Sunrise Communications Group AG

Q2/H1’15 Financial Results

Highlights

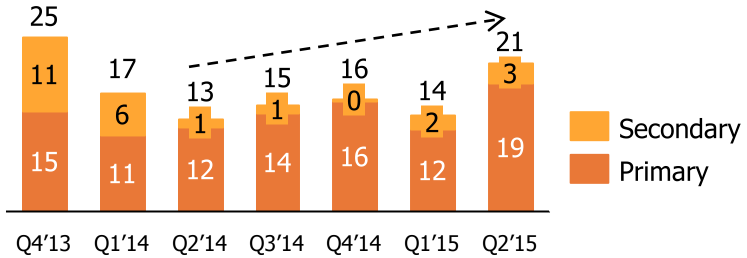
- Accelerated **subscriber** momentum in mobile postpaid and internet
  - Mobile postpaid customers +21k net adds in Q2’15 (YoY growth of +67k, +5%)
  - Internet +5k net adds in Q2’15 (YoY growth of +3k, +1%)
  - IPTV subscriptions +7k net adds in Q2’15 (YoY growth of +33k, +37%)
- **Revenue** of CHF 488 million in Q2’15, down 6.9% YoY
  - Decreasing revenue from hardware sales and hubbing due to strengthening CHF
  - Structural declines in prepaid mobile and landline retail voice subscriber bases continued
  - Lower service revenue in mobile postpaid due to the introduction of the Freedom tariff as well as more competitive pricing environment at the value end of the market
  - Revenues softer than expected, now indicating a low to mid-single digit YoY decline for FY’15
- **EBITDA** margin (excl. hubbing) up 160bps resulting in adj. EBITDA of CHF 155 million, down 1.6% YoY
  - Positive impact of efficiency programs, beginning to mitigate the impact of declining revenue
  - FY’15 adj. EBITDA guidance reiterated
- Improved **net profit** of CHF 14 million (Q2’14: CHF 7 million), driven by reduced interest expenses
- Equity **free cash flow** improved by CHF 132 million YoY to CHF 120 million in Q2’15
  - Lower interest expenses following debt refinancing and use of factoring (CHF 57 million)
  - Net debt / EBITDA stable at 2.7x, despite spectrum payment; final spectrum payment in Q4’16
- Dividend of at least CHF 135 million for 2015 to be paid in 2016 reiterated

Agenda

1	Market Update	Libor Voncina (CEO)
2	Results Q2/H1'15	André Krause (CFO)
3	Outlook	Libor Voncina (CEO)
4	Q&A	

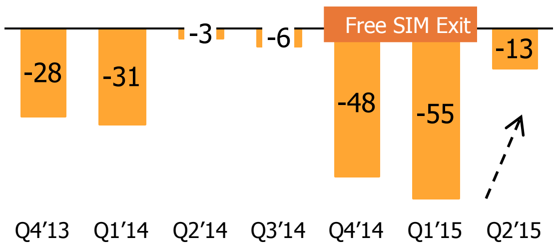
Strong subscriber momentum …

Postpaid mobile quarterly net adds ('000)



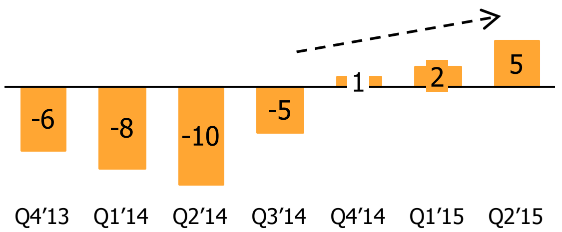
- **Postpaid** net adds (strongest quarter since Q4'13) accelerated despite competitor moves
- Successful Yallo postpaid introduction
- "Share data" concept has accelerated secondary SIM adoption

Prepaid mobile quarterly net adds ('000)



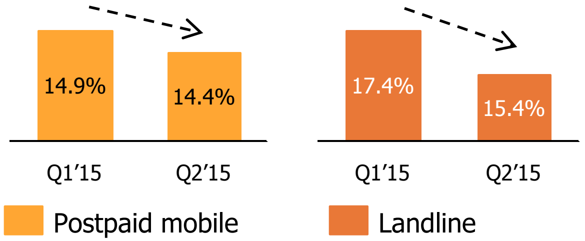
- **Prepaid** net adds recovering to normalized run rates following exit of free SIM business

Internet quarterly net adds ('000)



- **Internet** growth improved
- IPTV net adds on stable run rate

Churn LTM (%)



- Improved **Churn** supported by NPS and churn initiatives

… but value conversion becoming more challenging

- **Macroeconomic** environment less favorable following removal of currency peg
  - Swiss GDP growth expected to remain positive at +0.4% in 2015, though below +1.9% expected in December 2014 [1)]
  - Consumer goods pricing narrowing with EU, mainly impacting hardware sales
- The **competitive** environment has been characterized by various initiatives and more intense pricing pressure at the value end of the market
  - Orange/Salt.: re-branding implemented end of April; "Das Abo" intensified competition for pre- to postpaid migrators
  - upc-cablecom: mobile offers now available for non-upc customers, with price-aggressive large bundles
  - Swisscom: "Wingo" launch in fixed business with competitive fibre pricing; business market is defended with individualized low cost offers and aggressive employee programs
- Sunrise customer growth accelerated, particularly in the **value end** of the postpaid market
  - Good customer intake within the youth segment (MTV brand) and capturing pre- to postpaid migrations (Yallo brand); continued customer growth within the business segment
  - Intake on higher value Sunrise brand lower than expected
- Current revenue **headwinds** compensated by **cost initiatives**

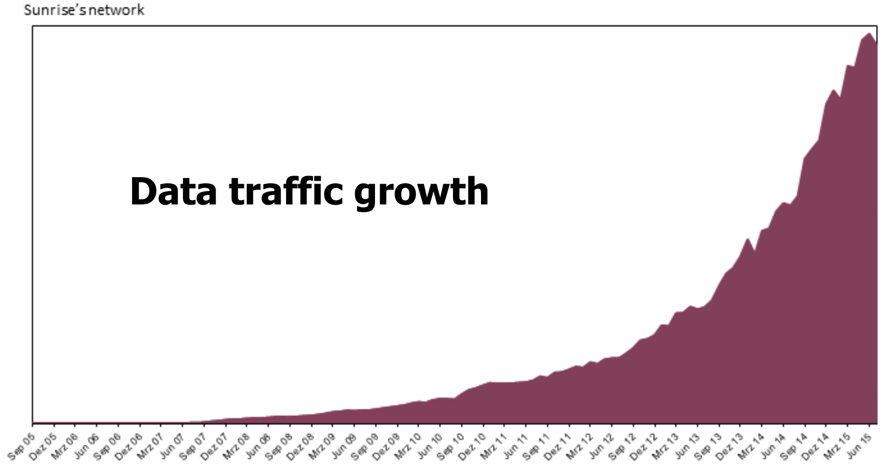
[1)] Source: KOF Swiss Economic Institute

Sunrise initiated a review to become simpler & more digital

CUSTOMER BEHAVIOR IS INCREASINGLY BECOMING ONLINE CENTRIC…

"Average minutes spent on phones daily"	**90**
"Average number of times people check their phone daily"	**150**

Mobile data evolution in Sunrise's network



… AND SUNRISE NEEDS TO BECOME SIMPLER AND MORE DIGITAL

Simplification of products and processes

- Supporting better **customer experience**
- Simplification is a **prerequisite** for digitalization
- Enabling **retirement** of **costly legacy applications & infrastructure**

Digitalization

- Complying with more and more **online centric expectations**
- Strengthen **customer relations**
- Further improve **cost to serve**

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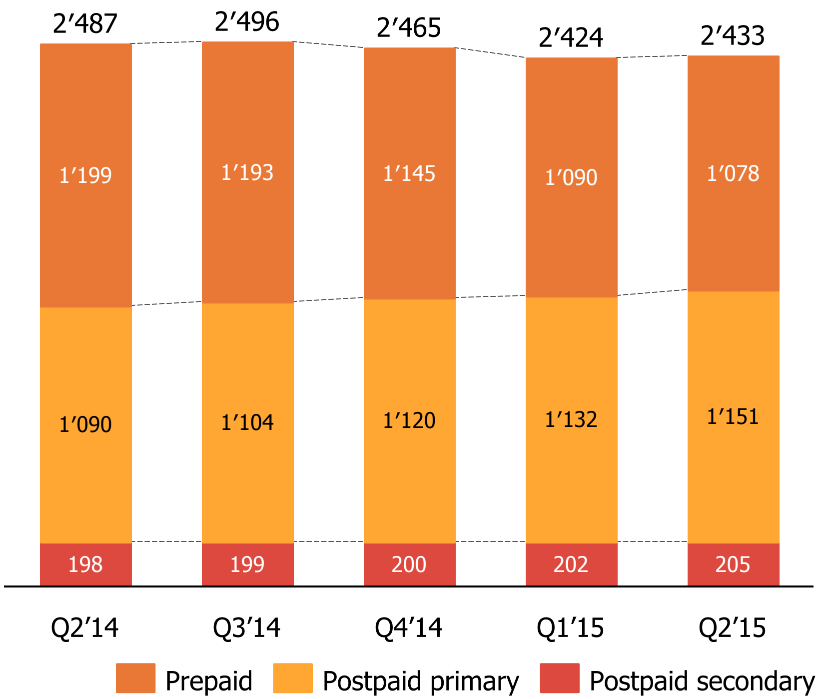
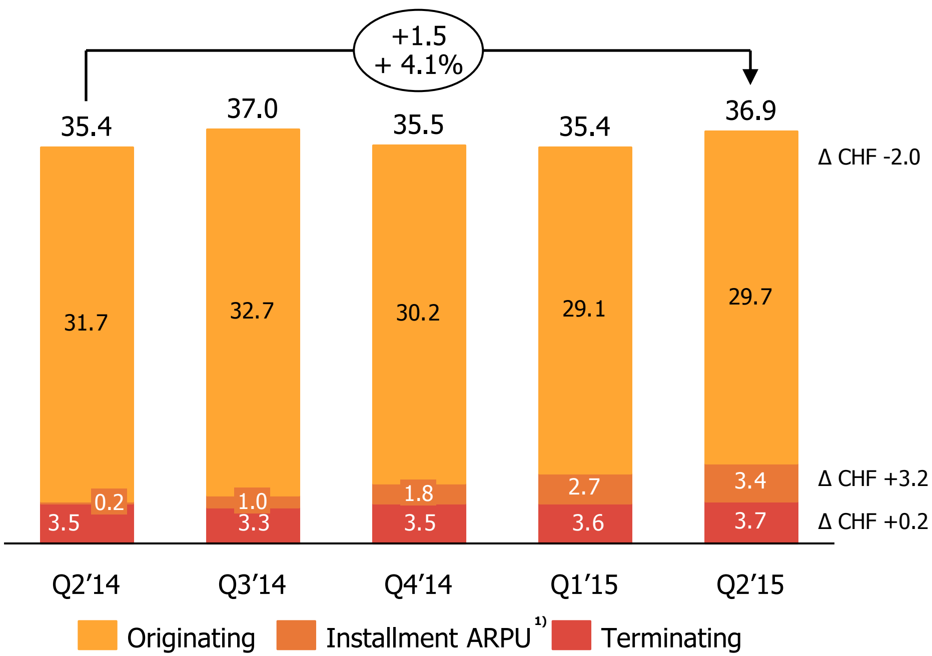
Growth driven by postpaid subscriptions

Mobile subscriptions ('000)



Blended ARPU (CHF)



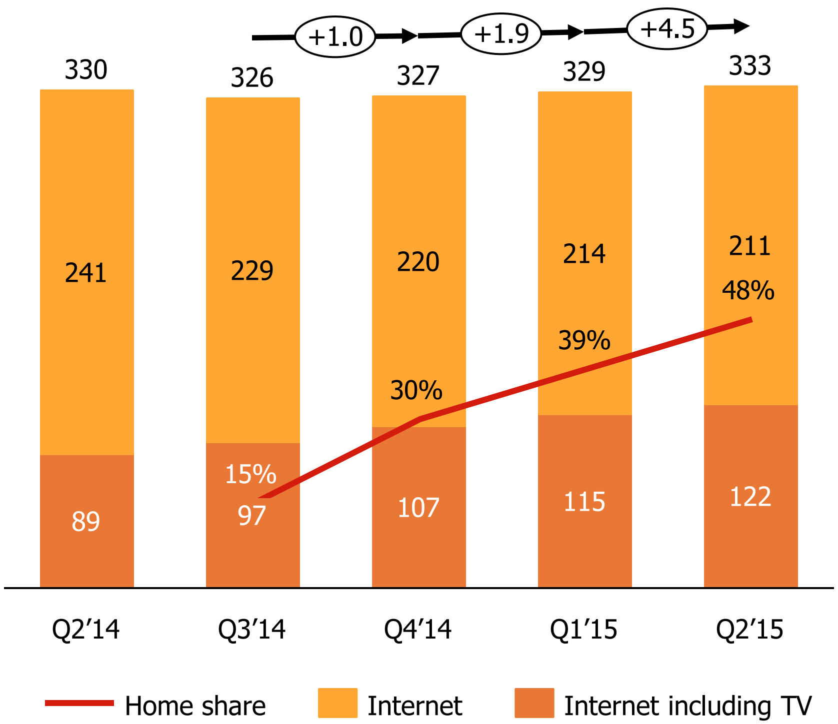
- Highest net additions in postpaid subscriptions since introduction of Freedom (+ 21k in Q2'15)
- 605k Freedom subscriptions in Q2'15 vs. 422k in Q4'14

- Blended ARPU increase of 4.1% since Q2'14
  - Underlying ARPU increasing QoQ
  - Increasing mix of higher-value postpaid SIM base compared to prepaid

[1] To allow for like-for-like comparison: ARPU as of Q2'14 onwards includes the billed hardware installments of the Freedom tariff, which are only partly recognized in the P&L of the respective period. Please see Q1'15 IFRS report for further explanations.

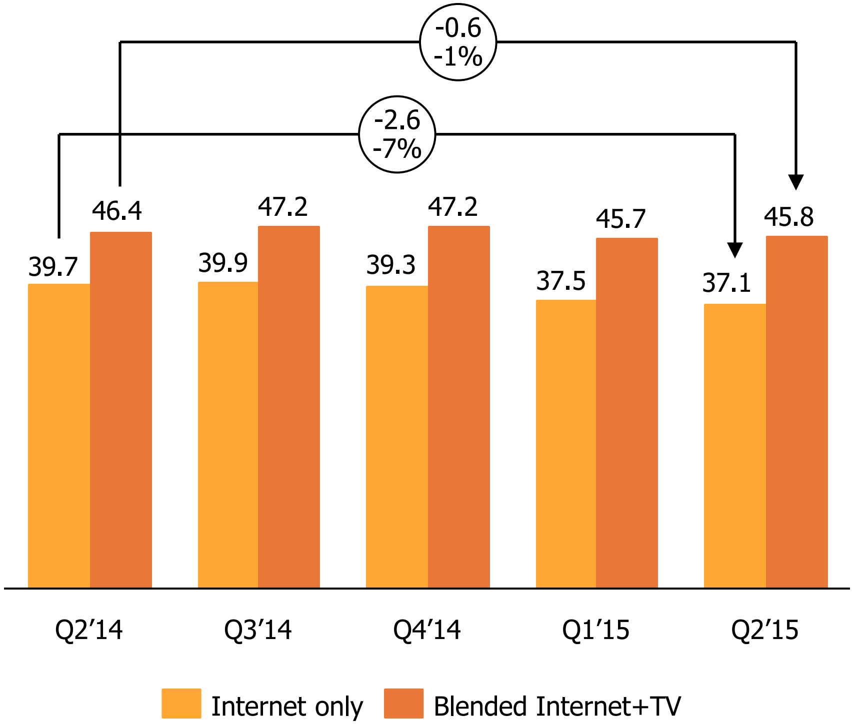
Continued Sunrise Home momentum

Subscriptions ('000)



- Q2'15 confirms continued growth in internet subscribers
- 48% of Internet subscribers on Home portfolio
- IPTV penetration of 37% of Internet subscribers

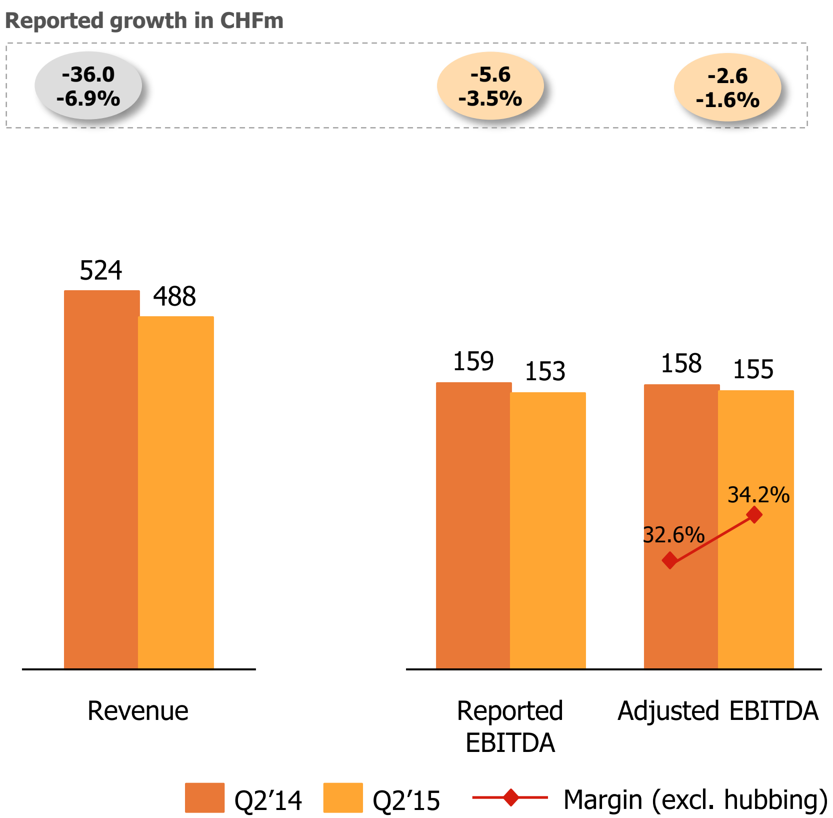
Internet and Sunrise TV ARPUs (CHF)



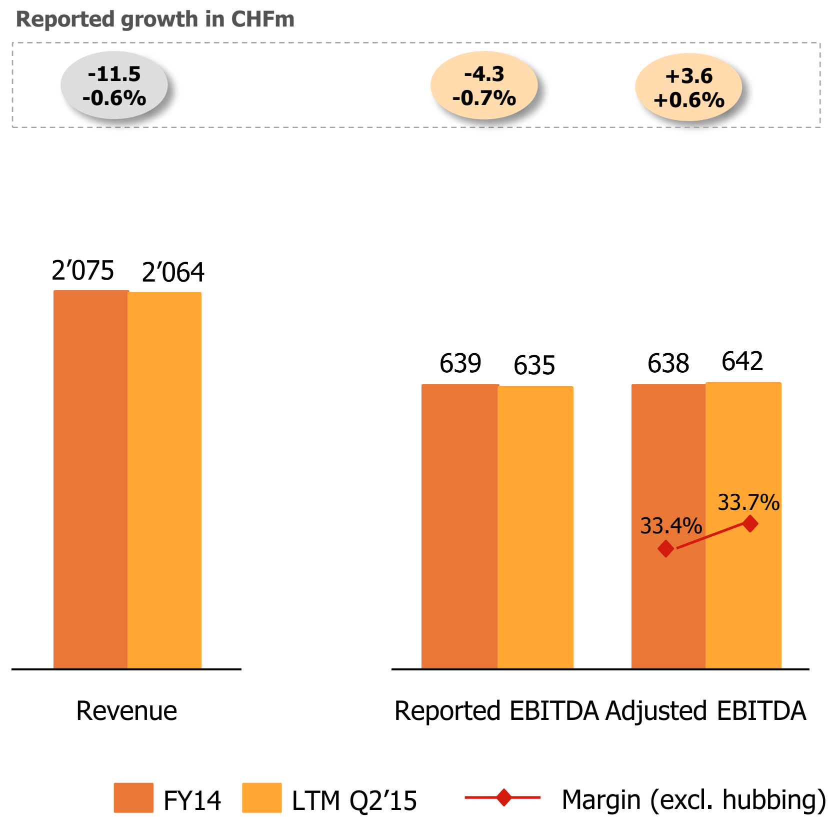
- Development driven by increasing share of Home subscribers reflecting greater customer value with the new portfolio

Lower revenue partly offset by improving margin

Q2'15 Revenue and EBITDA [1] (CHFm)



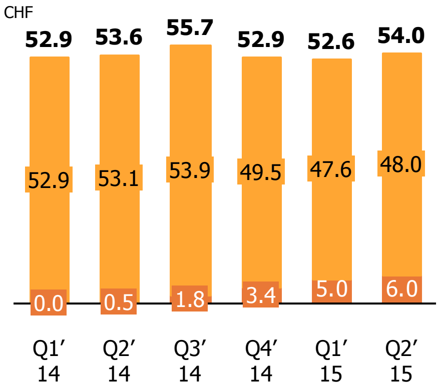
LTM Q2'15 Revenue and EBITDA [1] (CHFm)



[1] Total adjustments to reported EBITDA include out-of-period income and expenses, such as prior year related events, non recurring and/or non operating events and cost related to share-based payment.

Freedom creating value despite short-term P&L volatility

Postpaid ARPU



Service ARPU

- Pre Freedom tariffs: Service revenue and hardware revenue component
- Freedom tariffs: Service revenue

P&L recognition in the respective period

Installment ARPU

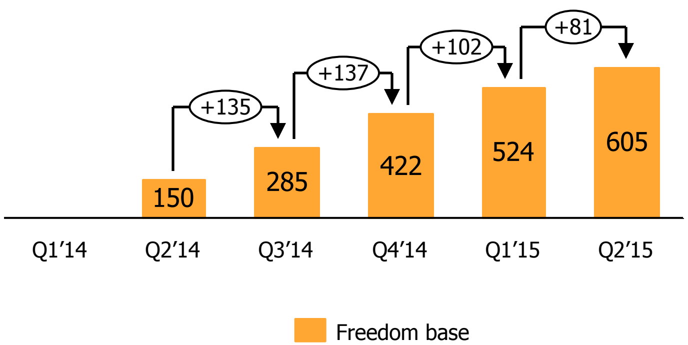
- Freedom tariffs: Hardware installments (provided in this chart to allow for better ARPU comparison)

Full upfront recognition of HW price in P&L

Postpaid P&L

CHFm	Q1'14	Q2'14	Q3'14	Q4'14	Q1'15	Q2'15	
Revenue [2]							
Postpaid Service	202	206	211	195	188	193	**Q2 YoY -13**
Total Mobile Hardware	16	70	66	100	65	61	
of which Freedom related		*51*	*49*	*73*	*48*	*48*	
EBITDA contributions							
Postpaid Service Gross Profit	176	179	183	169	165	168	
Mobile Hardware, Freedom	(0)	3	2	3	1	2	
Postpaid SARC	(41)	(21)	(13)	(16)	(13)	(14)	
EBITDA impact [3]	135	161	172	156	152	157	**Q2 YoY -4**

Freedom [1] subscriber development (‘000)



Value creation

- Growing postpaid subscriber base
- Stable ARPU (incl. installment ARPU)
- Total postpaid SIM only share of 29% as of Q2’15

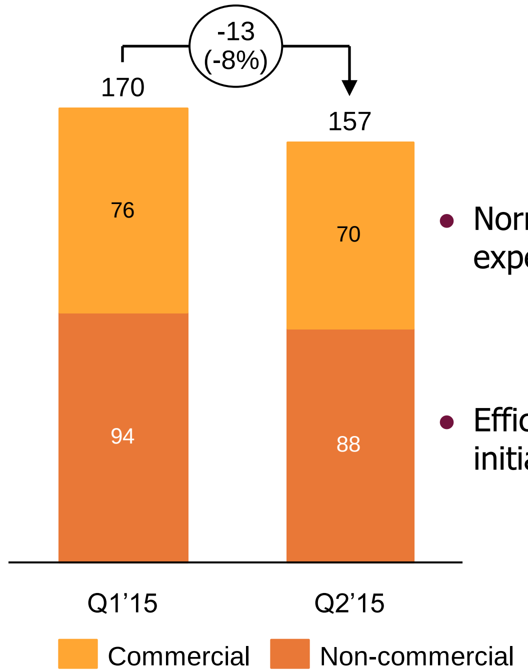
Cost savings & subscriber growth counteracting negative P&L impact

- Q2’15 postpaid service revenue YoY down due to fading Pre Freedom HW revenue component; trend to remain in short-term, counteracted by subscriber growth
- Cost savings counteracting pressure on Q2’15 EBITDA

[1] Freedom are postpaid mobile rate plans launched in April 2014 (see Q1’15 results report for more information)
[2] Mobile HW revenue increased in Q2’14 supported by upfront recognition
[3] Shift of HW costs from SARC to COGS as of Q2’14 (both times fully recognized upfront); Q2’14 EBITDA positively impacted by upfront recognition of HW

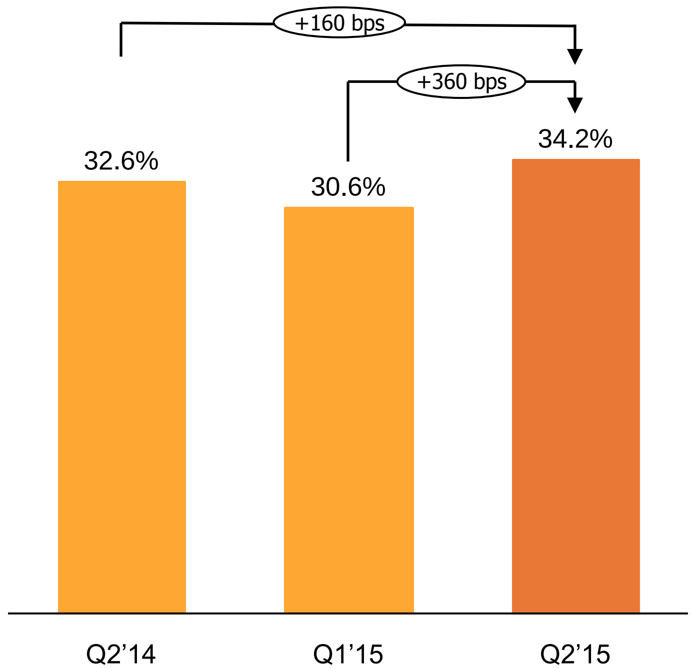
Improved margin driven by cost containment

Adjusted OPEX[1)] (CHFm)



- Normalized marketing expenses
- Efficiency initiatives

Adjusted EBITDA[1)] margin (excl. hubbing) (%)



- EBITDA margin up to 34.2% driven by cost containment within OPEX

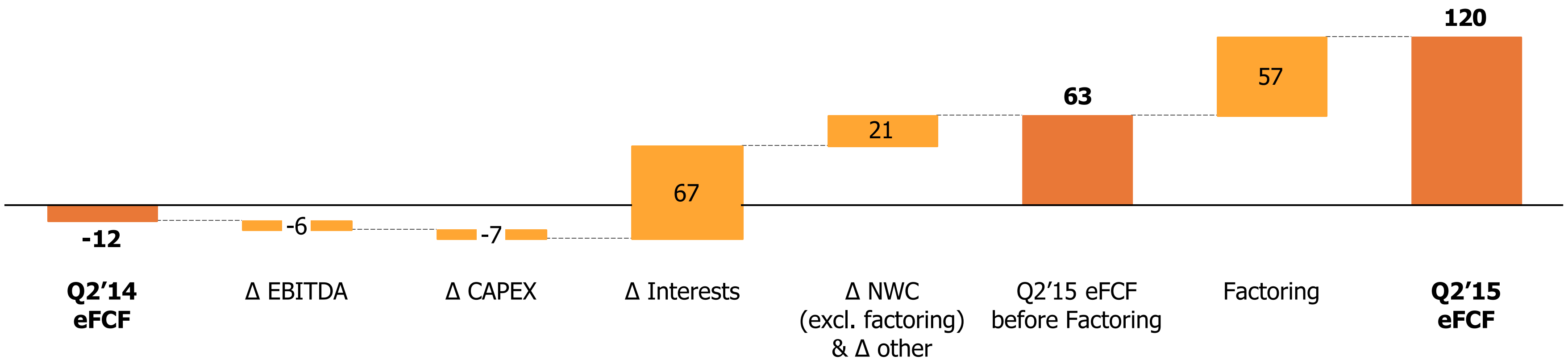
[1)] Total adjustments to reported EBITDA include out-of-period income and expenses, such as prior year related events, non recurring and/or non operating events and cost related to share-based payment.

Overview of results – Income Statement

Financial Results	H1 - 2015	H1 - 2014	Q2'2015	Q2'2014
CHF million				
Mobile	641	630	321	344
Landline Services	237	256	117	128
of which hubbing	*72*	76	*34*	39
Landline Internet	99	103	50	51
Total revenues	**976**	**988**	**488**	**524**
% yoy growth	(1.2%)		(6.9%)	
Revenues (excl. hubbing)	**904**	**912**	**454**	**485**
% yoy growth	(0.8%)		(6.3%)	
Gross profit	**618**	**652**	**313**	**331**
% margin	63.3%	66.0%	64.1%	63.3%
% yoy growth	(5.1%)		(5.7%)	
EBITDA	**286**	**291**	**153**	**159**
% margin	29.3%	29.4%	31.5%	30.4%
% margin (excluding hubbing revenues)	31.7%	31.9%	33.8%	32.8%
% yoy growth	(1.5%)		(3.5%)	
Adjusted EBITDA	**293**	**289**	**155**	**158**
% margin (excluding hubbing revenues)	32.4%	31.7%	34.2%	32.6%
% yoy growth	1.2%		(1.6%)	
Depreciation and amortization	**(229)**	**(211)**	**(115)**	**(107)**
% yoy growth	(8.5%)		(7.2%)	
Operating income	**58**	**80**	**38**	**52**
Net financial items	(204)	(76)	(17)	(40)
Income taxes	(6)	(7)	(7)	(5)
Net (loss) / income	**(152)**	**(3)**	**14**	**7**

Strong improvement in equity free cash flow YoY

Equity free cash flow bridge Q2’15 vs. Q2’14 (CHFm)

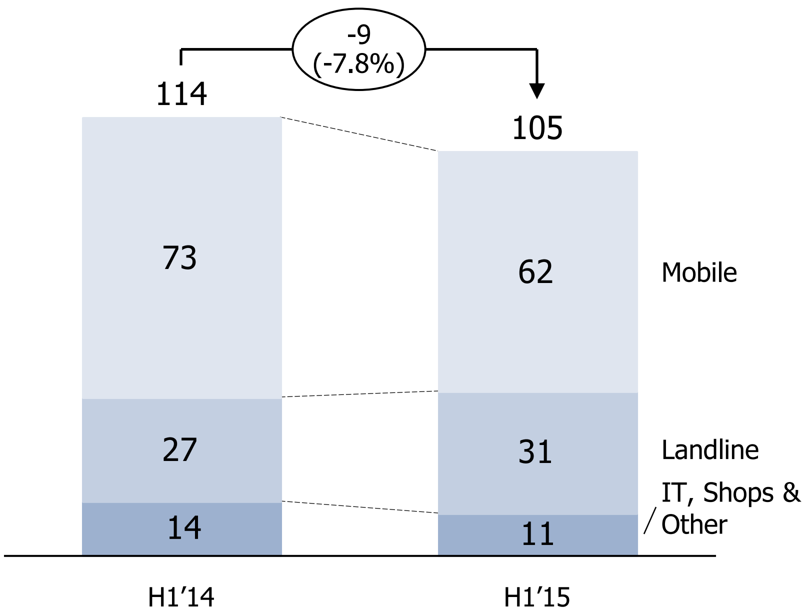


CHF 132 million improved eFCF in Q2’15 YoY

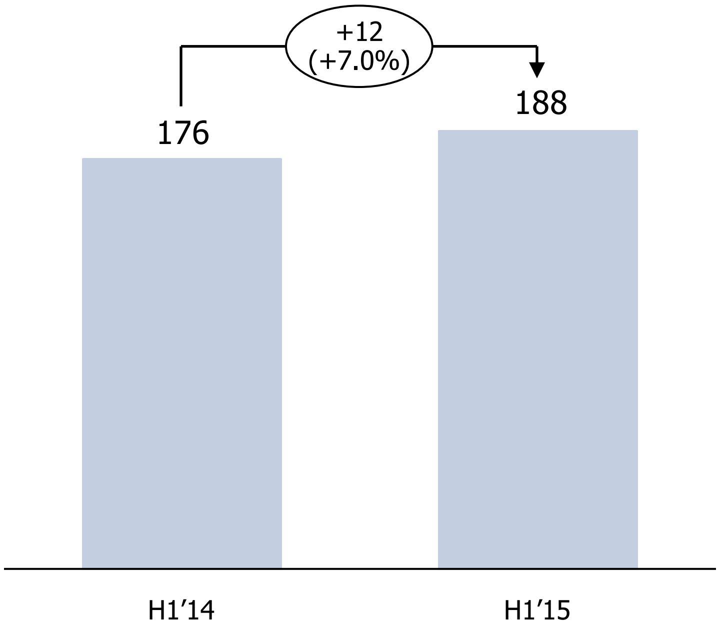
- Lower interest expenses supported by debt refinancing in February 2015
- Use of receivables factoring facility (CHF 57 million)
- CAPEX spending pattern differing from 2014, i.e. higher spend in Q2’15 vs. lower spend in H2’15

FY15 CAPEX guidance remains unchanged

CAPEX development (CHFm)



Adj. EBITDA – CAPEX (CHFm)



- Focus on LTE coverage expansion and LTE-Advanced introduction, with data growth remaining a key market driver
  - LTE coverage expansion (95% coverage expected by EoY) and LTE device penetration (60% [1]) facilitating substantial data growth (+81% YoY [2])
  - Video/streaming becoming the new "killer app" accounting already for 33% of total mobile traffic, with a growing trend
- Guidance for FY15 CAPEX unchanged at CHF 270-280 million

[1] Based on mobile postpaid customer base including all segments as well as rate plans, except for "Takeaway"

[2] Month of May 2015 YoY

Overview of results – Cash Flow Statement

Cash Flow	H1 - 2015	H1 - 2014	Q2'2015	Q2'2014
CHF million				
EBITDA	**286**	**291**	**153**	**159**
Change in net working capital	(55)	(133)	55	(34)
thereof handset receivable factoring impact	***72***	***-***	***57***	***-***
Movement in pension and provisions	2	(1)	1	(0)
Interest (paid) / received, net incl. foreign currency impact	(70)	(110)	(9)	(76)
thereof IPO and refinancing transaction impacts	***(29)***	***-***	***-***	***-***
Corporate income and withholding tax (paid) / received	(15)	5	(13)	(2)
Cash flow from operating activities	**148**	**53**	**187**	**47**
Capex	(105)	(114)	(66)	(59)
% Capex-to-revenues (excl. hubbing revenues)	*10.7%*	*11.5%*	*13.6%*	*11.2%*
Cash flow after investing activities	**44**	**(61)**	**120**	**(12)**
Repayment other financing items	(0)	-	(0)	-
Equity free cash flow	**43**	**(61)**	**120**	**(12)**
Adjusted for IPO and refinancing transactions	***73***	***(61)***	***120***	***(12)***
Proceeds / (repayments) from debts, net	(981)	(37)	(116)	(1)
thereof payment of 2nd installement of mobile license	***(105)***	***-***	***(105)***	***-***
Settlement of derivatives	(348)	-	0	-
Proceeds from initial public offering, net	1'311	-	(19)	-
Total cash flow	**25**	**(98)**	**(15)**	**(13)**
Cash and cash equivalents as of BoP	**120**	**150**	**161**	**66**
Foreign currency impact on cash	1	1	(0)	0
Cash and cash equivalents as of June 30	**146**	**53**	**146**	**53**

Stable leverage ratio, despite spectrum payment

Net debt	**June 30, 2015**	**March 31, 2015**	**Dec 31, 2014**
CHF million			
Senior Secured Notes	-	-	746
Senior Secured Notes issued July 2012	-	-	520
Senior PIK Toggle Notes	-	-	631
Floating Rate Notes issued July 2012	-	-	201
Senior Unsecured Notes	-	-	675
Utilized RCF	-	-	73
Senior Secured Notes issued February 2015	500	500	-
Term loan B	1'360	1'360	-
Total cash-pay borrowings [1]	**1'860**	**1'860**	**2'846**
Fair value of cross currency swaps	-	-	149
Financial lease	27	28	30
Total debt	**1'887**	**1'888**	**3'025**
Cash & Cash Equivalents	(146)	(161)	(120)
Net debt	**1'741**	**1'727**	**2'905**
Net debt / EBITDA	**2.7x**	**2.7x**	**4.6x**
Book Equity [2]	**1'142**	**1'120**	**(21)**

1) Nominal amounts, i.e. excluding capitalized debt issuance cost

2) Equity as of March 31 and June 30, 2015 includes a share premium of CHF 2.6 billion, which includes reserves which are freely available for distribution of dividends

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Outlook

- **Revenues** softer than expected, now indicating a low-to-mid single digit YoY decline for FY'15:
  - Despite accelerated customer growth, increased headwinds on revenue due to intensified price pressure at the value end of the market
- Adjusted **EBITDA** guidance reiterated, FY'15 expected to be at a comparable level to FY'14; current revenue headwinds mitigated by:
  - Ongoing active review of cost saving opportunities
  - Digitalization and process simplification enabling improvements of cost to serve
- **Cash flow** acceleration well on track driven by:
  - Capex normalization
  - Lower interest following debt refinancing
  - NWC improvements driven by factoring of handset receivables
- **Dividend** of at least CHF 135 million for 2015 to be paid in 2016 reiterated
- Net debt to EBITDA leverage target of 2.5x reiterated; current leverage already at 2.7x

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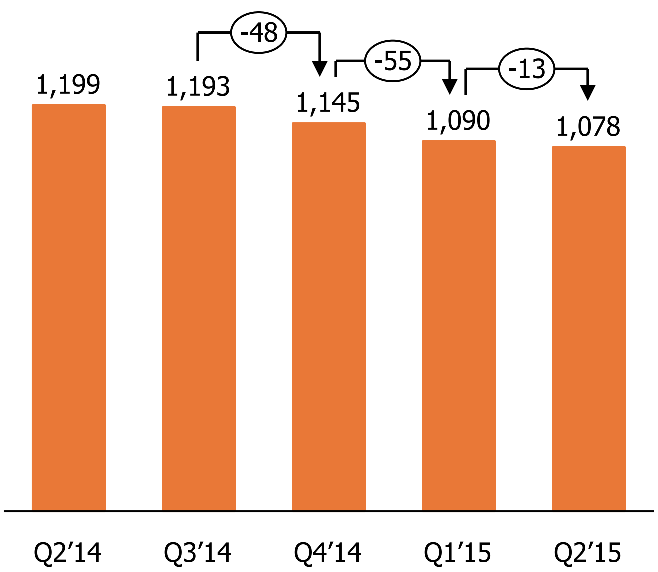
Appendix

Prepaid customer development

Market and performance update

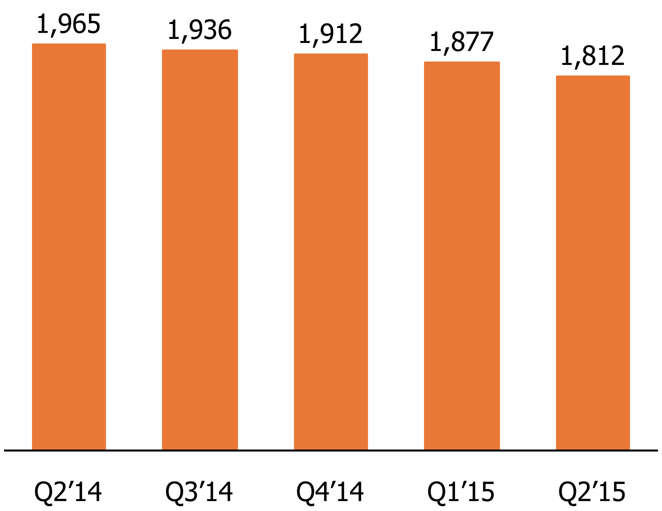
- Prepaid revenues are declining as smartphone penetration increases data consumption. This has in turn driven pre-to postpaid migration in a number of market segments
- Migration strategy focused on maximizing value through attractive postpaid SIM-only offers (Freedom, Yallo postpaid)

Prepaid customers: 3 month rule



- For transparency reasons, prepaid customers based on a 12 month activity rule are provided
- 3 month activity rule is a better representation of the prepaid market

Pro-forma prepaid customers: 12 month rule



Thank you

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