | **311,929** | **287,419** | **159,915** | **146,325** |
| Amortization | | (83,954) | (90,187) | (41,822) | (43,463) |
| Depreciation | | (96,155) | (91,007) | (48,392) | (44,808) |
| **Operating income** | | **131,820** | **106,225** | **69,701** | **58,054** |
| Foreign currency gains / (losses), net | | 15,946 | 28,386 | 2,954 | 76,335 |
| Financial income | | 55,504 | 103,280 | 27,233 | 25,016 |
| Financial expenses | | (167,182) | (228,449) | (77,809) | (156,667) |
| **Net financial items** | **8** | **(95,732)** | **(96,783)** | **(47,622)** | **(55,316)** |
| **Income/(loss) before income taxes** | | **36,088** | **9,442** | **22,079** | **2,738** |
| Income taxes | | (15,679) | (13,596) | (11,301) | (7,109) |
| **Net income/(loss)** | | **20,409** | **(4,154)** | **10,778** | **(4,371)** |
| **Net income/(loss) attributable to equity holders of the Company** | | **20,409** | **(4,154)** | **10,778** | **(4,371)** |

The accompanying notes form an integral part of the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Comprehensive Income CHFk

| | Note | January 1– June 30, 2012 Unaudited | January 1 - June 30, 2011 Unaudited | April 1– June 30, 2012 Unaudited | April 1 – June 30, 2011 Unaudited |
|---|---|---|---|---|---|
| **Net Income/(loss)** | | **20,409** | **(4,154)** | **10,778** | **(4,371)** |
| Actuarial gains/ (losses) related to defined benefit pension plans | | (10,106) | 2,848 | (10,106) | |
| Income taxes on actuarial gains | | 2,165 | (603) | 2,165 | |
| Net movements on cash flow hedges | 11 | 18,065 | (18,085) | 5,329 | (19,909) |
| Income taxes on cash flow hedges | | (110) | 685 | (42) | 268 |
| **Other comprehensiveincome/(loss)** | | **10,014** | **(15,155)** | **(2,654)** | **(19,641)** |
| **Total comprehensive income/(loss)** | | **30,423** | **(19,309)** | **8,124** | **(24,012)** |
| **Comprehensive loss attributable to equity holders of the Company** | | **30,423** | **(19,309)** | **8,124** | **(24,012)** |

The accompanying notes form an integral part of the condensed consolidated interim financial statements.

## Condensed Consolidated Interim Statements of Financial Position

| Assets | | | CHFk |
|---|---|---|---|
| | Note | June 30, 2012 Unaudited | December 31, 2011 |
| Non-current assets | | | |
| Intangible assets | | 2,446,959 | 2,527,227 |
| Property, plant and equipment | | 917,435 | 944,859 |
| Derivative assets | 11 | 8 | 60 |
| Other non-current assets | 13 | 153 | 13,305 |
| **Total non-current assets** | | **3,364,555** | **3,485,451** |
| Current assets | | | |
| Inventories | 13 | 51,917 | 28,849 |
| Trade and other receivables | 13 | 333,047 | 323,057 |
| Prepaid expenses | | 38,706 | 26,848 |
| Other financial assets | | - | 100,102 |
| Cash and cash equivalents | | 543,032 | 485,387 |
| **Total current assets** | | **966,702** | **964,243** |
| **Total assets** | | **4,331,257** | **4,449,694** |

The accompanying notes form an integral part of the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Financial Position

| Equity and liabilities | | | CHFk |
|---|---|---|---|
| | Note | June 30, 2012 Unaudited | December 31, 2011 |
| Equity | | | |
| Common shares, share premium and PECs | 9 | 932,574 | 932,574 |
| Valuation reserve | | (54,979) | (64,993) |
| Accumulated deficit | | (21,111) | (41,520) |
| **Total equity** | | **856,484** | **826,061** |
| | | | |
| Non-current liabilities | | | |
| Non-current portion of borrowings | 10 | 2,334,576 | 2,405,687 |
| Deferred tax liabilities | | 219,477 | 236,956 |
| Provisions | | 107,389 | 105,011 |
| Employee benefit obligations | | 86,476 | 76,357 |
| Derivative liabilities | 11 | 201,455 | 202,991 |
| Deferred income | | 21,454 | 24,140 |
| **Total non-current liabilities** | | **2,970,827** | **3,051,142** |
| | | | |
| Current liabilities | | | |
| Current portion of borrowings | 10 | 81,763 | 67,789 |
| Trade and other payables | 13 | 341,333 | 395,020 |
| Income tax payable | | 22,820 | 23,357 |
| Deferred income | | 42,285 | 56,180 |
| Provisions | | 13,712 | 27,845 |
| Other current liabilities | | 2,033 | 2,300 |
| **Total current liabilities** | | **503,946** | **572,491** |
| | | | |
| **Total liabilities** | | **3,474,773** | **3,623,633** |
| | | | |
| **Total equity and liabilities** | | **4,331,257** | **4,449,694** |

The accompanying notes form an integral part of the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Cash Flow CHFk

| | Note | January 1– June 30, 2012 Unaudited | January 1 – June 30, 2011 Unaudited | April 1 – June 30, 2012 Unaudited | April 1 – June 30, 2011 Unaudited |
|---|---|---|---|---|---|
| Income before depreciation and amortization, net financial items and income taxes | | 311,929 | 287,419 | 159,915 | 146,325 |
| Reversal of items without cash flow effect | | 9,567 | 8,801 | 6,380 | 5,852 |
| Pension contributions | | (7,675) | (6,894) | (3,895) | (3,542) |
| Payments related to provisions | | - | (33) | - | (33) |
| Change in net working capital | 12 | (121,428) | (74,643) | (7,627) | 3,821 |
| Cash flow from operating activities before net financials and tax | | 192,393 | 214,650 | 154,773 | 152,423 |
| Interest received | | 55,278 | 66,746 | 49,051 | 66,617 |
| Interest paid | | (140,944) | (170,947) | (120,146) | (157,328) |
| Foreign currency gains/(losses), net | | 1,533 | (2,631) | 1,615 | (3,344) |
| Cash flow from/(used in) operating activities before tax | | 108,260 | 107,818 | 85,293 | 58,368 |
| Corporate income and withholding taxes paid | | (31,584) | (40,535) | (12,940) | (13,641) |
| **Total cash flow from operating activities** | | **76,676** | **67,283** | **72,353** | **44,727** |
| Investment in property, plant and equipment | | (53,635) | (35,554) | (35,237) | (26,141) |
| Investment in intangible assets | | (15,932) | (11,373) | (8,249) | (6,518) |
| Sale of property, plant and equipment | | - | 72 | - | 61 |
| Short-term deposit reclassified in cash and cash equivalents during the period | | 100,052 | - | 100,052 | - |
| Total cash flow used in investing activities | | 30,485 | (46,855) | 56,566 | (32,598) |
| Repayments of capital leases | | (2,825) | (2,251) | (1,156) | (1,115) |
| Repayments of long-term borrowings | | (44,355) | (18,750) | (30,866) | (18,772) |
| Total cash flow used in financing activities | | (47,180) | (21,001) | (32,022) | (19,887) |
| Total cash flow | | 59,981 | (573) | 96,897 | (7,758) |
| Cash and cash equivalents at January 1 | | 485,387 | 126,754 | - | - |
| Cash and cash equivalents at April 1 | | - | - | 446,098 | 134,401 |
| Foreign currency impact on cash | | (2,336) | (123) | 37 | (585) |
| Cash and cash equivalents at June 30 | | 543,032 | 126,058 | 543,032 | 126,058 |

The accompanying notes form an integral part of the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Changes in Equity

CHFk

| | Common shares | Share premium | PECs | Valuation reserve | Accumulated deficit | Total |
|---|---|---|---|---|---|---|
| **Equity at January 1, 2012** | **1,000** | **125,876** | **805,698** | **(64,993)** | **(41,520)** | **826,061** |
| Net income for the period | - | - | - | - | 20,409 | 20,409 |
| Other comprehensive income | - | - | - | 17'955 | (7,941) | 10'014 |
| **Total comprehensive income** | - | - | - | **17,955** | **12,468** | **30,423** |
| **Equity at June 30, 2012** | **1,000** | **125,876** | **805,698** | **(47,038)** | **(29,052)** | **856,484** |

| | Common shares | Share premium | PECs | Valuation reserve | Accumulated deficit | Total |
|---|---|---|---|---|---|---|
| **Equity at January 1, 2011** | **1,000** | **125,876** | **805,698** | **(67,951)** | **(27,797)** | **836,826** |
| Net loss for the period | - | - | - | - | (4,154) | (4,154) |
| Other comprehensive income | - | - | - | (17,399) | 2,244 | (15,155) |
| **Total comprehensive income** | **-** | **-** | **-** | **(17,399)** | **(1,910)** | **(19,309)** |
| **Equity at June 30, 2011** | **1,000** | **125,876** | **805,698** | **(85,350)** | **(29,707)** | **817,517** |

The accompanying notes form an integral part of the condensed consolidated interim financial statements.

# Notes to Condensed Consolidated Interim Financial Statements

## Overview

## Note 1 General information

Sunrise Communications Holdings S.A. (the "Company" or the "Group") has its registered office at Avenue Monterey 20, L-2163 Luxembourg. Sunrise Communications Holdings S.A. is indirectly holding 100% of its principal operating company, Sunrise Communications AG, which has its registered office at Binzmühlestrasse 130, CH-8050 Zurich, Switzerland.

Sunrise Communications AG is the second-largest full-range telecommunications provider in Switzerland, and offers mobile voice and data, landline services (retail voice, business and integration services and wholesale voice), landline internet including IPTV services to both residential and business customers, as well as to other operators. Sunrise has its own national backbone landline and ISP network, as well as its own mobile network based on GSM/EDGE and UMTS/HSDPA technology. In connection with the provision of services Sunrise resells handsets manufactured by well known suppliers.

These consolidated interim financial statements were approved for issue by the Company's Board of Directors on August 8, 2012.

## Note 2 Basis of preparation

These financial statements are the condensed consolidated interim financial statements of Sunrise Communication Holdings S.A. as of and for the six-month ended June 30, 2012.

They have been prepared in accordance with IAS 34, "Interim financial reporting" – as adopted by the European Union – and should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2011.

*Foreign currency translation*

The consolidated financial statements are presented in CHF. CHF is the functional currency of the Parent Company and each of its subsidiaries.

On June 30, 2012 the Euro to Swiss Francs exchange rate used was 1.20118 and the US Dollar to Swiss Francs exchange rate applied by the Group was 0.9485. During the six-month period ended June 30, 2012, for all transactions, the average Euro to Swiss Francs exchange rate used was 1.2226 and the US Dollar to Swiss Francs exchange rate used was 0.9326.

On June 30, 2011 the Euro to Swiss Francs exchange rate used was 1.21876 and the US Dollar to Swiss Francs exchange rate used was 0.8404. During the six-month period ended June 30, 2011, for all transactions, the average Euro to Swiss Francs exchange rate used was 1.29835 and the US Dollar to Swiss Francs exchange rate used was 0.94195.

*Seasonality*

The business of the Group does not present pronounced cyclical patterns.

## Note 3 Critical accounting estimates and judgments and changes in accounting policies

*Accounting estimates and judgments*

The preparation of condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. Those estimates affect mainly provisions, goodwill impairment tests, employee benefit obligation, allowance for doubtful receivables and taxes. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the period ended December 31, 2011 except for the determination of the employee benefit obligation. As a result of a change in the estimated discount rate, the employee benefit obligation has increased by CHF 10.1 million.

*Changes in accounting policies*

A change in accounting policy is made when required to adopt a new or revised IFRS. A voluntary change may be made if it will result in a reliable and more relevant presentation. Generally the change in accounting policy applies retrospectively, including any income tax effect. If it is impracticable to determine the period-specific effects for one or more prior periods presented, then the opening balances of assets, liabilities and equity are restated for the earliest period for which retrospective restatement is practicable

As stated in the annual report for the year ended December 31, 2011, the Group decided to change its accounting policy with respect to early termination fees. Early termination fees result from the early termination of a legal contract either by the Group due to a defaulting customer or by the customer itself. Those charges are considered to be compensation of damages as it does not constitute the core business of Sunrise and the majority of the charges relate to customers defaulting on their payments. In prior years, these revenues were recognized gross in ‘revenue’ and the uncollectible part was recognized in ‘other operating expenses’ as a bad debt expense.

The voluntary accounting policy change required a reclassification of the collectible amount of the early termination fees from ‘revenue’ to ‘other income and expense’ and a reclassification of the uncollectible part from ‘other operating expenses’ to ‘other income and expenses’. As a result the net collectible early termination fees are shown in ‘other income and expense’.

In the comparative period for the six months ended June 30, 2011 the Group reclassified CHF 19.7 million from ‘revenue’ to ‘other operating expenses’ (CHF 15.5 million) and ‘other income and expenses’ (CHF 4.2 million) .

## Note 4 New accounting standards

The Group applied all standards and interpretations which had become effective for the financial year beginning January 1, 2012.

The following new standards and amendments to standards are effective for the first time for the financial year beginning January 1, 2012.

Amendments to IAS 12 “Income taxes: deferred income taxes on the recovery of underlying assets”. The amendment did not impact the Group’s result and financial position.

## Note 5 Segment Reporting

The operating segments have been determined based on the Management reports reviewed by the Board of Directors. The group's organizational structure reflects the different customer groups to which the Group provide its telecommunications products and services: Residential, Business, Wholesale and Head Office.

Residential provides fixed line and mobile services to residential end customers. Through its investments in LLU, Sunrise focuses on selling the 'best value' in the Swiss telecommunications market by marketing bundled offers in Fixnet/Internet, Mobile and IPTV.

Business provides the full range of products and services, from fixed-line and mobile communications to internet and data services as well as integration services to the different business areas: Single office and home office (Soho), small and medium enterprises (SME), large corporate and . .

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 MVNO's.

Head Office activities consists of all support units such as Network, IT and Customer Care as well as staff functions like Finance, HR and Strategy. Furthermore certain fees and sundry revenues and payments of reminder fees are also allocated to this operating segment.

The accounting policies applicable to the reportable segments are the same Group's accounting policies that applied to the consolidated financial statements for the period ended December 31, 2011 and those disclosed in Note 3 above.

Performance is measured based on 'Income before depreciation and amortization (EBITDA)' as included in the internal financial reports reviewed by the Board of Directors. EBITDA is defined as operating income before depreciation and amortisation, net financial result and income tax expenses. The EBITDA earned by each segment is considered to be an adequate measure of the operating performance of the segments reported to the Board of Directors for the purposes of resource allocation and 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 the development in net working capital on Group level.

Activities CHFk

| | Residential | | Business | | Wholesale[2] | | Head Office activities[1] | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | January 1 - June 30, 2012 Unaudited | January 1 - June 30, 2011 Unaudited | January 1 - June 30, 2012 Unaudited | January 1 - June 30, 2011 Unaudited | January 1 - June 30, 2012 Unaudited | January 1 - June 30, 2011 Unaudited | January 1 - June 30, 2012 Unaudited | January 1 - June 30, 2011 Unaudited | January 1 - June 30, 2012 Unaudited | January 1 - June 30, 2011 Unaudited |
| External revenue | 712,435 | 699,479 | 170,757 | 115,967 | 134,188 | 135,807 | 5,717 | 4,523 | 1,023,097 | 955,776 |
| Intra-segment revenue | - | - | - | - | 7,574 | 11,863 | - | - | 7,574 | 11,863 |
| Revenue | 712,435 | 699,479 | 170,757 | 115,967 | 141,762 | 147,670 | 5,717 | 4,523 | 1,030,671 | 967,639 |
| Transmission costs and cost of goods sold | (177,043) | (183,260) | (59,029) | (32,406) | (91,645) | (90,057) | 46 | - | (327,671) | (305,723) |
| Other external charges | (156,065) | (150,384) | (22,464) | (18,924) | (3,293) | (2,869) | (113,806) | (113,764) | (295,628) | (285,941) |
| Wages, salaries and pension costs | (27,396) | (22,645) | (28,203) | (13,222) | (4,843) | (3,871) | (54,595) | (50,426) | (115,037) | (90,164) |
| Other income and expenses | 9,039 | 3,380 | 1,243 | 874 | - | - | 9,312 | (2,646) | 19,594 | 1,608 |
| EBITDA | 360,970 | 346,570 | 62,304 | 52,289 | 41,981 | 50,873 | (153,326) | (162,313) | 311,929 | 287,419 |

1) Including Headquarters
2) Including hubbing revenue of CHFk 67,330 for the six months ended June 30, 2012 and CHFk 62,852 for the six months ended June 30, 2011.

Activities CHFk

| | Residential | | Business[2] | | Wholesale | | Head Office activities[1] | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | April 1 – June 30, 2012 Unaudited | April 1 – June 30, 2011 Unaudited | April 1 – June 30, 2012 Unaudited | April 1 – June 30, 2011 Unaudited | April 1 – June 30, 2012 Unaudited | April 1 – June 30, 2011 Unaudited | April 1 – June 30, 2012 Unaudited | April 1 – June 30, 2011 Unaudited | April 1 – June 30, 2012 Unaudited | April 1 – June 30, 2011 Unaudited |
| External revenue | 356,086 | 357,670 | 84’754 | 59,994 | 69,561 | 67,836 | 3,413 | 2,990 | 513,814 | 488,490 |
| Intra-segment revenue | - | - | - | - | 3,585 | 5,540 | - | - | 3,585 | 5,540 |
| Revenue | 356,086 | 357,670 | 84’754 | 59,994 | 73,146 | 73,376 | 3,413 | 2,990 | 517,399 | 494,030 |
| Transmission costs and cost of goods sold | (87,577) | (94,566) | (28,606) | (15,924) | (47,785) | (42,24) | -3 | -1 | (163,971) | (153,013) |
| Other external charges | (79,747) | (83,571) | (10,851) | (8,998) | (1,646) | (1,216) | (58,206) | (55,886) | (150,450) | (149,671) |
| Wages, salaries and pension costs | (13,800) | (11,667) | (14,188) | (6,581) | (2,698) | (1,981) | (27,968) | (26,061) | (58,654) | (46,290) |
| Other income and expenses | 5,388 | 1,586 | 891 | 388 | - | - | 9,312 | (706) | 15,591 | 1,268 |
| EBITDA | 180,350 | 169,452 | 32,200 | 28,879 | 21,017 | 27,655 | (73,452) | (79,664) | 159,915 | 146,325 |

1) Including Headquarters
2) Including hubbing revenue of CHFk 35,584 for the three months ended June 30, 2012 and CHFk 29,799 for the three months ended June 30, 2011.

Reconciliation of revenue CHFk

| | January 1– June 30, 2012 Unaudited | January 1 - June 30, 2011 Unaudited | April 1 – June 30, 2012 Unaudited | April 1 – June 30, 2011 Unaudited |
|---|---|---|---|---|
| Reportable segments | 1,030,671 | 967,639 | 517,399 | 494,030 |
| Elimination of intra-segment items | (7,574) | (11,863) | (3,585) | (5,540) |
| **Revenue** | **1,023,097** | **955,776** | **513,814** | **488,490** |

Reconciliation of transmission costs and cost of goods sold CHFk

| | January 1– June 30, 2012 Unaudited | January 1 - June 30, 2011 Unaudited | April 1 – June 30, 2012 Unaudited | April 1 – June 30, 2011 Unaudited |
|---|---|---|---|---|
| Reportable segments | (327,671) | (305,723) | (163,971) | (153,012) |
| Elimination of intra-segment items | 7,574 | 11,863 | 3,585 | 5,540 |
| **Transmission costs and cost of goods sold** | **(320,097)** | **(293,860)** | **(160,386)** | **(147,472)** |

Reconciliation of net income before interest, tax, depreciation and amortization (EBITDA) CHFk

| | January 1– June 30, 2012 Unaudited | January 1 - June 30, 2011 Unaudited | April 1 – June 30, 2012 Unaudited | April 1 – June 30, 2011 Unaudited |
|---|---|---|---|---|
| EBITDA from reportable segments | 311,929 | 287,419 | 159,915 | 146,325 |
| Unallocated: | | | | |
| Depreciation and amortization | (180,109) | (181,194) | (90,214) | (88,271) |
| Net financial items | (95,732) | (96,783) | (47,622) | (55,316) |
| Consolidated net income before income taxes | 36,088 | 9,442 | 22,079 | 2,738 |

## Note 6 Revenue

CHFk

| | January 1– June 30, 2012 Unaudited | January 1 - June 30, 2011 Unaudited | April 1 – June 30, 2012 Unaudited | April 1 – June 30, 2011 Unaudited |
|---|---|---|---|---|
| Mobile services | 639,378 | 608,711 | 322,165 | 317,474 |
| Landline services | 295,143 | 259,604 | 147,283 | 127,065 |
| *thereof hubbing* | *67,330* | *62,852* | *35,584* | *29,799* |
| Landline internet | 88,576 | 87,461 | 44,366 | 43,951 |
| **Total** | **1,023,097** | **955,776** | **513,814** | **488,490** |

| | January 1 - June 30, 2012 Unaudited | January 1 - June 30, 2011 Unaudited | April 1 – June 30, 2012 Unaudited | April 1 – June 30, 2011 Unaudited |
|---|---|---|---|---|
| Sales of goods | 39,482 | 40,516 | 18,602 | 21,638 |
| Sales of services | 983,615 | 915,260 | 495,212 | 466,852 |
| **Total** | **1,023,097** | **955,776** | **513,814** | **488,490** |

## Note 7 Other income and (expenses)

Other income recognized during the the first half year of 2012 includes the collectible amount from early termination fees, income from a settlement of a interconnection charging dispute which are related to previous years and a reversal of unused provisions totalling CHF 31.4 million. These effects are partially offset by restructuring costs and transition costs related to a contract extension with a multi-service network supplier amounting to CHF 11.8 million.

Other income for the six month period ended June 30, 2011 includes income from early termination fees amounting to CHF 4.3 million and costs related to management one-time incentive payments and retention programs amounting to CHF 2.7 million.

## Note 8 Net financial items

CHFk

| | Interest | Swiss capital tax | Fair value adjustments | Total financial income and (expenses) before foreign currency | Net foreign currency gains/(losses) | April 1 - June 30, 2012 Unaudited Total |
|---|---|---|---|---|---|---|
| Income | | | | | | |
| Cash and cash equivalents | 293 | - | - | 293 | 37 | 330 |
| Financial liabilities measured at amortized cost | - | - | - | - | 3,529 | 3,529 |
| Derivatives – used for hedging | 26,771 | - | - | 26,771 | - | 26,771 |
| Derivatives – held for trading | 27 | - | - | 27 | - | 27 |
| Other | - | 142 | - | 142 | - | 142 |
| **Total Income** | **27,091** | **142** | **-** | **27,233** | **3,566** | **30,799** |
| Expenses | | | | | | |
| Cash and cash equivalents | - | - | - | - | - | - |
| Financial liabilities measured at amortized cost | (45,405) | - | - | (45,405) | - | (45,405) |
| Derivatives – used for hedging | (27,527) | - | (3,042) | (30,569) | - | (30,569) |
| Derivatives – held for trading | (197) | - | (62) | (259) | - | (259) |
| Other | (1,576) | - | - | (1,576) | (612) | (2,188) |
| **Total Expenses** | **(74,705)** | **-** | **(3,104)** | **(77,809)** | **(612)** | **(78,421)** |
| **Net financial items** | **(47,614)** | **142** | **(3,104)** | **(50,576)** | **2,954** | **(47,622)** |

| | Interest | Swiss capital tax | Fair value adjustments | Total financial income and (expenses )before foreign currency | Net foreign currency gains/(losses) | January 1 - June 30, 2012 Unaudited Total |
|---|---|---|---|---|---|---|
| Income | | | | | | |
| Cash and cash equivalents | 1,089 | - | - | 1,089 | - | 1,089 |
| Financial liabilities measured at amortized cost | - | - | - | - | 18,291 | 18,291 |
| Derivatives – used for hedging | 54,151 | - | - | 54,151 | - | 54,151 |
| Derivatives – held for trading | 40 | - | - | 40 | - | 40 |
| Other | - | 224 | - | 224 | (9) | 215 |
| **Total Income** | **55,280** | **224** | **-** | **55,504** | **18,282** | **73,786** |
| Expenses | | | | | | |
| Cash and cash equivalents | - | - | - | - | (2,336) | (2,336) |
| Financial liabilities measured at amortized cost | (91,458) | - | - | (91,458) | - | (91,458) |
| Derivatives – used for hedging | (55,024) | - | (16,959) | (71,983) | - | (71,983) |
| Derivatives – held for trading | (394) | - | 389 | (5) | - | (5) |
| Other | (3,266) | (470) | - | (3,736) | - | (3,736) |
| **Total Expenses** | **(150,142)** | **(470)** | **(16,570)** | **(167,182)** | **(2,336)** | **(169,518)** |
| **Net financial items** | **(94,862)** | **(246)** | **(16,570)** | **(111,678)** | **15,946** | **(95,732)** |

CHFk

| | Interest | Swiss capital tax | Fair value adjustments | Total financial income and (expenses )before foreign currency | Net foreign currency gains/(losses) | April 1 – June 30, 2011 Unaudited<br>Total |
|---|---|---|---|---|---|---|
| Income | | | | | | |
| Cash and cash equivalents | 74 | - | - | 74 | - | 74 |
| Financial liabilities measured at amortized cost | - | - | - | - | 80,068 | 80,068 |
| Derivatives – used for hedging | 24,538 | - | - | 24,538 | - | 24,538 |
| Derivatives – held for trading | 46 | - | - | 46 | - | 46 |
| Other | - | 358 | - | 358 | - | 358 |
| **Total Income** | **24,658** | **358** | **0** | **25,016** | **80,068** | **105,084** |
| Expenses | | | | | | |
| Cash and cash equivalents | - | - | - | - | (585) | (585) |
| Financial liabilities measured at amortized cost | (43,632) | - | - | (43,632) | - | (43,632) |
| Derivatives – used for hedging | (23,647) | - | (84,998) | (108,645) | - | (108,645) |
| Derivatives – held for trading | (197) | - | (2,488) | (2,685) | - | (2,685) |
| Other | (1,705) | - | - | (1,705) | (3,148) | (4,853) |
| **Total Expenses** | **(69,181)** | **0** | **(87,486)** | **(156,667)** | **(3,733)** | **(160,400)** |
| **Net financial items** | **(44,523)** | **358** | **(87,486)** | **(131,651)** | **76,335** | **(55,316)** |

| | Interest | Swiss capital tax | Fair value adjustments | Total financial income and (expenses )before foreign currency | Net foreign currency gains/(losses) | January 1 – June 30, 2011 Unaudited<br>Total |
|---|---|---|---|---|---|---|
| Income | | | | | | |
| Cash and cash equivalents | 163 | - | - | 163 | - | 163 |
| Financial liabilities measured at amortized cost | - | - | - | - | 30,982 | 30,982 |
| Derivatives – used for hedging | 50,128 | - | 51,055 | 101,183 | - | 101,183 |
| Derivatives – held for trading | 88 | - | 1,488 | 1,576 | - | 1,576 |
| Other | - | 358 | - | 358 | - | 358 |
| **Total Income** | **50,379** | **358** | **52,543** | **103,280** | **30,982** | **134,262** |
| Expenses | | | | | | |
| Cash and cash equivalents | - | - | - | - | (123) | (123) |
| Financial liabilities measured at amortized cost | (88,620) | - | - | (88,620) | - | (88,620) |
| Derivatives – used for hedging | (48,038) | - | (84,998) | (133,036) | - | (133,036) |
| Derivatives – held for trading | (392) | - | (2,488) | (2,880) | - | (2,880) |
| Other | (3,311) | (602) | - | (3,913) | (2,473) | (6,386) |
| **Total Expenses** | **(140,361)** | **(602)** | **(87,486)** | **(228,449)** | **(2,596)** | **(231,045)** |
| **Net financial items** | **(89,982)** | **(245)** | **(34,943)** | **(125,169)** | **28,386** | **(96,783)** |

## Note 9 Equity

CHFk

| | Shares (number) June 30, 2012 Unaudited | Nominal value June 30, 2012 Unaudited | Equity June 30, 2012 Unaudited | Equity Dec 31, 2011 |
|---|---|---|---|---|
| Class A Shares | 90,000,000 | 900 | 900 | 900 |
| Class B Shares | 10,000,000 | 100 | 100 | 100 |
| Share premium | | | 125,876 | 125,876 |
| Series A Preferred Equity Certificates (PECs) | 71,896,603,100 | - | 718,966 | 718,966 |
| Series B Preferred Equity Certificates (PECs) | 8,673,191,900 | - | 86,732 | 86,732 |
| **At June 30, 2012** | | **1,000** | **932,574** | **932,574** |

**Share capital**

The total authorized and issued number of ordinary shares is 100,000,000 with a nominal value of CHF 0.01 each.

The Equity Securities were subscribed to by entities beneficially owned by funds managed or advised by CVC (the acquisition was consummated on January 28, 2011). Following the issue of €56 million of additional Senior Notes on November 8, 2010, CHF 74 million of Series B Preferred Equity Certificates (‘PECs’) were redeemed by the Company.

The Series A and Series B Preferred Equity Certificates (PECs) have no maturity date but are redeemable solely at the option of the Company, subject to terms of an intercreditor agreement, or on the liquidation of the Company. They are interest bearing, but interest is not payable until their redemption. The PECs are structurally and contractually subordinated to all debt, including the Senior Secured Notes and the Senior Notes. They have no covenants, events of default, no right to security / guarantees or other features that could trigger an early repayment.

**Valuation reserve**

Valuation reserve records fair value changes in derivatives deferred in equity as qualifying cash flow hedges, net of taxes.

**Accumulated deficit**

Actuarial gains and losses, net of taxes, and result for the current period and earnigs or losses carried forward are recorded in accumulated deficit.

## Note 10 Borrowings

CHFk

| | Nominal value at inception | Cumulative foreign exchange movement Unaudited | Capitalized debt issuance cost Unaudited | Loan and finance lease repayments Unaudited | June 30, 2012 Carrying value Unaudited | December 31, 2011 Carrying value |
|---|---|---|---|---|---|---|
| Borrowings | | | | | | |
| Floating rate | | | | | | |
| Term Loan A – CHF denominated | 500,000 | - | (25,706) | (74,046) | 400,248 | 433,949 |
| Term Loan B1 – EUR denominated | 100,000 | (11,791) | (5,468) | (1,100) | 81,641 | 83,356 |
| Term Loan B2 – CHF denominated | 220,000 | - | (11,684) | (2,702) | 205,614 | 207,154 |
| Term Loan B3 – CHF denominated | 101,930 | - | (265) | (1,252) | 100,413 | 101,641 |
| Term Loan B4 – EUR denominated | 220,579 | 480 | (573) | (2,756) | 217,730 | 223,265 |
| Fixed rate | | | | | | - |
| Senior Secured Notes - CHF denominated | 300,000 | - | (10,555) | - | 289,445 | 288,666 |
| Senior Secured Notes - EUR denominated | 500,256 | (52,887) | (17,600) | - | 429,769 | 434,189 |
| Senior Notes - EUR denominated | 755,942 | (79,208) | (28,886) | - | 647,848 | 654,800 |
| **Total loans and notes** | **2,698,707** | **(143,406)** | **(100,737)** | **(81,856)** | **2,372,708** | **2,427,020** |
| Other | | | | | | |
| Debt relating to finance leases | | | | (2,825) | 43,631 | 46,456 |
| **Total borrowings** | | | | **(84,681)** | **2,416,339** | **2,473,476** |
| Of which loans expected to be paid within 12 months | | | | | (81,763) | (67,789) |
| **Total non-current portion of borrowings** | | | | | **2,334,576** | **2,405,687** |

The borrowings are governed by a number of financial covenants specified in the Senior Facilities Agreement. The main covenants are leverage ratio, interest cover ratio, cash flow cover ratio and capital expenditure spending. The Group has implemented covenant testing procedures beginning from June 30, 2011. The last covenant testing performed as of June 30, 2012 showed that the Group was in compliance with the applicable financial covenants.

Covenant testing based on the annual IFRS statements 2011 resulted in a mandatory prepayment on Term Loans A and B in the amount of CHF 13.5 million during the three months period ended March 31, 2012 due to excess cash flow generated in 2011. In June 2012 a mandatory repayment on a Term Loan A of CHF 30.9 million in accordance with the initial term loan repayment schedule was made.

Liabilities relating to finance leases are related primarily to lease agreements regarding renting of fiber networks.

## Note 11 Derivatives

CHFk

Derivative financial instruments are reported in the Consolidated Statement of Financial Position as follows:

| | Notional amount CHFk | June 30, 2012 Carrying Value – Asset Unaudited | June 30, 2012 Carrying Value – Liability Unaudited | December 31, 2011 Carrying Value – Asset | December 31, 2011 Carrying Value – Liability |
|---|---|---|---|---|---|
| Cash flow hedges | | | | | |
| Cross currency interest rate swaps – fixed rate borrowings | 1,256,198 | | (184,177) | | (187,175) |
| Cross currency interest rate swaps – variable rate borrowings [1)] | 100,000 | | (2,240) | | (2,758) |
| Fair value hedges | | | | | |
| Cross currency interest rate swaps – variable rate borrowings [1)] | 100,000 | | (11,794) | | (10,662) |
| Hedges held for trading | | | | | |
| Interest rate cap | 600,000 | 8 | | 60 | |
| Interest rate swap | 100,000 | | (1,221) | | (1,650) |
| Cross currency interest rate swaps – variable rate borrowings | 224,480 | | (2,023) | | (746) |
| **Total derivatives** | | **8** | **(201,455)** | **60** | **(202,991)** |

| | January 1 – June 30, 2012 Unaudited | January 1 – June 30, 2011 Unaudited | April 1 – June 30, 2012 Unaudited | April 1 – June 30, 2011 Unaudited |
|---|---|---|---|---|
| The change in the fair value of derivatives in the period can be summarized as: | | | | |
| Cash flow hedges – movement in hedge reserve | (14,549) | (29,488) | (1,553) | (76,815) |
| Cash flow hedges – ineffectiveness | - | (2,132) | - | (2,132) |
| Fair value hedges | (2,410) | (2,323) | (1,488) | (6,051) |
| **Total Statement of Income impact of hedging derivatives (note 8)** | **(16,959)** | **(33,943)** | **(3,042)** | **(84,998)** |
| Statement of Income impact of interest rate derivatives – held for trading (note 8) | 389 | (1,000) | (62) | (2,488) |
| **Total Statement of Income impact of derivatives (note 8)** | **(16,570)** | **(34,943)** | **(3,882)** | **(87,486)** |
| Other Comprehensive Income – cash flow hedges | 18,065 | (18,085) | 5,329 | 19,909 |

[1)] Cross currency interest rate swaps are related to Term Loan B (EUR)

## Note 12 Change in net working capital

CHFk

| | January 1– June 30, 2012 Unaudited | January 1 - June 30, 2011 Unaudited | April 1 – June 30, 2012 Unaudited | April 1 – June 30, 2011 Unaudited |
|---|---|---|---|---|
| Change in inventories | (23,124) | 488 | (18,629) | 3,101 |
| Change in trade and other receivables | (7,393) | 16,086 | 533 | 6,034 |
| Change in trade and other payables | (71,846) | (68,463) | 3,670 | (6.740) |
| Change in other items, net | (19,065) | (22,754) | 6,799 | 1,426 |
| **Total** | **(121,428)** | **(74,643)** | **(7,627)** | **3,821** |

## Note 13 Other balance sheet items

*Trade and other receivables*

The Group reported an increase of CHF 9.9 million in trade and other receivables from CHF 323.1 million to CHF 333.0 million for the six-month period ended June 30, 2012. The increase is mainly driven by a reclassification of withholding taxes amounting to CHF 13.2 million from non-current financial assets to other receivables and the recognition of new withholding taxes of CHF 9.6 million related to a dividend distribution within the group perfomed in June 2012 (see note 14). The Group expects to recover these withholding taxes within 12 months from the reporting date. These effects are offset by a decrease of trade receivables amounting to CHF 12.9 million.

*Inventory*

Inventory increased by CHF 23.0 million during the six-month period ended June 30, 2012 mainly attributable to an increase in IPTV hardware and a temporary increase in spares due to the transition from the old to the new multi-service network provider.

*Trade and other payables*

The decrease of trade and other payables amounting to CHF 53.7 million during the first half year ended June 30, 2012 is mainly attributable to capital expenditures of intangible assets and property, plant and equipment which have been acquired in November and December 2011.

## Note 14 Dividend Distribution within Sunrise Group

On June 29, 2012 Sunrise Communications AG, Switzerland distributed dividends amounting to CHF 191.4 million to its shareholders, Skylight S.à r.l., Luxembourg and Sunrise Communications International S.A., Luxembourg. The dividend distribution has been eliminated in full in the condensed consolidated financial statements of the Group. The dividend distribution was subject to Swiss withholding tax amounting to CHF 9.6 million which is shown as short term receivable.

No dividend resolutions have been taken by the Board of Directors of Sunrise Communications Holdings S.A. – the ultimate parent of the group – during the period under review.

## Note 15 Contractual commitments and Contingencies

As of June 30, 2012, the Group had entered the following major contractual commitments:

We have extended the termination period with Alcatel-Lucent for the construction and maintenance of our entire telecommunications networks until August 30, 2012.

For further expansion, operation and maintenance of our mobile and fixed networks, we entered into a new contract with Huawei effective from September 2012. The total undiscounted contractual obligation amounts to CHF 200.6 million.

We have acquired a spectrum license for the provision of telecommunications services for CHF 481.7 million (total undiscounted amount). Refer also to Note 18 for additional details.

## Note 16 Financial risk management

In June 2012 the Group reclassified a short term deposit of CHF 100 million from other financial assets to cash & cash equivalents.

The recent development on the FX market and the strong Swiss franc does not have a material effect on the Group, as Sunrise is predominantly active in the domestic market. A material part of the foreign currency risk arising from borrowings denominated in Euros and the interest rate risk arising from external borrowings have been hedged by the Group.

## Note 17 Related parties

In May 2012, Siddharth T. Patel resigned from and Dr. Daniel Pindur was appointed to the Board of Directors of Sunrise Communications Holdings S.A., Sunrise Communications International S.A. and Skylight S.à r.l..

In May 2012, Kamran Ziaee (CTO) and Andreas Gregori (CCO) both members of the Management Board of Sunrise Communications AG resigned from their positions. Following their resignation, Stefan Wegener has been appointed as Chief Information Officer ad interim and Member of the Management Board of Sunrise Communications AG. The Management Board of Sunrise Communciations AG has been completed with the appointment of Rolf Kühne as CTO in June 2012.

## Note 18 Events after the balance sheet date

*Spectrum License Acquisition*

On July 6, 2012 the Federal Communications Commission (Comcom) announced that the frequency award procedures has been definitiely concluded. Sunrise acquired 40% of the frequency bands for CHF 481.7 million. The Group opted to make the payment in three installments which are the following:

- 60% or CHF 289 million of the license fee is due for payment on August 6, 2012
- 20% or CHF 96.35 million as of June 30, 2015 including 3% compounding interest
- 20% as CHF 96.35 million of December 31, 2016 including 3% compounding interest

*Spectrum license payment*

On August 6, 2012, Sunrise executed the first down payment for the spectrum license amounting to CHF 289 million.

*New Revolving Credit Facility & New Senior Secured Notes and Floating Rate Notes Issuances*

As part of a the refinancing transaction, Sunrise Communications International S.A. successfully issued on July 19, 2012 new senior secured notes and floating rate notes as well as a tap offering.

This refinancing transaction consisted of:

- a tap offering of €125.0 million (equivalent to approximately CHF 150.5 million) aggregate principal amount of its existing 7% fixed rate senior secured notes due 2017,
- a new offering of CHF 370.0 million aggregate principal amount of its 5⅝% fixed rate senior secured notes due 2017,
- a new offering of CHF 175.0 million aggregate principal amount of its floating rate senior secured notes due 2017, bearing interest at a per annum rate equal to CHF LIBOR plus 5½%
- a new offering of €167.0 million (equivalent to approximately CHF 201.1 million) aggregate principal amount of its floating rate senior secured notes due 2017, bearing interest at a per annum rate equal to EURIBOR plus 4¾%

With the proceeds from these new bonds and cash on balance sheet, the Group redeemed, on the same date. all outstanding term loans which triggered a termination of the existing Senior Facilities Agreement.

In addition, Sunrise Communications International S.A. and Skylight S.à r.l entered into a CHF 250 million Revolving Credit Facility (RCF) on July 9, 2012, to replace the existing revolving credit and acquisition facilities under the SFA.