Mobile Challenger Intermediate Group S.A., Sunrise Communications Holdings S.A. and Sunrise Communications International S.A.

Report January 27, 2015

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Forward-Looking Statements

This report includes forward-looking statements within the meaning of the securities laws of certain applicable jurisdictions. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts contained in this report, including, without limitation, those regarding our future financial position and results of operations, our strategy, plans, objectives, goals and targets, future developments in the markets in which the Group participates or is seeking to participate or anticipated regulatory changes in the markets in which we operate or intend to operate. In some cases, you can identify forward-looking statements by terminology such as “aim”, “anticipate”, “believe”, “continue”, “could”, “estimate”, “expect”, “forecast”, “guidance”, “intend”, “may”, “plan”, “potential”, “predict”, “projected”, “should” or “will” or the negative of such terms or other comparable terminology.

By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. Mobile Challenger Intermediate Group S.A. (“**MCIG**”), Sunrise Communications Holdings S.A. (“**Sunrise Holdings**”) and Sunrise Communications (“**Sunrise Communications**”) caution you that forward-looking statements are not guarantees of future performance and are based on numerous assumptions and that our actual results of operations, including our financial condition and liquidity and the development of the industry in which we operate, may differ materially from (and be more negative than) those made in, or suggested by, the forward-looking statements contained in this report. In addition, even if our results of operations, including our financial condition and liquidity and the development of the industry in which we operate, are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in subsequent periods.

Industry, Market and Subscription Data

In this report, we rely on and refer to statistical and other information regarding our business and the markets in which we operate and compete. The market data and certain economic and industry data and forecasts used in this report were obtained from market research, governmental and other publicly available information, independent industry publications and reports prepared by industry consultants. Industry publications and other third-party surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. While we have endeavored to accurately extract and reproduce data from such sources, we have not independently verified such data and cannot guarantee the accuracy or completeness thereof.

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This report also contains or refers to certain market data, projections and market analysis of the Swiss Federal Communications Commission ("**ComCom**"), Connect, Datastream, the Economist Intelligence Unit ("**EIU**"), FactSet, Frost & Sullivan, KPMG, the Organization of Economic Cooperation and Development ("**OECD**"), SIX and Swisscable. While we have endeavored to accurately extract and reproduce the market or other industry data from such external sources, including third-party or industry or general publications, we have not independently verified such data. Accordingly, we cannot assure you of the accuracy or completeness of, and take no responsibility for, such data. Furthermore, such data has not been verified by any independent sources and we cannot assure you that a third party using different methods to assemble, analyze or compute market data would obtain the same result. We do not intend, and do not assume any obligations, to update industry or market data set forth in this report. Finally, behavior, preferences and trends in the marketplace tend to change. As a result, investors and prospective investors should be aware that data in this report and estimates based on that data may not be reliable indicators of future results.

In addition, certain statements in this report regarding the Swiss economy, the Swiss telecommunications industry, our position in the industry, our market share and market shares of various industry participants are based on our internal estimates, our own review and analysis of market conditions and our review of industry publications, including information made available to the public by our competitors. We cannot assure you that any of the assumptions underlying these statements are accurate or correctly reflect our position in the industry and none of our internal surveys or such other information have been verified by any independent sources. MCIG, Sunrise Holdings and Sunrise Communications do not make any representation or warranty as to the accuracy or completeness of this information. Information in this report relating to the operations, financial results and subscription base of Swisscom (Schweiz) AG. ("**Swisscom**"), Orange Communications Ltd. ("**Orange**"), upc cablecom GmbH ("**upc cablecom**") and other competitor companies has been obtained from information made available by such companies publicly or by independent research. MCIG, Sunrise Holdings and Sunrise Communications have not independently verified this information, and we cannot guarantee its accuracy. Additional information set forth in this report relating to the subscription base of the MVNOs is based on our internal estimates. Resellers are included in the mobile network operators ("**MNOs**") publicly reported mobile customer data but not reported separately. Therefore, the shares of resellers contracted by Swisscom and Orange are based on our internal estimates.

The subscription data included in this report, ARPU, subscription numbers, our market share and churn rates are derived from our operating systems and management estimates, are not part of our financial statements or financial accounting records and have not been audited or reviewed by outside auditors, consultants or experts.

Market Share

We calculate the market share for our mobile business by taking the total number of subscription on our network (excluding MVNO subscriptions), as defined under "—*Subscriptions*" and applying the 12-month rule for prepaid activations. We determine the number of subscriptions in the market based on the number of active SIM cards reported by each MNO. Based on our estimates, MVNOs had an aggregate market share of 2% based on a number of approximately 200,000 SIM cards in the third quarter of 2014.

We calculate the market share for our landline retail voice business by taking the total number of subscriptions on our network, as defined in "—*Subscriptions*", as a percentage of the total retail voice market based on Swisscom quarterly reports and Swisscable publications.

We calculate the market share for our landline internet & IPTV business by taking the total number of our subscriptions, as reported in "—*Subscriptions*", as a percentage of the total number of access lines in the market, which we calculate as the sum of our landline internet & IPTV subscriptions plus the total number of landline internet & IPTV subscriptions reported by Swisscom and Swisscable.

ARPU

We define mobile ARPU as the total mobile revenue in the period divided by the average number of mobile subscriptions in the period. The average number of mobile subscriptions 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. For purposes of calculating mobile ARPU, total mobile revenue consist of revenues generated from our monthly subscription fees, usage fees for services that are incremental to the services allocated with our monthly subscription fees and mobile termination rates (*i.e*., fees paid to us by other operators for calls terminated on our mobile network), but does not include revenue from MVNO agreements, roaming inbound fees, late payment and legal interception fees and revenues from the sale of handsets and accessories.

In April 2014, we introduced our Sunrise *Freedom* offering which is based on a de-coupling of services and mobile devices. If a customer enters into the service contract (*Freedom* service rate plan), the customer may concurrently enter into a separate mobile device contract. Through this offering, we sell mobile phones and other mobile devices (*e.g.*, tablets) to our customers for a fixed price either for the immediate payment of the total purchase price or for an upfront payment of part of the total purchase price and twenty-four subsequent monthly installments. The significant change in the de-coupling of services and hardware impacts a variety of our financial measures, including ARPU. Because our competitors continue to subsidize sales of mobile devices in return for increased rates in their service rate plans, and for purposes of comparability with the ARPU that we published historically, we include the installment payments relating to the sale of mobile devices in our Mobile ARPU definition.

We define total landline blended ARPU as the total landline revenue in the period divided by the average number of landline subscriptions in the period. The average number of landline subscriptions in a period is calculated by adding together the number of landline subscriptions 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 total landline blended ARPU, landline revenue includes revenue generated from monthly subscription fees, usage fees for services that are incremental to the services allocated with our monthly subscription fees and landline termination rates (*i.e*., fees paid to us by other operators for calls terminated on our landline network).

We define landline retail voice ARPU as the total retail voice revenue in the period divided by the average number of retail voice subscriptions in the period. The average number of retail voice subscriptions in a period is calculated by adding together the number of retail voice subscriptions 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 retail voice ARPU, retail voice revenue includes revenue generated from monthly subscription fees, usage fees for services that are incremental to the services allocated with our monthly subscription fees and landline termination rates (*i.e*., fees paid to us by other operators for calls terminated on our landline network).

We define landline internet & IPTV blended ARPU as the total landline internet & IPTV ADSL revenue in the period divided by the average number of landline internet & IPTV ADSL subscriptions in the period. The average number of landline internet & IPTV ADSL subscriptions in a period is calculated by adding together the number of landline internet & IPTV ADSL subscriptions 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 & IPTV ARPU, landline internet & IPTV revenue includes revenue generated from monthly subscription fees but does not include dial-up revenue (dial-up subscriptions were discontinued in the financial year ended December 31, 2013) and revenue from the sale of customer premises equipment, such as modems.

Subscriptions

Postpaid mobile subscriptions are counted in our subscription base as long as they have an active contract. Within our postpaid subscription base we differentiate between primary subscriptions which are rate plans customers are using as the main subscription and secondary postpaid subscriptions which are rate plans used by customers in addition to their main subscription (*e.g.*, multi-SIM or data-SIM used for tablet mobile data usage). Prepaid mobile subscriptions are counted in our subscription base if they have had an activity event (such as a usage or refill) within the last 91 days.

In our retail voice business, we report subscriptions of customers using our landline voice services via a network pre-fix dial-in based on activity within the last month.

In our landline internet & IPTV business, we report broadband connectivity services ("**BBCS**") subscriptions without access rebilling ("**ARB**") based on technical installations, while we report BBCS subscriptions with ARB and LLU subscriptions based on the number of active contracts.

Our subscription data includes the number of main products sold by our residential and business customer units. An individual buying a "quadruple play" bundle, for example, will therefore be reported as a postpaid mobile subscription, a retail voice subscription, a landline internet subscription and an IPTV subscription. Generally, each connection counts as one subscription; however, this may vary depending on the circumstances and subscription numbers should not be equated with the actual number of individuals or businesses using our services. Our machine-to-machine ("**M2M**") contracts are not included in the total number of subscriptions.

Churn

"**Churn**" refers to the percentage of subscription deactivations during a given period of time. We deem mobile postpaid subscriptions to have churned when customers voluntarily terminate their mobile subscription with us (and either move to a different provider or choose not to have a mobile service) or if we terminate their subscriptions for a misuse of our services, fraud or default on payment. Postpaid mobile subscriptions are deemed to have churned as well if the customers have switched their postpaid subscription to a prepaid subscription with us using their same mobile number (postpaid to prepaid conversion).

We calculate mobile churn by dividing the gross decrease in the number of mobile subscriptions for a period by the average number of subscriptions during that period. The average number of subscriptions for a period is calculated by adding together the number of subscriptions 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.

Churn activity affects various key performance indicators, including total subscriptions and ARPU levels. The definition of churn may vary between operators. A churn policy that is more expansive in its determination of when a subscription is deemed to have churned may result in a reduction of the number reported for total subscriptions, an increase in churn rate and potentially higher ARPUs. As a result, such data and any related comparisons of us to other operators included in this report may not accurately reflect our competitive position and the competitive positions of such other operators. We also occasionally refer to churn in the context of retail voice and landline internet & IPTV subscriptions.

Penetration Rates

"**Penetration** " refers to the measurement, usually as a percentage, of the take-up of telecommunications services. As of any date, penetration is calculated by dividing the number of subscriptions by either the number of households or the number of inhabitants to which the service is available. In this report, mobile penetration rates presented as of each period-end are calculated by dividing the total number of SIM cards of all industry participants at such date (based upon information made available by operators' publicly available reports and, with respect to MVNO SIM cards, Sunrise management estimates) by the Swiss population from figures obtained from the Swiss Federal Statistical Office as of the applicable period-end and expressing such calculation as a percentage. Our M2M contracts are not included in the total number of subscriptions.

Certain Definitions

In addition to the terms defined below, this report contains a glossary of certain technical terms relating to the telecommunications industry and our business. See "*Glossary of Technical Terms*". As used in this report:

- "*2010 Senior Notes*" refers to the €505.0 million in 8 1/2% Senior Notes due 2018 issued by Sunrise Holdings on October 14, 2010 and the €56.0 million in 8 1/2% Senior Notes due 2018 issued by Sunrise Holdings on November 11, 2010.
- "*2010 Senior Secured Notes*" refers collectively to the CHF 300.0 million 7% Senior Secured Notes due 2017 issued on October 14, 2010, the €371.0 million 7% Senior Secured Notes due 2017 issued on October 14, 2010 and the €125.0 million in 7% Senior Secured Notes due 2017 issued on July 19, 2012, in each case, by Sunrise International.
- "*2012 Fixed Rate Senior Secured Notes*" refers to the CHF 370.0 million in 5 5/8% Senior Secured Notes due 2017 issued by Sunrise International on July 19, 2012.
- "*2012 Floating Rate Senior Secured Notes*" refers to the €167.0 million in Floating Rate Senior Secured Notes due 2017 issued by Sunrise International on July 19, 2012.
- "*2012 Notes*" refers to the 2012 Floating Rate Senior Secured Notes and the 2012 Fixed Rate Senior Secured Notes, collectively.
- "*BSES*" refers to Business Sunrise Enterprise Solutions GmbH (formerly known as NextiraOne Schweiz GmbH), a limited liability company organized under the laws of Switzerland, which merged with Sunrise Communications AG on October 9, 2012.
- "*CVC*" refers to CVC Capital Partners SICAV-FIS S.A. and its subsidiaries and affiliates.
- "*CVC Funds*" refers to funds or limited partnerships managed or advised by CVC (but excluding, in each case, any funds managed or advised by CVC Credit Partners Holding Limited or its subsidiaries) from time to time investing, directly or indirectly, in TopCo.
- "*Existing Notes*" refers to Existing Senior Notes, the Existing Senior Secured Notes and the Existing PIK Toggle Notes, collectively.
- "*Existing PIK Toggle Notes*" refers to the €275.0 million and CHF 300.0 million 8 3/4% and 9 1/2% PIK Toggle Notes due 2019 issued by MCIG on March 21, 2013.
- "*Existing Revolving Credit Facility*" refers to the revolving facility agreement dated July 9, 2012, as amended, supplemented or otherwise modified from time to time, by and among, *inter alios*, Sunrise Communications, the security agent and the lenders and agents thereunder.
- "*Existing Senior Notes*" refers to the 2010 Senior Notes.
- "*Existing Senior Secured Notes*" refers to the 2010 Senior Secured Notes and the 2012 Notes, collectively.
- "*Lebara*" refers to Lebara GmbH, which was acquired in July 2013 as described under "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Certain Factors Affecting Our Business—MVNOs, FVNOs and the Acquisitions of Ortel, Lebara and NextiraOne Switzerland*".
- "*MCIG*" refers to refers to Mobile Challenger Intermediate Group S.A., a public limited liability company (société anonyme), registered with the Luxembourg trade and companies register under the number B159.933 and having its registered office at 20, Avenue de Monterey, L-2163 Luxembourg, Grand-Duchy of Luxembourg.
- "*NextiraOne Switzerland*" refers to NextiraOne Schweiz GmbH.
- "*Ortel*" refers to Treternity Ortel Mobile AG, which was acquired in July 2013 as described under "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Certain Factors Affecting Our Business—MVNOs, FVNOs and the Acquisitions of Ortel, Lebara and NextiraOne Switzerland*".
- "*PECs*" refers to preferred equity certificates.
- "*Post IPO Credit Facilities*" refers to the senior secured term loan B facility, the senior secured multi-currency revolving credit facility and any additional borrowings thereunder and/or Incremental Facilities

(as defined under "*Description of Certain Financing Arrangements—Post IPO Credit Facilities Agreement*") under the Post IPO Credit Facilities Agreement.

- "*Post IPO Credit Facilities Agreement*" refers to the senior facilities agreement that MCIG, Sunrise Holdings, Sunrise International and certain of its subsidiaries (including Sunrise Communications) have entered into on January 13, 2015 with, among others, BNP Paribas as agent, Deutsche Bank AG, London Branch as security agent and DNB Markets, a part of DNB Bank ASA, UniCredit Bank AG, BNP Paribas Fortis S.A./N.V., Deutsche Bank AG, London Branch, Morgan Stanley Bank International Limited and UBS Limited as mandated lead arrangers and bookrunners. It is envisaged that TopCo will accede to the Post IPO Credit Facilities Agreement on or prior to the consummation of the planned SIX listing announced previously on January 14, 2015.

- "*SIX*" or "*SIX Swiss Exchange*" refers to SIX Swiss Exchange AG.

- "*Skylight*" refers to Skylight S.à r.l., a private limited liability company (*société á responsabilité limitée*), registered with the Luxembourg trade and companies register under number B155918 and having its registered office at 20, Avenue de Monterey, L-2163 Luxembourg, Grand-Duchy of Luxembourg.

- "*Sunrise*", including terms, such as "*we*", "*us*", "*our*" or the "*Group*", refers to TopCo and its subsidiaries, except where the context indicates otherwise. With respect to any financial statements that are consolidated at an entity other than TopCo, the term "*Sunrise*" refers to such entity and its consolidated subsidiaries.

- "*Sunrise Communications*" refers to Sunrise Communications AG, a company limited by shares organized under the laws of Switzerland.

- "*Sunrise Holdings*" refers to Sunrise Communications Holdings S.A., a public limited liability company (*société anonyme*), registered with the Luxembourg trade and companies register under the number B155672 and having its registered office at 20, Avenue de Monterey, L-2163 Luxembourg, Grand-Duchy of Luxembourg.

- "*Sunrise International*" refers to Sunrise Communications International S.A., a public limited liability company (*société anonyme*), registered with the Luxembourg trade and companies register under the number B155.748 and having its registered office at 20, Avenue de Monterey, L-2163 Luxembourg, Grand-Duchy of Luxembourg.

- "*TopCo*" refers to Sunrise Communications Group AG, a stock corporation with limited liability (*Aktiengesellschaft*), registered with the commercial register of the Canton of Zurich under company registration number CHE-343.774.206.

Summary

Business Overview

We are the second largest integrated telecommunications provider in Switzerland, based on revenues, which amounted to CHF 1,527.2 million for the nine-month period ended September 30, 2014. We market our services primarily through our *Sunrise* brand and address clearly defined market segments with a multi-brand strategy through the *MTV mobile* brand (Young & Youth), the *yallo*, *Ortel* and *Lebara* brands (Ethno) and *Business Sunrise* (Business Customers).

We are the leading fully-integrated challenger to Swisscom capable of delivering a full range of services across all market segments. We are the leading non-incumbent operator in both the mobile (prepaid and postpaid) and landline retail voice markets, with approximately 2.5 million mobile and 0.4 million landline customers, respectively, as of December 31, 2014. We are also the third-largest landline internet provider with approximately 0.3 million subscriptions and 0.1 million IPTV subscriptions as of December 31, 2014. As of September 30, 2014, we estimate that our market share by mobile and fixed broadband subscriptions as well as IPTV was 27%, 9% and 2%, respectively.

We believe that we are well positioned to achieve further growth through our commitment to deliver a best-in-class convergent experience while being fair, transparent and customer-oriented in all market segments. In cross-selling and up-selling mobile, broadband and IPTV services to our existing customers, we benefit from our 10,800 km nationwide state-of-the-art fiber network backbone, our integrated mobile and landline access networks, more than 600 points of presence in our fully-invested LLU network with a coverage of approximately 85% of households in Switzerland and full access to Swisscom's last mile at what we believe are cost-efficient and attractive terms, combined with our partnerships with Swisscom, SFN and local utilities for the most advanced next-generation fiber technologies, such as vectoring, FTTS, FTTB and FTTH. We provide our mobile services through our own mobile network based on GSM/GPRS/EDGE, UMTS/HSPA and LTE/4G technologies. As of December 31, 2014, our UMTS/HSPA coverage was approximately 99% while our LTE/4G coverage had reached approximately 85%, in each case as a percentage of the Swiss population. We provide our landline voice & other services through our national landline network.

We offer a broad range of services, including mobile voice and data, landline voice & other (retail voice, business services and wholesale voice) and landline internet & IPTV, to both residential and business customers as well as to other operators. With our recent innovations, including the launches of *Comeback TV*, Sunrise *Freedom* (mobile hardware de-coupling without fixed contract terms) and Sunrise *Home* (flexible new fixed portfolio) as well as the new Sunrise *Advantage* convergence offering further incentivizing fixed and mobile convergence, we are pursuing our commitment to deliver a best-in-class convergent experience. In addition, we recently launched Sunrise *Rewards*, our new customer loyalty and retention program aimed at increasing the loyalty and experience of our existing customers and consequently reducing churn.

For the financial year ended December 31, 2013, we generated total revenue of CHF 2,021.2 million and Adjusted EBITDA of CHF 620.3 million. During that period, our mobile, landline voice & other and landline internet & IPTV businesses comprised 62.6%, 27.6% and 9.8% of our total revenue, respectively. During the nine-month period ended September 30, 2014, our mobile, landline voice & other and landline internet & IPTV businesses comprised 64.9%, 25.1% and 10.0% of our total revenue, respectively. We are headquartered in Zurich, Switzerland, and had a total of 1,958 employees (full-time equivalents and including 106 apprentices) as of September 30, 2014.

Our Strengths

We believe that the following strengths will allow us to execute our growth strategy:

Focus on the affluent, quality-driven and data-savvy Swiss market

We are focused on taking advantage of the affluent, quality-driven and data-savvy Swiss market that is supported by several attractive dynamics. Switzerland is one of the wealthiest countries in Europe with nominal GDP per capita of CHF 75,000 for 2013 (or CHF 50,800 at purchase price parity), which is significantly higher than the EU-15 average of CHF 37,200 (or CHF 35,000 at purchase price parity) (source: EIU). This considerable difference in GDP per capita increased over recent years as Switzerland recorded real GDP average annual growth rates of 2.0% from 2012 to 2014 (estimated) as compared to 0.8% for the EU-15 countries (source: EIU). The higher levels of Swiss GDP per capita translate into a comparatively high level of consumer spending, at CHF 42,900 in 2013, which is almost twice the EU-15 average of CHF 21,500. Moreover, spending on computer hardware, software and services (consulting training, systems development and integration, etc.), telecommunications hardware, services and enterprise telecom equipment reached CHF 3,223 in Switzerland in 2013, which significantly exceeded the EU-15 average of CHF 1,685 (source: Frost & Sullivan), which in turn translated into consistently higher mobile ARPU levels for Swiss telecommunication providers when compared with the EU-15 average. In 2013, mobile ARPU for Switzerland was CHF 40.0, which was substantially higher than the EU-15 average (unweighted average and excluding Luxembourg) of CHF 21.2 (source: Analysys Mason). During the same period, spending for mobile services accounted for 1.2% of private consumption in

Switzerland compared to the EU-15 average of 1.3%, evidencing that Swiss consumers do not spend more than other European consumers on mobile services on a relative basis. At the same time, Switzerland's consistent population growth creates opportunities for further growth in subscription numbers. From 2006 through 2013, the Swiss population grew on average by 1.2% per year as compared to 0.4% for the EU-15 average (source: EIU and Swiss Federal Statistical Office), mainly as a result of Switzerland's attractiveness to young and highly qualified immigrants. Switzerland also enjoys one of the lowest unemployment rates in Europe, with 3.1% on average over the period from 2006 through 2013, which was approximately 5.8 percentage points below the EU-15 average (source: EIU). In addition to these favorable macroeconomic and demographic trends, Switzerland benefits from one of Europe's most attractive business environments, supported by a stable currency, low interest rate levels and attractive corporate and individual tax rates significantly below the EU-15 average. In 2013, the average interest rate for ten-year Swiss government bonds of 0.5% compared to an EU-15 average of 2.0% while the average corporate income tax rate in Switzerland amounted to 18% compared to 26.4% for the EU-15 average (source: FactSet and KPMG).

Switzerland's telecommunications market had a total value of CHF 10.5 billion in 2013 (service revenue), with CHF 5.3 billion, or 50%, derived from mobile services, CHF 4.2 billion, or 41%, derived from landline services and CHF 1.0 billion, or 9%, derived from TV services (source: Analysys Mason). Switzerland is one of Europe's most advanced telecommunications markets in terms of technology, enabling high connection speed and data consumption through LTE/4G, VDSL and fiber coverage significantly exceeding the EU-15 average (unweighted average and excluding Luxembourg), a smartphone penetration rate of 74% in 2013 as compared to 64% in the EU-15 average (source: Analysys Mason), higher 4G connection rates than the EU-15 average and a higher level of broadband connections with more than 10Mbits/s than any other European country. Based on the technological infrastructure, Swiss consumers' preferences for high-quality services have driven and reinforced a strong trend towards convergence. The competitive environment in Switzerland is characterized by a primary focus on the high quality of service rather than price. While Swisscom is the market leader across all main telecommunications segments, Sunrise, Orange and, to a lesser extent, upc cablecom hold substantial market shares in each of these segments. Similarly, the overall Swiss telecommunications market enjoys a rational regulatory environment with the currently available mobile spectrum secured until 2028, only a theoretical risk of a fourth MNO entering the market, supportive regulation of the landline business (LLU) and a regulator independent from European Union policies and generally perceived as supportive of businesses. The capital-intensive nature of the telecommunications industry, the licensing requirements and the administrative restrictions for obtaining permits to build mobile sites in Switzerland have historically resulted in a lack of new market entrants.

Strong and leading fully-integrated challenger

With approximately 2.5 million mobile and approximately 0.4 million landline subscriptions as of December 31, 2014, we have reached significant market shares in all market segments (landline and mobile as well as residential, business and wholesale) by leveraging the breadth of our products and services offering. As of September 30, 2014, we estimate that our market share of mobile and fixed broadband subscriptions was 27% and 9%, respectively. We are the leading fully-integrated challenger to Swisscom, capable of delivering a full range of services across all market segments, *i.e.*, mobile, landline voice and internet, IPTV, but also cloud and integration services as well as wholesale for business customers. In the business market, we are the only provider (except for Swisscom) that is capable of providing business customers with a product offering covering all segments. We believe that our products and services offerings are particularly suited for the needs of our business customers, as they may choose from the breadth of our products and services offerings by combining and subsequently changing among the various options offered.

Leveraging our broad products and services offerings, we believe that providing our customers with the best convergent experience contributes to reducing churn rates for customers subscribing to more than one service. By cross-selling and up-selling mobile, broadband and IPTV services to our existing customers, we are committed to delivering best-in-class convergent services, while being fair, transparent and customer-oriented in all market segments. For example, with Sunrise *Advantage*, our customers may now combine any of our fixed *Home* bundles with any *Freedom* mobile package. In return, each customer who subscribes to convergent services is rewarded with a benefit on the base fee of the monthly bill (fairness) which is clearly displayed on the bill (transparency) and may change at any time the different mobile services he or she has initially selected (customer-oriented). Our capability to support the best-in-class convergent experience is based on the high quality of our network infrastructure which allows us to deliver mobile data and broadband services at highest speed, as well as deliver our feature-rich TV platform. As of September 30, 2014, 201,170 customers had subscribed to convergent product offerings to benefit from the convenience of one single monthly bill, one point of contact for all of their telecommunication needs and attractive benefits from our convergent offerings.

Competitive advantage based on successful multi-brand approach, proven track record of commercial innovation and strong distribution capabilities

We believe that we have a competitive advantage by appealing to existing and future customers through our proven multi-brand approach, a differentiated and innovative commercial strategy and strong distribution capabilities.

With our multi-brand strategy we target clearly defined market segments with relevant dedicated products and service offerings in order to optimize our market reach and achieve further growth:

- Our *Sunrise* brand is targeted at the mass market, which comprises the highest value customers, and accounts for approximately 57% of the total market by number of addressable individuals.
- We capture first-time customers through our distinct Young & Youth (accounting for approximately 22% of the total market, measured by addressable individuals) and Ethno (accounting for approximately 21% of the total market, measured by addressable individuals) brands targeted at young people and immigrants in order to create up-selling potential for the mass market segment once customers become older or more settled and increase the domestic usage of their devices. With *MTV mobile* and our Ethno brands (*yallo*, *Ortel* and *Lebara*) focused on specific target groups, we enjoy a strong presence in all relevant customer segments as a result of offering competitive call rates to specific target regions. The implementation of our multi-brand strategy has been supported and accelerated by the acquisitions of Ortel and Lebara in 2013.
- Our *Business Sunrise* brand addresses the business segment and relies on a dual positioning which allows us to target both SoHo and small enterprises as well as medium and large enterprises. In line with our strategy to increase the number of SoHo and small enterprise customers while managing the medium and large enterprises, we believe that we will achieve a larger market share in the SoHo and small enterprises segment by improving our value proposition and further utilizing our stores and indirect distribution channels.

We believe that over the last few years we have consistently been at the forefront of innovation in our commercial strategy and have a proven track-record of customer-relevant product launches. Specifically, we were the first MNO to introduce mobile postpaid flat-rates in the Swiss market in 2009. Recent innovations include the launches of *Comeback TV*, Sunrise *Freedom* (mobile hardware de-coupling without fixed contract terms) and Sunrise *Home* (flexible new fixed portfolio) as well as the new Sunrise *Advantage* convergence offering to further incentivize fixed and mobile convergence by being fair, transparent and customer-oriented. With each of these offerings, we introduced new concepts to the Swiss market with distinct advantages over the bundling concepts by our competitors. In addition, we recently launched Sunrise *Rewards*, our new customer loyalty and retention program aimed at increasing the loyalty and experience of our existing customers and consequently reducing churn, as well as Sunrise *Buyback*, whereby new and existing customers have the opportunity to sell their used mobile device to Sunrise to get a reduction by the amount of the bought back mobile device on their next invoice.

Our mobile and landline products have a broad distribution reach, comprising principally our high-quality retail outlet network, our other direct channels (online sales, direct mailings and inbound and outbound call centers) and our indirect channels (third-party distributors, including selected mass merchandisers, electronic chains and telephone retailers throughout Switzerland). From January 1, 2008 to December 31, 2013, we increased the number of our stores from 37 to 93 and constantly optimize our store network. Our retail outlets are typically in commercially attractive locations, spread throughout most of Switzerland and designed to match the appropriate size for the marketing of all our products. We use our stores for a variety of purposes, including selling Sunrise landline and mobile services for all our brands, including *Business Sunrise*. Through our direct channels, we maintain a high degree of control over the quality of our contacts with actual and potential customers and create opportunities for cross-selling and up-selling our products and services.

Well invested and technologically advanced mobile and landline networks

We benefit from our 10,800 km nationwide state-of-the-art fiber network backbone, our integrated mobile and landline access networks, more than 600 points of presence in our fully-invested LLU network with a coverage of approximately 85% of households in Switzerland and full access to Swisscom’s last mile to offer a convergent experience which we believe to be the best in the market. With the most recent spectrum license auction in 2012, we secured 160 MHz spectrum in all frequency bands until 2028 and acquired large allocations of the strategically important sub-1GHz bands, which is comparable to Swisscom’s allocations. Our spectrum position in the sub-1GHz bands is technically superior and enables us to operate with fewer sites than Orange and to optimize our operating cost and capital expenditures. Additionally, we are able to provide our customers with an enhanced experience particularly in rural, suburban and indoor areas where the broader reach of UMTS900 constitutes a key technological advantage. While the roll-out of the most recent MSR equipment, which we initiated in May 2012, was completed by the end of 2013, we reached an LTE/4G coverage of approximately 85% at the end of 2014. We have invested more than CHF 1 billion in the last three years in network, to build a long-term technologically advanced infrastructure, notably through the acquisition of spectrum licenses and our partnership with our equipment and managed services provider Huawei which allows us to develop a technologically advanced network at controlled cost. The terms of the partnership are very attractive to us as maintenance and operation of the network is outsourced to Huawei, which is committed to building a best-in-class network in Switzerland, while we retain control over network strategy, planning and engineering. The significant investments in the last three years and our partnership with Huawei have already translated into material improvements in our network quality. In December 2014, we were judged to have the best mobile telephony network in Switzerland, Germany and Austria by Connect, a leading independent assessment of network quality which is completed each year. Connect judged that our network had improved by 86 points, from a total of 356 (out of a maximum 500) in 2012 to 442 in 2014, the highest two-year improvement among all Swiss MNOs (source: Connect).

Supporting our mobile and landline network infrastructure, we maintain a 10,800 km nationwide state-of-the-art fiber backbone of which approximately 85% are owned or held under long-term capital leases, and with the remaining portion held under operating leases. For our landline network, we are committed to a last mile capex-light strategy and rely on rigid control of operational cost and capital expenditures by favoring agreements and partnerships with third parties over direct investments whenever economically preferable. Through our fully-invested LLU network covering approximately 85% of households in Switzerland, we benefit from full access to Swisscom's last mile at what we believe are cost-efficient and attractive terms. Through our access agreement with Swisscom, combined with our partnerships with SFN and local utilities for the most advanced next-generation fiber technologies, such as vectoring, FTTS, FTTB and FTTH, we offer the largest alternative fixed network in Switzerland. Our existing LLU infrastructure enables us to maintain direct billing relationships with our customers and to connect or migrate customers to VDSL and fiber at what we believe to be attractive terms. Under our partnerships with Swisscom, SFN and local utilities for the most advanced next-generation fiber technologies, our profitability will be less dependent on the particular access technology used to connect a customer but rather on the product portfolio provided to an individual customer.

Successful focus on quality and customer experience

Over the past two years, we have fundamentally changed our corporate culture to become a truly customer-centric organization to provide our customers with a best-in-class experience at all points of contact. As a key instrument in transforming our organization through continuous constructive closed-loop feedback, we implemented NPS throughout our organization as a key metric to measure customer loyalty and advocacy. In order to improve our NPS, we recently engaged in a complete reorganization of our customer care department. We significantly improved the capacity of the department by optimizing and streamlining its organization while increasing the share of in-house servicing and reducing the number of outsourcing partners. We also completely reviewed the training program of our agents with a view to improving customer care quality through new training modules and coaching. While the implementation process is ongoing, the changes we already implemented immediately translated into visible improvements of all customer care performance indicators, with the accessibility rate (*i.e.*, the percentage of callers attended by an agent) increasing to 91% in the third quarter of 2014 from 85% in the third quarter of 2013, the solving rate (*i.e.*, the percentage of issues resolved by the first point of contact as an average during the quarter) to 78% in the third quarter of 2014 and 80% in the fourth quarter of 2014 from 68% in the third quarter of 2013, and the percentage of calls answered within 60 seconds reaching 71% in the third quarter of 2014 from 60% in the third quarter of 2013 and 52% in the second quarter of 2013. Similarly, the average speed to answers improved from 132 seconds in the second quarter of 2013 to 88 seconds in the third quarter of 2013 and 50 seconds in the third quarter of 2014, while the number of complaints with the ombudsman during the first nine months of 2014 decreased considerably from 269 to 123 cases compared to the first nine months of 2013. The implementation of NPS has also resulted in material changes to our organization, notably in closer workforce management and process improvements based on NPS results as well as the introduction of NPS-linked bonus and incentive schemes for our employees. The resulting improvements in our customer focus and the customer experience have helped to improve many of our key metrics, such as an increase in the recommendation rate.

Resilient financial performance with growth momentum, strong cash flows and significant upside potential

Our large and predominantly residential subscription base, coupled with relatively low seasonality effects from increased roaming revenues during vacation times, provides us with a track record of resilient financial performance. Since 2011, we have grown our revenues at a compound annual growth rate ("**CAGR**") of 0.9% to CHF 2,021.2 million in 2013. Throughout that period, we demonstrated stability in our core operating segment, mobile, with a CAGR of negative 0.3% and dynamic growth in our smaller operating segments, hubbing and landline internet & IPTV, with a CAGR of 8.4% and 5.9%, respectively. In the first nine months of 2014, we experienced an acceleration of our growth with 1.5% increase in revenue when compared against the nine-month period ended September 30, 2013, marking our return to sustainable revenue growth. We believe that we have now reached a sustainable inflection point and our multiple growth levers will support a continued momentum for the future.

We benefit from a competitive cost structure and have historically had a strong focus on efficiencies which has enabled us to achieve sustainable Adjusted EBITDA margins of 32-33% over the period from 2011 to 2013. We achieved an Adjusted EBITDA of CHF 620.3 million in the financial year 2013, which compares to an Adjusted EBITDA of CHF 623.9 million in the financial year 2012 and CHF 600.9 million in the financial year 2011. We have launched multiple initiatives to deliver further efficiencies and we specifically see potential for further savings in sales and marketing, network operating costs and customer care.

As a result, we historically displayed a strong EBITDA to operating free cash flow conversion rate. In 2013, we generated an operating free cash flow (EBITDA less capital expenditures) of CHF 332 million, representing a 54% conversion rate (operating free cash flow divided by EBITDA). Following the significant investments into our network, we believe capital expenditures will return to regular levels, thereby contributing to an even stronger cash flow generation. In addition, the relatively low corporate income tax rate and the expected reduction in our financing costs by partially repaying and otherwise refinancing our existing indebtedness, coupled with optimized working capital management, are expected to create further cash flow growth in the future.

Experienced management team

Our management team, which has substantial experience in the telecommunications industry, is focused on innovative ideas and taking swift action to allow these ideas to flow to the market more quickly. We believe that our experienced management team has already demonstrated its ability to grow our business, for example, through multi-branding, innovative flat-rate plans, bundled and convergent products and services and distribution channel expansion. At the same time, our management team has already significantly improved efficiency in our business, including through outsourcing the majority of our network operations, managing subscription acquisition and retention costs, reducing billing costs, increasing the efficiency of key operational processes, optimizing our customer care processes and improving our workforce costs despite increases in our sales force.

Our CEO, Libor Voncina, has approximately 25 years of experience in the information and communications technology industries, of which more than 18 years in the telecommunications industry, with extensive experience from his previous management positions with an incumbent telecommunications provider in Slovenia and a challenger to an incumbent in Belgium. Since his appointment in January 2013, he has substantially expanded our management team and changed its composition by bringing in new personnel with extensive experience in the telecommunications industry in order to execute our growth strategy. Our CFO, André Krause, has more than eleven years of experience in the telecommunications industry and successfully introduced a de-coupled offering similar to our Sunrise *Freedom* offering in a prior position as CFO of a leading telecommunications operator in Germany.

Our Strategy

Our strategy is to leverage our strong market position as the leading fully-integrated challenger to the incumbent in Switzerland in order to drive further growth and create value through a combination of the following key strategies:

Achieve market share gains by leveraging our multi-brand strategy, competitive positioning and attractive offerings

We intend to further grow our market share in the residential and business segments by continuing to appeal to Swiss customers with our attractive offerings and multiple brands. We expect our successful multi-brand strategy to continue to form the basis of winning residential customers across the mass market, Young & Youth and Ethno market segments. We plan to continue to target the residential market through segmented and tailored product offerings aimed at maximizing revenues, realizing the benefits of higher market liquidity in specific segments and enhancing our customers' lifecycle value. As our core *Sunrise* brand and each of the well-recognized *MTV mobile*, *yallo*, *Ortel* and *Lebara* brands have demonstrated distinct appeal in their respective segments, we plan to continue investing in our brands to further develop their differentiating characteristics to help grow our market share, including via our recent visible testimonial campaign. We plan to continue to complement our multi-brand strategy by an MVNO and reseller approach which allows us to address niche segments as well as to monetize unused capacity in our network infrastructure, for example, through our reseller agreement with *Aldi*.

We plan to support our competitive positioning by continuing our efforts to offer innovative services that address the preferences of Swiss consumers. Based on our commitment to deliver a best-in-class convergent experience while being fair, transparent and customer-oriented in all segments, our recent product launches, and Sunrise *Freedom* in particular, demonstrate our ability to be at the forefront of these trends in order to attract additional customers. We also plan to further strengthen our distribution capabilities as we intend to continuously improve our efficiency in customer acquisition by further optimizing our retail stores and our indirect channels as well as increasing the proportion of our online sales.

We intend to exploit significant opportunities to grow our revenues from business customers, in particular SoHo/small enterprises, in order to reach a larger market share by leveraging our integrated mobile and landline offerings as well as our existing distribution capabilities, providing a distinct alternative to the incumbent. Building on our strength in the residential market and our position as the only alternative fully-integrated service provider to the incumbent, we plan to continue to efficiently leverage and develop services to strengthen our product portfolio to serve the needs of SoHo and small enterprises. We plan to further enhance our value proposition by creating a clear and lean service portfolio, aligned with our integrated residential offering, to launch targeted marketing initiatives and to optimize our distribution footprint. We intend to drive growth in SoHo and small enterprises by also benefiting from the visibility and strength of our medium and large enterprise business. We plan to continue to implement a selective and disciplined approach to serve the medium and large enterprise segment with customized products and solutions in order to optimize the profitability of these large accounts. As an integrated provider of mobile, landline and integration services, we can offer our business customers flexible end-to-end business solutions.

Secure and leverage our existing customer base with integrated convergent offerings and digital services

In line with Swiss consumers' preferences, we plan to continuously focus on convergence and data opportunities as drivers for further growth and profitability, and believe that we are well positioned to realize the benefits of our current positioning through growth in mobile services, increases in our share of the customers' spending on telecommunication services (both through up-selling and cross-selling of additional products and services) as well as a reduction in churn. We intend to capitalize on our position as a full-service, integrated provider of mobile, landline, internet and IPTV services in the Swiss market by continuing to cross-sell and up-sell these products and services through transparent, easy-to-understand and flexible convergent offerings. We plan to provide our services on a seamless platform through our integrated network, providing customers the same high-quality experience across each of the products we offer. The successful recent launch of Sunrise *Home* and Sunrise *Advantage* demonstrates our focus on providing customers with attractive fixed bundles and mobile-fixed convergent opportunities in order to convert single-product users into multi-play users and increase our ARPU. By continuing our focus on customer conversion, we intend to continue to reduce churn rates, as customers who subscribe to convergent services are less likely to churn. In addition to increasing our market share, we intend the growth of our mobile and fixed service revenues to be driven by our ability to further optimize the monetization of data by focusing on secondary SIM cards and additional data devices. In realizing opportunities for increasing data volumes we plan to capitalize on the high level of smartphone penetration in the Swiss market, our state-of-the-art mobile network infrastructure enabling high speed and further increases in our LTE/4G coverage.

We also intend to further improve our customer offerings by providing the best digital experience for both residential and business customers. Our future digital initiatives are intended to increase our market share and revenues by exploiting the full potential of digital growth in the Swiss telecommunications market. For the residential market, we expect to benefit from significant opportunities in digital television by providing a unified and differentiated TV value offering, *Sunrise TV 2.0*. For *Business Sunrise*, we intend to leverage our combined mobile, fixed and integration services offerings to increase the share of digital value-added services sold to our business customers and expect cloud-managed services to be a primary growth area.

Continue to deliver high quality of service and superior customer experience to further strengthen the foundations of our sustainable growth

As a customer-centric organization, we intend to maintain high levels of customer satisfaction, further increase customer loyalty (*e.g.*, through *Sunrise Rewards*) and strengthen our customer relationships through superior customer experience in order to help us gain customers, minimize churn and increase ARPU. As we expect the quality of the customer experience to continue to be the key purchase consideration in the Swiss market, we plan to capitalize on our significant investments and successful focus on quality and customer experience over the last two years, which have transformed Sunrise into a customer-centric organization. We intend to continue to deliver on our promises, as this provides the basis for profitable and sustainable growth and improvements in quality, help reduce churn, reduce cost of failures and lack of quality and to grow our customer base by increasing recommendation rates. We intend to continue to view continuous feedback on all of our interactions with customers, personal feedback for our employees and structural improvements through closed-loop feedback as a key part of our strategy to further improve the quality of our services and customer experience. We aim at maintaining the focus on customer care by further simplifying our partner landscape and increasing the share of in-house services, further investing in training and coaching, continuing to upgrade service levels for all customers and providing differentiated customer care for high-value customers, maintaining our recently introduced customer loyalty program *Sunrise Rewards* as well as deploying full self-care services through our website. Following the successful implementation of the first phase of NPS, we plan to deploy NPS across the entire organization in order to deliver superior customer experience at all points of interaction with our customers.

Leverage our technically superior spectrum position and continue to invest in our state-of-the-art network infrastructure to maintain our competitive advantage and capture further growth opportunities

We intend to continue to leverage our technically superior spectrum position and to maintain a state-of-the-art mobile and landline network infrastructure in order to provide our customers with a high-speed network throughout Switzerland, to ensure a best-in-class customer experience and to capitalize on future growth opportunities in convergence and data. We intend to capitalize on our significant recent investments to further enhance our network coverage and quality while reducing the level of capital expenditures to levels regular in our industry. Our nationwide GSM/GPRS/EDGE mobile network covered 99.9% of the Swiss population (outdoors) as of December 31, 2014, while our UMTS/HSPA and LTE/4G coverage had reached approximately 99% and approximately 85% of the Swiss population, respectively. Our mobile network currently offers speeds of up to 42 Mbit/s in our UMTS/HSPA network. Based on the latest MSR network equipment, we intend to further develop and expand our LTE/4G mobile network, which offers speeds of up to 100 Mbit/s in our LTE/4G network. With respect to future network enhancements, we intend to benefit from our well-invested network requiring regular levels of investment in the future after the significant investments for the UMTS900 exchange and LTE/4G roll-out in 2013 and 2014. In the financial year ended December 31, 2014, our capital expenditures reached a peak at an aggregate amount of approximately CHF 355 million and we expect capital expenditures from 2016 onwards to reach a level of approximately 11% of revenue (excluding voice hubbing). We currently operate an LTE-advanced pilot and testing project and intend to launch coverage in the short term. We have already configured existing sites in order to allow easy and rapid deployment of new technologies. This strategy is supported by our technology partner, Huawei, in the deployment of flexible, cost-efficient and technology-independent MSR equipment. In addition, we recently entered into a limited pilot network sharing agreement with Orange that may be expanded in the future, if the initial project proves to be successful.

We will continue to leverage our LLU network in Switzerland to further develop our last mile capex-light landline strategy and increase VDSL and fiber coverage through our partnerships with Swisscom, SFN and local utilities. As our fiber footprint continues to expand, we expect to be able to capture the benefits of migrating our customers to higher access speeds, further enhancing our customers' experience and improving convergence rates as well as our revenues and profitability. To capture the significant opportunities we foresee in digital television, we are aiming at adapting our IPTV offering to provide the best digital experience.

Further enhance profitability and cash flow by maintaining a lean and cost-efficient management of our business

We intend to continue to improve our profitability and cash flow by reducing operating costs, capital expenditures and financing costs and optimizing working capital management. We plan to reduce operating costs in our business through a number of measures, such as strict control on cash outflows, improved distribution capabilities, stricter price and sales management and increased control of workforce costs supported by a continuous assessment of further outsourcing opportunities. In order to realize cost benefits and manage our suppliers in a cost-efficient manner, we intend to leverage our centralized purchasing department and our purchasing partnership with Telefónica which provides us with improved purchasing conditions. While our efforts to outsource network operations and maintenance and parts of our customer contact centers have already allowed us to reduce our fixed cost base per customer, we plan to continue to focus on efficiency improvements throughout our company. We intend to benefit from further efficiency gains in the near term, in particular as a result of the full roll-out of our digital services, such as mobile applications, self-care services, online sales and a re-launch of our website in order to increase the proportion of our online sales to reach levels in line with our industry.

For future network enhancements, we intend to benefit from our well-invested network requiring regular levels of investment in the future after the significant investments in 2013 and 2014 for the UMTS900 exchange and LTE/4G roll-out and expect capital expenditures from 2016 onwards to reach a level of approximately 11% of revenue (excluding voice hubbing), while continuing to apply our last mile capex-light strategy in further developing our landline network and favoring partnerships with Swisscom, SFN and local utilities over making our own capital expenditures. We plan to improve our cash flow by optimizing working capital management, *inter alia*, by the Factoring Agreement that Sunrise Communications entered into with UBS AG on January 12, 2015 for receivables from our Sunrise *Freedom* mobile device offering. We believe that these dynamics will result in strong equity free cash flow growth in the future.

Recent Developments

Developments Relating to Our Business

Effective as of December 1, 2014, we entered into a long-term partnership with Swiss tennis player Roger Federer who will act as a Sunrise brand ambassador to increase the emotional experience linked to our brand. As part of the agreement, Roger Federer and Sunrise will implement various events and joint activities. Roger Federer will also use Sunrise products himself.

With the release of the most recent Connect test results in December 2014, we experienced an 86 point increase from 356 (out of a maximum 500) in 2012 to 442 in 2014, the highest two-year improvement among all Swiss MNOs. The December 2014 results ranked Sunrise in first place for mobile telephony ahead of all mobile players in Switzerland, Germany and Austria and the overall rating of our network was upgraded from "good" in 2013 to "very good". We have achieved to increase the population coverage of our latest mobile network technology LTE/4G to approximately 85% as of December 31, 2014.

In the fourth quarter of 2014, we continued to experience growth in postpaid mobile and fixed broadband subscribers. Our postpaid mobile subscription base grew by more than 16,000 subscriptions to approximately 1,320,000 as of December 31, 2014. The improvement was predominantly attributable to primary postpaid contracts, which showed the highest number of quarterly net additions for two years. Sunrise *Freedom* continued to contribute to the growth in primary postpaid subscriptions with approximately 37% of our postpaid subscription base having subscribed to a Sunrise *Freedom* offering as of December 31, 2014. Due to a lower number of gross additions from one of our indirect sales channels and the loss of lower value subscribers from discontinued offerings, the number of mobile prepaid subscriptions declined to approximately 1,145,000 as of December 31, 2014. As a result of increased demand for our convergent offerings, our retail voice subscription base continued to stabilize in the fourth quarter of 2014 and amounted to approximately 398,000 as of December 31, 2014. For the first time since the second quarter of 2012, we had a positive number of net additions so that the internet subscription base increased to approximately 327,000 subscriptions as of

December 31, 2014. With approximately 10,300 IPTV net additions, we recorded the highest increase since the first quarter of 2013; as of December 31, 2014, the total number of IPTV subscriptions amounted to approximately 107,100.

On December 18, 2014, Apax Partners announced that it had agreed to sell Orange to NJJ Capital, the private holding company of entrepreneur and telecommunications investor Xavier Niel, for a total consideration of CHF 2.8 billion. The sale to NJJ Capital is subject to customary regulatory approval requirements and currently expected to close by the end of the first quarter 2015.

On January 12, 2015, Sunrise Communications entered into a factoring agreement with UBS AG under which it agreed to sell certain receivables arising out of our time payment plans regarding the sale of mobile devices to UBS AG (the "**Factoring Agreement**"). Subject to certain conditions, we expect that a maximum in the amount of CHF 100 million in advance payments will be available to Sunrise Communications under the Factoring Agreement. With the amount of receivables from our Sunrise *Freedom* offering building up, we estimate that we will be able to extend the maximum advance payment ceiling to CHF 130 million. We estimate that the Factoring Agreement will have a total positive effect of approximately CHF 130 million over the next two years, with just over CHF 100 million already materializing in 2015.

Guidance for the Financial Year ended December 31, 2014

For the financial year ended December 31, 2014, we estimate that revenue and Adjusted EBITDA increased within a range of 2-3% on a year-on-year basis, supported by strong growth in the fourth quarter of 2014. We further estimate that the Adjusted EBITDA margin (excluding voice hubbing revenue) exceeded 33% for the financial year ended December 31, 2014.

These estimates are based on operational data and are subject to change. We caution that the foregoing information has not been audited or reviewed by our independent auditors and should not be regarded as a representation or forecast by us or any other person regarding our results that will be reported for the financial year ended December 31, 2014.

Planned SIX Listing and Refinancing

On January 13, 2015, Sunrise Communications entered into the Post IPO Credit Facilities Agreement Subject to market conditions, among other things, the Post IPO Credit Facilities Agreement may be amended and/or Incremental Facilities may be raised to increase the aggregate amount of senior secured term loan facilities available under the Post IPO Credit Facilities. For a description of the terms of the Post IPO Credit Facilities Agreement, see "*Description of Certain Financing Arrangements—Post IPO Credit Facilities Agreement*". Utilizations under the Post IPO Credit Facilities are conditional upon, among other things, the consummation of the planned SIX listing announced previously on January 14, 2015.

The planned listing and commencement of trading on the SIX is expected to take place on or before February 6, 2015. We expect to raise primary proceeds of approximately CHF 1.35 billion to substantially strengthen the balance sheet of TopCo by bringing net leverage ratio (net debt to EBITDA) to 2.7x following the planned listing and the refinancing. As a result of the planned listing, free float of up to 57.2% is expected prior to the exercise of the over allotment option (at the lower end of the price range).

Summary Financial and Operational Information

Certain information of Sunrise Communications Holdings S.A. as of and for the financial year ended December 31, 2012 has been restated as a result of IAS 19—Employee Benefits (revised 2011). However, the financial information in our audited consolidated financial statements as of and for the financial year ended December 31, 2011, included in this report, has not been subject to such restatements. Financial information as of and for the financial year ended December 31, 2011 has been taken from the consolidated financial statements as of and for the financial year ended December 31, 2012.

Other Financial Information of Sunrise Communications Holdings S.A.

	For the financial year ended December 31,			For the nine-month period ended September 30,	
	2011	2012	2013	2013	2014
		(consolidated, audited)		(consolidated, unaudited)	
	(CHF in thousands, except percentages)				
EBITDA[2][3][4]	607,611	629,227	613,545	462,482	472,570
Adjusted EBITDA[5]	600,900	623,870	620,324	470,531	471,304
EBITDA margin[6]	30.6%	30.4%	30.4%	30.7%	30.9%
EBITDA margin excluding voice hubbing revenues	32.7%	32.5%	32.8%	33.2%	33.5%
Adjusted EBITDA margin excluding voice hubbing revenues[7]	32.4%	32.2%	33.1%	33.7%	33.4%
Capital expenditures[8]	(152,325)	(224,893)	(281,385)	(176.593)	(257,582)
as a percentage of revenue (excluding voice hubbing)	8.2%	11.6%	15.0%	12.6%	18.2%
Operating Free Cash Flow[9]	455,286	404,334	332,160	285,889	214,988
Equity Free Cash Flow[10]	217,033	157,488	184,383	160,319	(7,174)

(1) Restated.

(2) EBITDA for the financial year ended December 31, 2012 includes CHF 3.4 million relating to the acquisition of NextiraOne Switzerland.

(3) EBITDA consists of net income before income taxes, financial expenses, financial income, net foreign exchange gains/(losses), depreciation, amortization and impairment losses. EBITDA is not a measurement of performance under IFRS and you should not consider EBITDA as an alternative to (a) operating income or net income (as determined in accordance with IFRS) as a measure of our operating performance, (b) cash flows from operating investing and financing activities as a measure of our ability to meet our cash needs or (c) any other measures of performance under generally accepted accounting principles. We believe that EBITDA is a useful indicator of our ability to incur and service our indebtedness and can assist securities analysts, investors and other parties to evaluate us. EBITDA and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. You should exercise caution in comparing our EBITDA to EBITDA of other companies. The following is a reconciliation of net income to EBITDA for the periods below:

(4) We also report EBITDA along reportable segments and reconciling items as set forth in the table below:

	For the financial year ended December 31,			For the nine-month period ended September 30,	
	2011	2012 (consolidated, audited)	2013	2013 (consolidated unaudited)	2014
	(CHF in thousands)				
Residential	716,130	737,261	713,258	552,693	549,300
Business	111,127	126,167	127,788	94,508	94,036
Wholesale	99,160	87,879	88,794	68,226	66,894
Head office activities	(318,806)	(322,080)	(316,295)	(252,945)	(237,660)

See note (5) to our consolidated financial statements as of and for the financial year ended December 31, 2011, note (8) to our consolidated financial statements as of and for the financial years ended December 31, 2012 and 2013 and note (5) to our condensed consolidated interim financial statements as of and for the nine-month periods ended September 30, 2013 and 2014.

(5) An unaudited reconciliation between EBITDA and Adjusted EBITDA is as follows:

	For the financial year ended December 31,			For the nine-month period ended September 30,	
	2011	2012 (consolidated, audited)	2013	2013 (consolidated unaudited)	2014
	(CHF in thousands)				
EBITDA	**607,611**	**629,227**	**613,545**	**462,482**	**472,570**
Compensation for overcharged costs in prior periods in connection with Long-Run Incremental Cost (“LRIC”)	(28,505)	(49,896)	(1,203)	1,008	(2,295)
Managed Service Provider one-off (income)/expense	12,606	15,880	(1,023)	(1,280)	0
(Income)/expense related to restructuring	0	17,145	0	0	0
Other non-recurring income/(expense)	9,188	11,513	9,005	8,321	1,029
Adjusted EBITDA	**600,900**	**623,870**	**620,324**	**470,531**	**471,304**

(6) EBITDA margin is defined as EBITDA divided by total revenue.

(7) Adjusted EBITDA margin excluding voice hubbing revenues is defined as Adjusted EBITDA divided by total revenue excluding voice hubbing revenues.

(8) Capital expenditures reported represent additions to property, plant and equipment and intangible assets excluding additions resulting from changes in asset retirement obligations, capitalized interest and additions from acquisitions. Capital expenditures for the financial year ended December 31, 2012 exclude spectrum license payments of CHF 289.0 million made on August 6, 2012.

(9) Operating free cash flow is defined as EBITDA less capital expenditures (excluding spectrum license payments).

(10) Equity free cash flow is defined as EBITDA less cash capital expenditures, change in net working capital (adjusted for cash flow related to the monetization of handset receivables), IRUs payments, interest expense (including PEC interest payments related to interest payments under Existing PIK Toggle Notes)

and taxes, excluding any cash flow related to the spectrum license auction. The following is a reconciliation of EBITDA to equity free cash flow for the periods below:

	For the financial year ended December 31,			For the nine-month period ended September 30,	
	2011	2012 (consolidated, audited)	2013	2013 (consolidated unaudited)	2014
	(CHF in thousands, except percentages)				
EBITDA	**607,611**	**629,227**	**613,545**	**462,482**	**472,570**
Capital expenditures	(152,325)	(513,893)	(281,385)	(176,593)	(257,582)
License payment adjustments	0	289,000	0	0	0
Operating free cash flow	**455,286**	**404,334**	**332,160**	**285,889**	**214,988**
Change in net working capital	20,278	(35,866)	66,513	15,199	(82,357)
Monetization of Sunrise Freedom receivables	—	—	—	—	—
IRU payments	—	—	—	—	(4,231)
Interest	(191,033)	(175,333)	(172,480)	(93,473)	(86,614)
PEC interest payments related to interest payments under Existing PIK Toggle Notes	0	0	(27,299)	(27,299)	(55,451)
Taxes	(67,498)	(35,647)	(14,511)	(19,997)	6,491
Equity free cash flow	**217,033**	**157,488**	**184,383**	**160,319**	**(7,174)**

Operational Data of Sunrise Communications Holdings S.A. (unaudited)

	As of and for the financial year ended December 31,			As of and for the nine-month period ended September 30,	
	2011	2012	2013 (consolidated, unaudited)	2013	2014
Mobile[(1)]					
Market share[(2)]	24.5%	24.3%	27.7%	27.7%	27.3%
Total number of subscriptions (in thousands)[(3)]	2,116.0	2,141.5	2,491.0	2,494.2	2,496.3
Prepaid subscriptions (in thousands)[(3)(4)]	1,011.3	960.4	1,233.0	1,261.3	1,192.8
Postpaid subscriptions (in thousands)[(3)]	1,104.7	1,181.1	1,258.0	1,232.9	1,303.5
Primary (in thousands)[(5)]	961.4	1,033.3	1,067.2	1,052.7	1,104.2
Secondary (in thousands)[(5)]	143.3	147.8	190.8	180.2	199.4
Net additions during period (in thousands)	100.8	25.4	349.5	352.8	5.4
Prepaid subscriptions (in thousands)[(3)(4)]	(8.6)	(50.9)	272.6	300.9	(40.2)
Postpaid subscriptions (in thousands)[(3)]	109.4	76.3	76.9	51.8	45.5
ARPU (voice, data, mobile termination rates) (in CHF)[(6)]	44.5	44.5	39.6	40.8	35.8
Prepaid (in CHF)[(3)(4)]	21.2	19.2	17.3	17.5	16.3
Postpaid (in CHF)[(3)]	66.8	66.0	59.7	60.9	54.1

	As of and for the financial year ended December 31,			As of and for the nine-month period ended September 30,	
	2011	2012	2013	2013	2014
Landline Voice[(7)]					
Retail voice subscriptions (in thousands)	514.4	474.4	436.7	447.2	401.0
ARPU (in CHF)	44.2	43.8	41.6	41.7	40.1
Landline Internet & IPTV[(8)]					
Landline internet subscriptions (in thousands)	370.4	369.3	348.0	354.3	325.9
IPTV subscriptions (in thousands)	0.0	38.4	74.3	65.6	96.8
Landline Internet & IPTV ARPU (in CHF)	34.9	36.5	41.4	40.7	46.3
Bundled Landline and Landline-Mobile					

	As of and for the financial year ended December 31,			As of and for the nine-month period ended September 30,	
	2011	2012	2013	2013	2014
Convergent					
Non-convergent Mobile (1P Mobile) (in thousands)[9]	—	501.3	515.5	507.8	545.9
Non-Convergent Landline (in thousands)[9]	—	160.6	146.2	151.3	133.3
Mobile and Landline Convergent (in thousands)[10]	—	217.1	210.7	212.2	201.2
Billed Customers (in thousands)[11]	—	879.0	872.4	871.3	880.4

(1) Market share for our mobile business is calculated as described in "*Industry, Market and Subscription Data*". Subscriptions and ARPU for the mobile business is calculated as described in "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Drivers of Our Mobile Revenue and Profitability—Current Trends and Financial Implications—Mobile ARPU*".

(2) Excluding MVNO, including *yallo* and reseller subscriptions and applying the "12-month rule" to permit comparability with Swisscom and Orange. Under the "12-month rule", prepaid subscriptions are counted if there was at least one incoming or outgoing call via the network over the previous twelve-month period. See "*Industry Overview—Swiss Mobile Market*".

(3) Excludes MVNO subscriptions and machine-to-machine (M2M)SIM cards but includes reseller-originated and *yallo* subscriptions; postpaid mobile subscriptions are counted in our subscription base as long as they have an active contract.

(4) Prepaid mobile subscriptions are counted in our subscription base if they have had an activity event, such as a usage or refill, within the last 91 days. The increase in the number of prepaid mobile subscriptions during the financial year ended December 31, 2013 is mostly attributable to our acquisitions of Ortel and Lebara in July 2013; as a result of these acquisitions, the number of prepaid mobile subscriptions increased by 341.8 thousand.

(5) Primary postpaid subscriptions are rate plans customers are using as the main subscription, whereas secondary postpaid subscriptions are rate plans used by customers in addition to their main subscription (*e.g.*, multi-SIM or data-SIM used for tablet mobile data usage).

(6) For purposes of comparability with ARPU reported by our competitors, we include the installments paid by customers subscribed to a mobile device plan in addition to a service plan (Sunrise *Freedom* offering) effective as of April 2014.

(7) Subscriptions and ARPU for the retail voice business are calculated as described in "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Drivers of Our Landline Revenue and Profitability—Current Trends and Financial Implications—Landline Subscription Base*" and "*—Landline ARPU*".

(8) Subscriptions and ARPU for the landline internet business are calculated as described in "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Drivers of Our Landline Revenue and Profitability—Current Trends and Financial Implications—Landline Subscription Base*" and "*—Landline ARPU*"**.**

(9) Non-convergent customers refer to customers that either use only mobile products (non-convergent mobile, *i.e.*, 1P mobile) or only landline products (non-convergent landline, *i.e.*, 1P landline, 2P landline, 3P landline).

(10) Mobile and Landline Convergent is the total of the number of (i) 2P convergent customers (*i.e.*, customers with a mobile postpaid subscription combined with a landline voice subscription (in rare cases, landline internet instead of landline voice)), (ii) 3P convergent customers (*i.e.*, customers with a mobile postpaid subscription with landline voice and internet (in rare cases, landline internet/IPTV instead of landline voice) and (iii) 4P convergent customers (*i.e.*, customers with a mobile postpaid subscription combined with landline voice, internet and IPTV).

(11) Billed customers refers to the total of Non-convergent Mobile (1P Mobile), Non-Convergent Landline and Mobile and Landline Convergent.

Risks Related to Our Market and Our Business

We face strong competition from Swisscom, Orange and upc cablecom in the mobile market and from Swisscom and upc cablecom in the landline and TV markets, in addition to other providers in the mobile, landline and TV markets.

General

We face strong competition in all business areas from established competitors, including, in particular: Swisscom, which has a significantly higher market share across all the markets in which we operate; Orange, in the mobile market; and upc cablecom in all the markets in which we operate. In addition, several direct-to-home ("**DTH**") players, local cable operators and local utilities compete with us in the internet and TV markets.

Swisscom, as the incumbent and dominant telecommunications provider in the Swiss market, benefits from considerable financing, marketing and personnel resources, greater brand-name recognition, well-perceived network quality and customer service, majority Swiss government ownership and long-established relationships with regulatory authorities as well as a deeply entrenched subscription base. Swisscom may use its considerable financing and marketing resources to exert price pressure on alternative telecommunications service providers, including us. Swisscom has at times pursued aggressive pricing strategies to maintain its market share, and if it were to do so again, such action could reduce our margins and dilute our earnings. In 2012, Swisscom introduced new speed-differentiated flat-rate postpaid mobile plans, which significantly lowered the monthly price of Swisscom's previous high-end rate plans and as a response resulted in the introduction of lower tariffs by Orange and us. In the summer of 2014, upc cablecom and Orange again lowered their tariffs. Over the last few years, Swisscom lowered roaming prices several times, with the most recent announcement in April 2014 to lower European roaming prices significantly. While we had not responded to prior actions, we did respond to the April 2014 announcement by significantly lowering European roaming prices for our customers with a roaming option and introduced roaming data buckets at significantly lowered rates. Lower prices have resulted in decreased revenue and lower margins for us. Our new lower prices and any future price reductions by us or one of our competitors could lead to further price reductions and the possibility of a continued cycle of competing price reductions among competitors in our market. We are operating in competitive markets and need to continuously adapt our prices to maintain our competitive positioning. As there is significant competition for new subscriptions in the Swiss mobile, landline and TV markets, our customer acquisition and retention costs may increase, which could put further pressure on our earnings. As a result of discontinuing rollover contracts and introducing our Sunrise *Freedom* mobile postpaid portfolio without fixed contract terms, the risk of churning subscriptions has increased and we may be more susceptible to losing customers to our competitors. Price decreases by our competitors frequently trigger general price erosion which could have a material adverse effect on our business, financial condition and results of operations.

In addition, due to its dominant position and financial capacity, Swisscom has the ability to establish new market standards in Switzerland by quickly introducing new and advanced technologies, such as its "Fiber-to-the-x" landline networks that encompass all forms of fiber-optic communication delivery ("**FTTx**"), including "fiber-to-the-home" ("**FTTH**"), vectoring on DSL and LTE Advanced mobile networks, which require us to accelerate our mobile network enhancements and our FTTH product and service offerings. If this happened, we might need to adapt our network and product and service offerings, which could materially adversely affect our business and profitability.

Mobile

In the mobile market, our main competitor besides Swisscom is Orange, which was acquired from France Telecom in early 2012 by funds advised by Apax Partners who in December 2014 agreed to sell Orange to NJJ Capital, the private holding company of entrepreneur and telecommunications investor Xavier Niel. The sale to NJJ Capital is subject to customary regulatory approval requirements and currently expected to close by the end of the first quarter 2015. Orange continues to benefit from greater levels of global advertising than we do and a regional competitive advantage in certain areas, especially in French-speaking parts of Switzerland. Among other possibilities, Orange could further extend its own flat-rate tariff portfolio, reduce prices and launch bundled offerings, which may diminish our strengths as a provider of flat-rate and bundled services. Xavier Niel's telecommunications investments include Iliad in France, Golan Telecom in Israel and Monaco Telecom. In certain markets, such as France and Israel, NJJ Capital has engaged in aggressive pricing strategies to rapidly acquire market share in a new product. NJJ Capital could choose a similarly aggressive pricing strategy in Switzerland as Iliad did when introducing mobile offerings under the brand "free" in the French market where he undercut competitors' prices by approximately 50-70% and introduced simple tariff structures. The implementation of such an aggressive pricing strategy could result in significant price disruptions which could adversely impact our ability to grow or even maintain revenue and negatively impact our financial performance and ability to pursue our dividend policy as we might be forced to substantially lower our prices to remain competitive. We would likely be more exposed to such changes than our competitors due to the higher price sensitivity of our customers when compared to the customers of Swisscom. Additionally, the newly introduced Sunrise *Freedom* tariffs do not have a minimum contract term and offer customers the opportunity to switch the operator on short notice (one month notice period) which could further accelerate churn and negatively impact our operating and financial performance. The acquisition of Orange by NJJ Capital could also enable Orange to offer more favorable roaming rates, lower handset prices based on better wholesale conditions or let Orange participate in international product or marketing initiatives.

Furthermore, if and when Orange's license to use its trademark expires, Orange may develop and launch one or more new brands or reposition existing brands with more aggressive price propositions. Following the acquisition of Orange by NJJ Capital, Orange may also change its strategy and enter the market for landline services, including landline internet, IPTV and convergent offerings. Such change of the strategy of Orange could increase competition in landline and convergent offerings and adversely affect our competitive position.

In addition, MVNOs have grown their share of the Swiss mobile market partially as a result of aggressive pricing strategies or leveraging of their existing retail networks. All Swiss mobile operators, including us, have commercial agreements with MVNOs, providing them access to their respective networks, which the MVNOs, in turn, sell to their own customers, which further increases competition in the Swiss mobile market. An MNO hosting an MVNO on its network has only limited influence on such MVNO's tariffs and as a result may create additional price pressure and even with our acquisitions of Lebara and Ortel in July 2013, we are still exposed to the risk of MVNOs winning market share at our expense. Competition, although currently not substantial, may increase with foreign MVNOs entering the Swiss market based on roaming arrangements and targeting local customers travelling abroad with attractive roaming conditions which could result in increased pressure on roaming tariffs. Moreover, to the extent that the MVNOs which we host on our network were to terminate their agreements with us and start offering their services through the network of one of our competitors, or MVNOs that enter the market in the future choose our competitors over us for hosting arrangements (as was the case with upc cablecom as MVNO on the Orange network), our revenues from such services could also decline correspondingly. Additionally, the market entrance of upc cablecom as an MVNO on the Orange network enables upc cablecom to offer integrated products, including fixed and mobile product bundles comprising mobile, retail voice and landline internet products, as well as quadruple-play offerings that combine these three products with television service. Because upc cablecom's landline network currently is in some ways superior to our use of LLU or access products of Swisscom, Swiss Fibre Net AG ("**SFN**") or local utilities, such new offerings by upc cablecom could reduce our bundling advantage and have a material adverse effect on our business, financial condition and results of operations.

Similarly, the mobile reseller market has grown significantly in recent years and is expected to continue to increase competition in the Swiss mobile market. All three Swiss mobile network operators, including us, have agreements with resellers that allow the resellers to sell contracts with their respective network operators. Although these contracts are ultimately made directly between the operator and the customer in most cases, they generally provide less revenue and lower margins to operators than contracts not involving resellers. As a result, the expected increase in market share of reseller contracts could have a material adverse effect on our business, financial condition and results of operations. Additionally, to the extent that resellers we host on our network were to terminate their agreements with us and start offering their services through the network of one of our competitors, or resellers that enter the market in the future choose our competitors over us, our revenues from such services could also correspondingly decline. With a growing number of reseller agreements, it is also possible that existing or new resellers may object to our other reseller agreements, which may lead to termination of reseller agreements or legal proceedings against us and ultimately could have a material adverse effect on our business, financial conditions and results of operations.

There is a theoretical risk that a new MNO could successfully enter the mobile market if new spectrum becomes available as part of the so-called digital dividend (*e.g.*, 700 MHz) or if existing spectrum becomes available for a new allocation in case frequency sharing is allowed, existing operators consolidate or a license expires prematurely. Even if a new entrant could not roll out nationwide infrastructure at launch due to the licensing of all currently available spectrum through 2028, such an entrant could develop and operate a network infrastructure targeted at one or more geographical regions and subsequently obtain coverage over the rest of Switzerland by entering into roaming agreements or litigating similar access based on existing interconnection obligations. If any new MNO were to successfully enter the Swiss mobile market as a fourth competitor or existing operators were to combine or share their resources or infrastructure, it could materially reduce our market share and could overall have a material adverse effect on our business, financial conditions and results of operations. If the Swiss Federal Telecommunications Act (*Fernmeldegesetz*) was repealed, there would be a risk that technology independent network access at cost would be implemented through regulation. In this case, a new or an existing MNO as well as a new or existing MVNO would be able to demand cost-oriented access to our network or the networks of our competitors.

Landline

In the landline retail voice, landline internet and TV markets, in addition to Swisscom, we compete primarily against upc cablecom and local cable network operators. upc cablecom is the largest Swiss cable communications provider in terms of subscriptions, has a state-of-the-art cable network, a large cable subscription base with cross-selling opportunities and is part of a global telecommunications group with significant financial resources and know-how. We expect competition in the landline retail voice and landline internet market to continue to increase as a result of the introduction and growth of new technologies (including, among other technologies, the roll-out of FTTH), products and services (*e.g.*, fixed-line virtual network operators or "**FVNOs**"), the declining number of landline services subscriptions due to accelerating fixed-to-mobile substitution, growth of voice-over-IP ("**VoIP**") and over-the-top ("**OTT**") applications, regulatory changes in the Swiss market and possibly the entry of new international competitors. Any of these factors could exert downward pressure on prices or otherwise cause our landline subscription base to contract, thereby impacting our revenues and profitability. Furthermore, existing or new competitors entering into favorable fiber deals with Swisscom, SFN or local utilities as well as utilities entering the retail market could have the same impact. Furthermore, the closure of local exchanges by Swisscom could impair our LLU investments; similarly, our inability to renew fiber access agreements with Swisscom, SFN or local utilities at all or at terms substantially comparable to our existing terms could have an adverse effect on our ability to effectively compete in the landline market.

Landline Internet and IPTV

In the Swiss landline internet market, digital TV services have become an integral part of internet offerings, and we launched our IPTV offering in January 2012. In November 2012, upc cablecom discontinued basic encryption on digital TV, effectively offering basic digital TV service free of charge on any TV or third-party set-top box with a cable tuner. Furthermore, in December 2012, Swisscom began offering basic TV services free of charge for their DSL subscriptions. In February 2013, we announced our new internet product portfolio (Sunrise Internet Everywhere), which includes a basic TV service. In August 2014, upc cablecom announced that it will include a basic free telephone service in its base offering which already includes limited bandwidth internet access at up to 2 MBit/s. The basic connectivity is free and available as OTT application while outgoing calls are billed on a per minute basis. Netflix, which entered the Swiss market in September 2014, is expected to change the market and price structures for video-on-demand services (“**VoD**”). Swisscom and upc cablecom have already announced adjustments of their VoD pricing, which could result in increased levels of competition in VoD and significant declines in prices. We cannot guarantee that our offering will be sufficient in the future to successfully compete in the TV and landline internet market and to avoid any negative impact on our subscriptions as a result of technical difficulties, which could have a material adverse effect on our business, financial conditions and results of operations.

Following the acquisition of Orange by NJJ Capital and based on Xaviel Niel’s experience in the French market, Orange may also change its strategy and enter the market for landline services, including landline internet, IPTV and convergent offerings. Besides our own extensive LLU and backbone network, we do not own landline infrastructure and mostly rely on contracts with Swisscom, SFN and local utilities for access to customer premises. NJJ Capital or Orange may negotiate with Swisscom, SFN and local utilities similar terms as we have for FTTH and XDSL access on the last mile. Based on Xavier Niel’s experience both in mobile and landline services and using the existing product portfolio in the French market, NJJ Capital might be able to introduce similar landline internet, IPTV and convergent product offerings with short lead time and at comparatively lower costs than other competitors without an existing product portfolio. Such change in the strategy of Orange could significantly increase competition in landline, IPTV and convergent offerings and adversely affect our competitive position. Such increased competition could have a material adverse effect on our ability to grow or even maintain revenue at current levels and negatively impact our financial performance and ability to pursue our dividend policy.

Other Competitive Developments

We may face increased competition in the mobile, retail voice, landline internet and TV market as a result of a consolidation of or cooperation between our competitors. Any consolidation may allow our competitors significant cross-selling potential and an ability to make new offerings available to existing customers. In addition, our competitors may enter into network sharing agreements that increase their network capabilities and significantly reduce their investment requirements and operating cost which could lead to price pressure and have a material adverse effect on our business, financial condition and results of operation. Furthermore, we may enter into network sharing agreements from time to time with our competitors. While any agreement would be entered into on the expectation of a commercial benefit, there is a risk that such agreement could constrain our freedom to deploy our prospective network plans, which could have a material adverse effect on our business, financial condition and results of operation.

The risk of voice and data traffic continuing to shift towards IP or OTT services has further increased through the stronger position in the market, higher smartphone penetration and the increased technical capabilities of devices and apps. As a result, we are facing increasing competition from non-traditional mobile voice, data and TV services based on IP technologies, in particular OTT applications, such as Skype, Google+ Hangouts, WhatsApp, iPhone/iPad Messenger, Apple FaceTime, Facebook, Apple TV, Google TV, Netflix, Zattoo and others. These OTT applications are often free of charge, accessible via smartphones and tablets and allow their users to have access to potentially unlimited messaging and voice services over the internet, thus bypassing more expensive traditional voice, messaging (SMS/MMS) and TV services provided by mobile and landline network operators like us. Due to the flat-rate models prevalent in the Swiss market, additional data traffic generated by OTT services does not lead to additional revenue for the network operators. With the growing share of smartphones and tablets in the mobile subscription base in Switzerland, there is an increasing number of customers using OTT services and decreasing opportunity to increase revenues through sales of service or data packages to new customers. All operators are currently competing with OTT service providers that leverage existing landline and mobile infrastructures and are often not required to implement capital-intensive business models associated with traditional mobile network operators like us. OTT service providers have over the past years become more sophisticated players and technological developments have led to a significant improvement in the quality of service, in particular speech quality. In addition, companies with strong brand capabilities and financial strength, such as Apple, Google, Facebook and Microsoft, have turned their attention to the provision of OTT services that are increasingly directly implemented in the operating systems of the devices and therefore easily usable by customers, such as Apple's FaceTime and Google's Google+ Hangouts. We may not be able to monetize increased data traffic and may need to incur additional network expansion costs. In the long term, if non-traditional mobile and landline voice and data services or similar services continue to increase in popularity and if we, or more generally all the mobile and landline network operators, are not able to address this competition, this could cause declines in ARPU, subscription base and profitability across all of our products and services, among other material adverse effects.

In addition, we may face increasing competition from a large-scale roll out of public Wi-Fi networks by local governments and utilities, transportation service providers, new and existing Wi-Fi telecommunications operators and others, which particularly benefits OTT applications. upc cablecom is increasingly rolling out a Swiss-wide public Wi-Fi network powered by their existing horizon customers "homespots" and the national railway company SBB started the roll-out of free public Wi-Fi at major railway stations across Switzerland in 2014 and plans to subsequently expand Wi-Fi availability to additional railway stations. In addition, local transportation companies are starting to offer commuters free Wi-Fi access in trams and busses. Due to the ability to leverage their existing infrastructure and to roll out public Wi-Fi in a cost-efficient way, other competitors besides upc cablecom and in particular Swisscom, are better positioned to offer their customers public Wi-Fi access at attractive conditions or as part of their current mobile and landline offerings, which may affect our ability to retain or acquire customers. Furthermore, our competitors may realize cost savings by off-loading mobile data traffic onto the Wi-Fi network. An increase in public Wi-Fi networks could also cause declines in ARPU and profitability as demand for our network and services decreases.

In addition, embedded SIM technologies allowing multiple operators to offer their service at the same time could enable customers to instantly switch from one MNO to the other, which would increase the risk of churn and thus competition to retain customers.

The success of our mobile operations depends on our ability to attract new and retain existing mobile subscriptions. If we are unable to successfully manage our customer turnover or otherwise lose mobile subscriptions, we may face increased customer acquisition and retention costs and reduced revenues or lower cash flows.

Our ability to attract and retain mobile subscriptions or to grow our ARPU from existing subscriptions will depend in large part upon our ability to stimulate and increase customer usage, convince customers to switch from competing mobile operators to our services and to minimize the percentage of subscription deactivations over a given period of time, referred to in the industry as customer "churn". Churn is a measure of customers who stop purchasing our services, leading to reduced revenues. A large portion of our mobile subscriptions are prepaid, which contributes to churn, as customers are not contractually bound in the long-term to use our services and are free to move to other operators with more attractive pricing or other advantages. Any increase in customer churn, including as a result of discontinuing rollover contracts and introducing our Sunrise *Freedom* mobile postpaid portfolio without fixed contract terms which makes us more susceptible to customer churn, may lead to a need to reduce our costs rapidly to preserve our margins or, alternatively, take measures that will increase our customer acquisition and retention costs. We recently entered into a limited pilot network sharing agreement with Orange that may be expanded in the future, if the initial project proves to be successful. While the network sharing arrangement could close the coverage gap to Swisscom considerably, it would bring Orange's network coverage closer to the level of our network coverage which is currently superior and might therefore benefit Orange more than us.

As our customer base, consistent with the trend in the industry, continues to migrate to postpaid plans, customer acquisition and retention costs have increased. There can be no assurances that the various measures we have taken to increase customer loyalty will reduce the rate of customer churn. In addition, independent consumer-oriented price comparison websites regularly publish studies showing that prepaid plans are more favorable for certain types of customers given assumed general usage patterns than postpaid plans which could negatively affect our ability to migrate prepaid customers to postpaid plans. In addition, the mobile telecommunications industry is characterized by frequent developments in product offerings, as well as by advances in network and handset technology. If we fail to maintain and further upgrade our network and provide our customers with an attractive portfolio of products and services, we may not be able to retain customers. Likewise, if we fail to effectively communicate the benefits of our network or our efforts to promote bundled products prove unsuccessful, we may not be able to attract and retain new customers. Additionally, competing mobile operators may improve their ability to attract new customers, or offer their products or services at lower prices, which would make it more difficult for us to retain our current customers. This could lead to lower prices and decreased ARPU, and the cost of retaining and acquiring new customers could increase, which could have a material adverse effect on our business, financial condition and results of operations.

While the introduction of the Sunrise *Freedom* mobile product range in April 2014 has improved levels of customer satisfaction, customers under discontinuing rollover contracts with a fixed contract term may terminate their relationships with us at any time, which exposes us to greater risk of customer churn if we experience problems with network outages or customer care. In December 2013 and 2014, independent surveys of our network quality indicated and confirmed that we improved our ranking and restored our historical second place position in certain aspects of our network but continued to be ranked behind Swisscom which may have a material adverse effect on our ability to retain and attract customers. While we have continued to improve our network quality, our LTE/4G coverage is currently slightly below our competitors' LTE/4G coverage which could result in a drop in our ranking in future surveys, which could have a material adverse effect on our business and results of operations.

Customer churn, or the threat of customer churn, in our landline voice & other operations may adversely affect our business, financial condition and results of operations.

The landline services market is increasingly under pressure from declining mobile phone charges and interconnection rates, alternative access technologies like OTT applications, VoIP and internet telephony offered via DSL and other broadband connections. Our retail voice customer base has decreased by 10.3% to 401,016 as of September 30, 2014 from 447,243 as of September 30, 2013 and 474,434 as of December 31, 2012. Customer churn has been particularly significant among our carrier pre-select ("**CPS**") retail voice customers, including our TelCommunication Services AG customers, given their ability to change their carrier pre-selection upon short notice without penalties or other contractual limitations. While our strategy is to increase VDSL and fiber coverage through our partnerships with Swisscom, SFN and local utilities wherever possible, we may be unable to counter the erosion of our landline voice & other customer base over time, and our business and results of operations may be adversely affected as a result. Moreover, we may not be able to offset, in whole or in part, decreases in the number of our CPS retail voice with increases in the number of customers using our LLU, VDSL and fiber services.

Customer satisfaction levels that are lower than our competitors' customer satisfaction levels could adversely affect our ability to acquire new and maintain existing customers.

The Swiss telecommunications market is driven by, among other factors, customer satisfaction. Customer satisfaction may be impacted by a variety of factors, including customers' perception of the overall package, price-value ratio of services, range of offerings, network quality, coverage, functionality and speed, products and services, invoice accuracy, and operators' ability to solve customer problems in a fast and efficient way (customer service). The implementation of Net Promoter Score ("**NPS**") helps us regularly measure customer loyalty and advocacy and guide material changes to our organization in order to respond to customer concerns. We may not be able to maintain and improve customer satisfaction sufficiently and may be ranked behind Swisscom, Orange and upc cablecom in certain satisfaction studies, such as Connect, Bilanz Rating and K-Tipp, which may affect our ability to acquire new customers and increase our customer churn, which could have a material adverse effect on our business, financial condition and results of operations.

Our business is capital intensive and depends on maintaining and continuously upgrading our networks. We cannot assure you that we will have sufficient liquidity to fund our capital expenditures programs or our ongoing operations in the future.

Our business is capital intensive, and we have an extensive capital expenditure program that will require significant capital outlays in the foreseeable future, including the continued expansion, maintenance and optimization of our mobile network infrastructure (including, among other things, the continued LTE/4G roll-out). Likewise, our landline voice & other and landline internet & IPTV infrastructure, though capex light, will continue to require maintenance and optimization and may require further investments to update the technologies in use. We will also need to invest in new networks and technologies in the future and make investments to provide business continuity and to meet requirements for information security and disaster recovery, all of which could require significant capital expenditures which could be further increased by new regulation requiring increased levels of the technical protection of telecommunication networks proposed by the Swiss Federal Council (*Bundesrat*) in its latest report of November 2014. If network usage develops faster than we currently anticipate, we may require greater capital investments in shorter time frames than we anticipate and we may not have the resources to make such investments. In addition, costs associated with the licenses that we need to operate our existing networks and technologies and those that we may develop in the future, and costs and rental expenses related to their deployment, could be significant.

The amount and timing of our future capital requirements may differ materially from our current estimates due to various factors, many of which are beyond our control. We may also be required to raise additional debt or equity financing in amounts that could be substantial. The type, timing and terms of any future financing will depend on our cash needs and the prevailing conditions in the financial markets. We may not be able to accomplish any of these measures on a timely basis or on commercially reasonable terms, if at all. We may not generate sufficient cash flows in the future to meet our capital expenditure needs, sustain our operations or meet our other capital requirements, which may have a material adverse effect on our business, financial condition and results of operations.

We must continue to maintain and upgrade our IT infrastructure and existing networks in a timely manner in order to retain and expand our subscription base in each of our markets and to successfully implement our strategy. We recently entered into a limited pilot network sharing agreement with Orange that may be expanded in the future if the initial project proves to be successful. It seems network sharing should result in efficient improvement of coverage and reductions of operating costs in the future, however, it may result in risks similar to out-sourcing arrangements including limited control over the quality of services provided by third parties. If Orange were not to maintain a quality similar to what our customers are used to, our reputation could be harmed and, as a result thereof, customer churn could increase. Among other things, the needs of our business could require us to upgrade the functionality of our networks to allow for the increased customization of services, increase our UMTS coverage, accelerate our roll-out of LTE/4G, invest in FTTH, expand and maintain customer service, update network management and administrative systems, and upgrade older systems and networks to adapt them to new technologies. Our LTE/4G coverage is currently slightly below our competitors' LTE/4G coverage and our further roll-out could be delayed.

In addition, our assumptions associated with maintenance and continued upgrades of our networks may prove to be inaccurate. Our current network capacity may not be sufficient for all future services we plan to offer or we may need to accelerate capital expenditure plans if growth in data traffic (*e.g.*, generated by OTT applications) would exceed our planning. If we fail to successfully maintain and upgrade our networks, our services and products may be less attractive to new customers and we may lose existing customers to our competitors, or our business and financial condition may become subject to additional financial strain due to unbudgeted investments. In addition, our future and ongoing network upgrades may fail to generate a positive return on investment, which may have a material adverse effect on our business, financial condition and results of operation. If our capital expenditures exceed our projections or our operating cash flow is lower than expected, we may be required to seek additional financing for future maintenance and upgrades, which in turn could adversely affect our business, financial condition and results of operations.

We may not be able to successfully implement our strategy to gain new broadband customers through our bundling with IPTV.

A significant component of our landline internet strategy is to continue to retain existing and gain new broadband customers through bundled offerings comprising landline retail voice, landline internet, IPTV and mobile services. Our ability to successfully implement our strategy may be adversely affected if broadband usage in Switzerland does not continue to grow as we expect, competition increases for reasons such as the entry of new competitors, technological developments introducing new platforms for internet/TV access and/or internet/TV distribution, the provision by other operators of broadband connections superior or at more attractive terms to that which we can offer; or if we experience any network interruptions or problems related to our network infrastructure. Currently, our broadband and IPTV offering lacks functionalities and speed compared to our competitors. As a result of missing operating standards and central platforms in the infrastructure of the utility companies that own the fiber infrastructure we use, we frequently face complex and time-consuming processes for customer activation and resolution of technical issues that do not allow us to effectively compete with Swisscom and upc cablecom that both own their networks. The market is developing quickly and there is no assurance that we can ultimately achieve a market share similar to our competitors which could have a material adverse effect on our landline internet & IPTV services business, convergence and growth strategy and results of operations. Our convergence strategy could be negatively impacted by new regulations requiring us to offer bundled services also as stand-alone services, as proposed by the Swiss Federal Council (*Bundesrat*) in its latest report of November 2014.

We may be unable to access the content needed for a competitive IPTV offering or we may need to modify our IPTV services.

The success of our IPTV strategy depends on, among other things, our ability to deliver a variety of quality programming options to our customers, including movies, sports events and other premium content, at competitive prices. If we fail to obtain sufficient high-quality programming for our IPTV services on satisfactory terms, or at all, our ability to offer IPTV services may be limited. In addition, as we continue to develop our video-on-demand and other interactive services, our ability to source content for these services will become increasingly important and, like other content we provide, will depend on our ability to build and maintain relationships with content providers, including movie studios, broadcasters and sports leagues. Rights owners may require individual licenses for free-to-air content when delivered in digital HD quality and refuse to adhere to collective licensing tariffs generally applicable to free-to-air content. We currently license our pay content through Teleclub, which is 75% indirectly owned by Swisscom and which owns the rights to many of these content sources; however, some of these premium content sources are provided exclusively to Swisscom and are not available through our IPTV offering. Should we fail to obtain the rights to such content, the IPTV products we are able to offer may not be as attractive as those offered by our competitors. We may be unable to develop IPTV functionality at the same pace as our competitors or to source necessary equipment such as set-top boxes at reasonable costs. There will also be costs associated with securing the conditional access and encryption systems required to secure content and to prevent hacking of the set-top boxes and in the event the conditional access system is compromised, significant costs could be incurred. Furthermore, Swisscom and upc cablecom have introduced new set-top boxes, platforms and services, such as OTT applications, that contain additional features and capabilities (including the extension of the services to tablets and smartphones), and we may not be able to effectively compete with such product innovations. We are constantly improving our TV services and platforms that will allow us to offer a service that we believe will meet the offering of our competitors, but there is no guarantee for successful and timely implementation.

Additionally, a court or other governmental body could restrict or eliminate our ability to offer time shifting products to customers, such as our *ComeBack TV* service. We have received a letter from one broadcasting provider objecting to our *ComeBack TV* service and certain other broadcast providers have made the delivery of their broadcasts dependent on the abandonment or restriction of our time shifting functionality. Our position is such that time shifted TV is allowed based on the copyright limitation of private use. In a decision rendered on December 17, 2012, the Swiss arbitration court for copyright tariffs permitted recording services for time shifted TV such as *ComeBack TV*, subject to the payment of copyright levies. While this decision has become effective, the public Swiss broadcasting provider has requested an amendment to the copyright laws that would require individual licensing from broadcast providers for time shifting services. Copyright holders may at any time allege that our offering of time shifted TV to our customers constitutes an act of copyright infringement and may initiate court proceedings by requesting an injunction or damages for the past, which may adversely affect our business and results of operations. In addition, we and other operators of IPTV services, such as Swisscom and upc cablecom, face the risk that the terms of use and commercial conditions could be significantly worse upon renegotiation of a new tariff taking effect in 2017.

We plan to lower our cost base and improve our profitability through a series of efficiency measures that may be costly or difficult to implement, fail to be effective or otherwise disrupt our business.

As part of our strategy, we intend to optimize our earnings and cash flows on a constant basis by reducing operating costs within the business through a number of measures, which we evaluate on a regular basis and which have historically included, for example, strict control on cash outflows, improved distribution, pricing and sales management, tighter steering of customer acquisition and retention costs, workforce reduction and increased outsourcing. The anticipated cost savings and operational efficiencies that we expect to derive from these measures, as well as any anticipated reorganization and restructuring costs, are based on a number of assumptions and estimates that are subject to a wide variety of business, economic and competitive risks and uncertainties and may fail to prove correct. We may be unable to carry out any of our planned cost-saving initiatives or be unable to do so without incurring significant reorganization and restructuring costs or without significantly disrupting our business operations. Failure to successfully implement these rationalization measures or our inability to fully realize their anticipated benefits could have a material adverse effect on our business, financial condition and results of operations. There is no assurance that we will be able to increase our subscription rates due to competitive and other factors. If our strategy to reduce operating costs is not successful, operating costs may rise faster than associated revenue, resulting in a material negative impact on our cash flow, margins and results of operations. We also may be affected by increases in salaries, wages, overtime compensation payments, benefits and other administrative costs which we may not be in a position to pass on to our customers, which in turn could have an adverse effect on our business, financial condition and results of operations.

We are exposed to risks related to our Sunrise Freedom receivables factoring.

Our net working capital is negatively impacted as a result of an increase in trade receivables from Sunrise *Freedom* (sale of mobile devices). As a result, we plan to improve our cash flows by optimizing working capital management, *inter alia*, by the Factoring Agreement that Sunrise Communications entered into with UBS AG on January 12, 2015. Under the terms of the Factoring Agreement, the purchase price for receivables from mobile devices relating to our Sunrise *Freedom* offering is divided into an advance payment and a haircut which serves as security against impairment risk of the receivables. Both the amount of the receivables sold and the haircut are variable based on certain conditions. Subject to the satisfaction of such conditions, a maximum in the amount of CHF 100 million in advance payments will be available to Sunrise Communications under the Factoring Agreement. The Factoring Agreement contains customary representations and warranties, covenants and events of default. An event of default would allow UBS AG to immediately terminate the Factoring Agreement, assume the receivables management and enforce the securities, which could adversely affect our working capital and liquidity.

Our reliance on outsourcing makes us vulnerable to failures and a lack of availability of certain essential operations and services.

Over recent years, we have outsourced parts of our operations, including the maintenance of our networks, significant parts of our call centers and logistics to third-party service providers. We have also outsourced a significant amount of our IT development and testing services. These operations and services could fail, be compromised (*e.g.*, resulting in data leaks) or become unavailable, and might not be replaceable in a timely or cost-efficient manner. Furthermore, the financial impact of such an outage or failure might negatively impact our customer satisfaction levels and result in increased customer churn, which might not be reimbursed or compensated for by the outsourcing partner. We may also face difficulties in exchanging or replacing single outsourcing partners. If we experience difficulties in our outsourcing arrangements our ability to service our customers may be effected and this could have a material adverse effect on our business, financial condition and results of operations.

Although we have service-level arrangements with our outsourcing partners, we do not ultimately control their performance, which may make our operations vulnerable to performance failures. In addition, the failure to adequately monitor and regulate the performance of our outsourcing partners could subject us to additional risk. Reliance on outsourcing partners also makes us vulnerable to changes in such partners' business, financial condition and other matters outside of our control, including violations of laws or regulations which could increase our exposure to liability or otherwise increase the costs associated with the operation of our business. The failure of our outsourcing partners to perform as expected, or as contractually required, could result in significant disruptions and costs to our operations and to the services we provide to our customers, which could materially and adversely affect our business, customer relationships, financial condition, operating results and cash flow.

We are exposed to decreases in mobile termination and other rates that could materially adversely affect our revenue from mobile operations.

In Switzerland, mobile termination rates which mobile operators charge for calls terminating on their respective networks are determined through a bilateral agreement between two operators, rather than *ex ante* by a regulatory authority, which is the case throughout the European Union. To the extent that operators cannot agree in bilateral negotiations on mobile termination rates applicable to each of them, each operator may request the Swiss regulatory authorities to intervene *ex post* to determine the rates applicable to each operator. While Switzerland is not a member of the European Union or the European Economic Area and not subject to EU telecommunications legislation, mobile termination rates in Switzerland have historically followed, and are expected to continue to follow, the decline in mobile termination rates applicable in the European Union driven by regulations of the European Commission.

In 2012 and 2013, a new scheme of gradual price decreases on a semi-annual basis for mobile termination rates was agreed among Sunrise, Swisscom and Orange, which reduces the termination rate to a current rate of CHF 0.0775 per minute that will remain valid until June 2015. Compared with European rates with a weighted average of €0.0131 per minute, further reductions are to be expected and a smaller competitor may demand lower rates through bilateral negotiations or interconnection proceedings even before June 2015. For a discussion of the impact on our financial results of the decline in mobile termination rates, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Drivers of Our Mobile Revenue and Profitability—Current Trends and Financial Implications—Mobile Termination Rates*". Because mobile termination rates comprise part of our interconnection revenues (for calls not initiated on the Sunrise network that terminate on our mobile network) and, to a lesser extent, our interconnection expenses (for calls initiated on the Sunrise network that terminate on the network of other mobile operators), any decrease in mobile termination rates has a direct impact on our revenue and more substantially, on our profitability. We estimate that a reduction in mobile termination rates by CHF 0.01 per minute would result in a reduction of our EBITDA of approximately CHF 4.3 million. A further reduction in mobile termination rates will likely result in further reduced revenue in the future, which could have a material adverse effect on our business, financial condition and results of operations.

Similarly, in Switzerland international and national roaming rates are not subject to specific regulation. As recently as 2013, there have been parliamentary motions to enact maximum tariffs in order to limit the charges. The Swiss Federal Council (*Bundesrat*) delivered a report to the Swiss Parliament in late November 2014 on trends in roaming prices. The Swiss Federal Council recommended not to regulate roaming tariffs, but to include specific instruments in a revision of the Swiss Federal Telecommunications Act (*Fernmeldegesetz*), such as local break out and some specific charging obligations. Although the Swiss Federal Council does not recommend to introduce a roaming tariff regulation, there is a risk of being subjected to regulated roaming tariffs if the Swiss Parliament decides to introduce roaming regulations. A committee of the Council of States (*Ständerat*) in January 2015 recommended to follow a parliamentary motion to enact maximum roaming tariffs. Regulated roaming tariffs will likely result in further reduced revenue in the future, which could have a material adverse effect on our business, financial condition and results of operations.

We depend on third-party telecommunications providers over which we have no direct control for the provision of certain of our services.

Our ability to provide high-quality telecommunications services depends on our ability to interconnect with the telecommunications networks and services of other telecommunications operators, particularly those of our competitors. For example, we depend heavily on Swisscom for our mobile, retail voice and landline internet and IPTV businesses (in terms of both access and the characteristics of our product offerings). As such, the prices which Swisscom charges us for wholesale services it provides have a direct impact on our profitability. Although the prices we pay to Swisscom are regulated for certain services, such as LLU, they are unregulated for others, including very-high-bitrate digital subscriber line ("**VDSL**"), a particular DSL implementation that provides for higher bitrates than most ADSL variants, and FTTx, that is, all forms of fiber-optic communication delivery. As a result of end-customers demanding higher bandwidth, we continuously need to migrate our customers from regulated LLU products to non-regulated Swisscom VDSL and FTTx products, because alternative offers by utilities are either not available at all (in rural areas) or not yet available at a universally standardized level that allows mass market penetration in line with our customers' requirements. Any price increase on services provided to us could negatively impact our financial position. We also rely on third-party operators for the provision of international roaming services for our mobile subscriptions. While we have interconnection and roaming agreements in place with other operators, we do not have direct control over the quality of their networks and the interconnections and roaming services they provide. Additionally, our competitors may decide to charge additional fees for our use of their networks, such as termination fees for SMS services. Even if we attempt to offset such fees by implementing similar fees ourselves, we may not be able to offset the added costs. Any difficulties or delays in interconnecting with other networks and services, or the failure of any operator to provide reliable interconnections or roaming services to us on a consistent basis, could result in our loss of customers or a decrease in traffic, which would reduce our revenues and adversely affect our business, financial condition and results of operations.

Our access to our competitor's landline infrastructure, particularly to Swisscom's copper local loop, is granted at agreed or regulated prices, as applicable. Should Swisscom successfully challenge its dominance in certain access markets, we might be faced with considerable price increases in areas where we are, and may continue to be, dependent on Swisscom's infrastructure. Further, being dependent on the infrastructure of any competitor, whether dominant or otherwise, also means facing the risk of non-compliance by such competitors with the terms of the agreements regulating that particular access. As a result, the potential failure of our access partners to comply with the current agreements could create interruptions or quality issues with our landline telecommunications services. Lastly, we also face the risk of agreements being canceled, not being extended or being extended at less favorable conditions, including our recent agreement for access to Swisscom's last mile at what we believe are cost-efficient and attractive terms, combined with our partnerships with Swisscom, SFN and local utilities for the most advanced next-generation fiber technologies, such as vectoring, FTTS, FTTB and FTTH. See "*Regulation*". Similarly, certain contracts that provide for renegotiation upon completion of an initial amortization period, in particular with respect to our backbone, may result in higher cost after such renegotiations have taken place.

The telecommunications industry is significantly affected by rapid technological change and we may not be able to effectively anticipate or react to these changes.

The telecommunications industry is characterized by rapidly changing technology and related changes in customer demand for new products and services at competitive prices. Recently, the market has witnessed the emergence of, or increased demand for, new technologies. Technological change and the emergence of alternative technologies for the provision of telecommunications services that are technologically superior, cheaper or otherwise more attractive than those that we provide may render our services less profitable, less viable or obsolete. For example, VoIP technologies and other communications services over broadband may render PSTN technology obsolete, FTTH-based solutions may render the current DSL technologies obsolete, and LTE-based solutions may compete with our 2G and 3G networks and/or our landline internet network.

Technological developments may also shorten product life cycles and facilitate convergence of various segments in the telecommunications industry, while at the same time requiring legacy technologies to be kept operational until customers have renewed their equipment accessing our systems. Our competitors or new market entrants may introduce new or technologically superior telecommunications services before we do. For example, Swisscom, due to its dominant position and financial capabilities, has the ability to create new market standards on a large scale in Switzerland by quickly introducing new advanced technologies, such as FTTx landline networks, DSL vectoring and LTE/4G mobile networks, which can transmit large data volumes at higher speeds. We may be required to deploy new technologies rapidly if, for example, customers begin demanding features of a new technology, such as increased bandwidth, or if one of our competitors decides to emphasize a newer technology in its marketing. At the time we select and advance one technology over another, it may not be possible to accurately predict which technology may prove to be the most economical, efficient or capable of attracting customers or stimulating usage, and we may develop or implement a technology that does not achieve widespread commercial success or that is not compatible with other newly developed technologies. Because we do not own fixed network infrastructure, we are not able to choose the preferred fixed network technology and are dependent on decisions by our partners, mainly Swisscom, SFN and local utilities. Their decisions do not always reflect our requirements in terms of functionality, speed and network architecture and may therefore result in additional costs or implementation delays for us.

In addition, we may not receive the necessary licenses to provide services based on these new technologies in Switzerland or may be negatively impacted by unfavorable regulation regarding the usage of these technologies. See "*Regulation*". In particular, our access to FTTH may not be enforced under the current Swiss Federal Telecommunications Act (*Fernmeldegesetz*). Therefore, we may only be granted access to FTTH infrastructure through direct negotiations with Swisscom, SFN or the Swiss municipalities and utilities that are developing such fiber networks. There is no guarantee that we will continue to successfully negotiate access to FTTH infrastructure. The strong fragmentation of the market and a lack of standardization have slowed down the integration of the FTTH infrastructure of the utility companies into our portfolio. If we are unable to effectively anticipate, react to or access technological changes in the telecommunications market or otherwise compete effectively, we could lose existing customers, fail to attract new customers or incur substantial costs and investments in order to maintain our subscription base, all of which could have a material adverse effect on our business, financial condition and results of operations.

Our licenses and permits to provide mobile services have finite terms, and any inability to maintain or renew these licenses or permits upon termination, any withdrawal of these licenses when a third party obtains control over us, any

inability to obtain new licenses and permits for new technologies or any excessive prices charged for renewing or obtaining licenses and permits could adversely affect our business.

We are licensed to provide mobile telecommunications services in Switzerland. Our current license to operate our UMTS (2.1 GHz) license expires in 2016. We acquired a new license expiring in 2028 for the operation of GSM/GPRS/EDGE, UMTS and LTE/4G networks pursuant to a spectrum auction in June 2012. The licenses that we have obtained are currently technically superior to the ones held by Orange as they require fewer antenna sites to achieve comparable coverage but this competitive advantage could decrease or become obsolete as a result of technological progress. There can be no assurance that the Swiss regulator will not withdraw our licenses if we cannot meet the license conditions. For example, we are required by the conditions of the new license to offer mobile services to at least 50% of the Swiss population until December 31, 2018. Otherwise, a revocation of this license without reimbursement of the license fees is possible. A withdrawal of the licenses without reimbursement of the license fee may also occur when a third party obtains control over us and ComCom or the Federal Office of Communications ("**OFCOM**") concludes that such third party does not comply with statutory provisions or does not have the necessary technical capacities or if the foreign country in which such third party is incorporated does not grant reciprocal rights. We may not be successful in obtaining new licenses for the provision of mobile services using new technologies that may be developed or deployed in the future and will likely face competition for any such licenses. In the event that we are unable to renew a license or obtain a new license for any technology that is important for the provision of our service offerings, we could be forced to discontinue use of that technology or we may be unable to use an important new technology, and our business could be materially adversely affected. After the expiration date of an existing license we would have to reapply for new licenses. Any application for the renewal of one or more of these licenses will likely involve participation in an auction process and could involve regulators fixing an excessive minimum price. As a result, we may not be able to renew licenses on equivalent or satisfactory terms or at all. Even if successful, the renewal of any of our licenses may become subject to substantial payments, particularly in the case of highly valuable frequency blocks, such as those used for our GSM, UMTS and LTE/4G networks, which may, in turn, subject us to significant financial strain. See "*Regulation*".

The total price for our license to use radio frequencies acquired on July 6, 2012 amounted to CHF 481.7 million (plus an administrative fee determined and charged on an annual basis). While a first tranche of 60% of the price has been paid on August 6, 2012 (CHF 289.0 million), the remaining 40% of the price must be paid in two installments of 20% each with 3% compounding interest for the period ended December 31, 2013 in June 2015 and December 2016, respectively. If we will not be able to pay the remaining tranches, ComCom may withdraw our license.

Our mobile network was supported by 3,510 base stations as of September 30, 2014. Given the multitude of regulations that govern such equipment and the various permits required to operate our base stations, we cannot be certain that our right to use a portion of our base stations will not be challenged. In particular, we have approximately 50 mobile site contracts that terminate between now and the end of 2015 and will thus need to be renewed, which may create challenges due to public concern about mobile radiation. While we think it is unlikely that the loss of any single permit or approval with respect to our mobile sites would have a material adverse effect on our network, the loss of the right to use a material number of base stations or any strategically located base stations that cannot be easily replaced, could have a disruptive effect on our mobile service offering to certain areas, which could have a material adverse effect on our business, financial condition and results of operations.

Currently, Swisscom is the only owner of a universal service license (*Grundversorgungskonzession*) in Switzerland and is therefore required to offer universal services throughout Switzerland to the entire population (even in remote regions). The universal service license was renewed in 2007 for a ten-year term starting in 2008. Swisscom might not apply for another universal service license in 2017. If no telecommunications service provider applies for a universal service license, ComCom could probably force us to do so. As a result, we could incur higher capital expenditures and operating costs for our network that could not be offset by increased revenue.

If we fail to maintain, further develop or improve our third-party and internal distribution and customer care channels, our ability to sustain and further grow our subscription base could be materially adversely affected.

We depend on third parties and our internal channels to market, sell and provide a significant portion of our products and services. Gross mobile subscription additions from third-party distributors contribute a significant portion of our total gross mobile subscription additions, many of which are generated under a limited number of key distributorship agreements. Certain of these agreements are structured to incentivize our third-party distributors based on the value of subscriptions sold, as well as the number of acquisitions and retentions, but this incentive structure might prove less effective than that of our competitors. Under our current agreements with our key distributors, our distributors may stop distributing or selling our products at any time upon short notice. Furthermore, third-party distributors and partners could become unable to perform their obligations due to insolvency, financial distress or as a result of a merger or change in ownership. Should any of these events occur, we may face difficulties finding new distributors that can provide the same level of revenue, particularly in the Swiss market where there is a limited number of viable distributors. In addition, these distributors have distribution agreements with our competitors, which may negatively affect the level of our gross activations through our distribution partners and threaten our market share, which in turn would have an adverse effect on our financial condition and results of operations. Our distributors may, to our detriment, also more actively promote the products and services of our competitors. Further, one of our distributors may vertically consolidate with one of our competitors, which could result in a material loss in revenue and market share for us and corresponding increases in revenue and market share for our competitors.

In addition, we intend to continue to develop our direct distribution channels, which may require significant capital expenditures. Significant numbers of our products and services (including customer care) are sold to customers through our call centers, both through out-bound telephone sales and in-bound calls. Most of our call centers are outsourced to third parties, and if these contracts were terminated, we would have to find replacement services elsewhere which may not be of the same quality. In migrating services to other partners or in-house facilities, we could face technical difficulties. Moreover, the costs associated with increasing the quality of our call centers and relocating capacity to Switzerland may be significant and we cannot guarantee that these expenses will result in increased sales. The volume of contacts handled by our customer care functions can vary considerably over time. The introduction of new product offerings can initially place significant pressure on customer care personnel. Increased pressure on such functions is generally associated with decreased customer satisfaction. We have in the past experienced low levels of customer satisfaction with service in our customer care function and negative publicity in social media. The costs associated with opening additional stores or relocating existing stores may be significant and we may not be able to recoup such costs or increase our revenues by expanding our distribution presence. We may not be able to renew lease contracts for existing stores at favorable terms and may need to incur additional costs under our existing lease contracts to the extent that the rent is based on revenues if our revenues increase and components of our revenues are changing. If we fail to maintain our key distribution relationships, or if our distribution partners fail to procure sufficient subscriptions for any reason, or if we otherwise fail to maintain or expand our direct and indirect distribution presence, our ability to retain or further grow our market share in the Swiss telecommunications markets could be adversely affected, which in turn could have a material adverse effect on our business, financial condition and results of operations.

The legal relationships between us and our customers are generally based on standard contracts and forms; any errors in the documentation could therefore affect a large number of customer relationships.

We maintain contractual relationships with a multitude of customers. The administration of these relationships requires the use of general terms and conditions as well as various standard contracts and forms with a number of individual customers. As a result, ambiguities or errors in the formulation or application thereof present a significant risk due to the large number of such documents executed. In light of circumstances that are constantly changing due to new laws and judicial decisions, it is possible that not all of our general terms and conditions, standard contracts and forms will comply at all times with applicable legislation in Switzerland. Should problems of application or errors occur, or should individual provisions or entire contracts or agreements become or be held invalid, then, because of our use of standardized contracts and forms, this could affect numerous customer relationships and lead to significant adverse consequences. Any such problems could have a material adverse effect on our reputation, business, results of operations and financial condition.

Our brands are subject to reputational risks and impairment.

We have developed our *Sunrise* and *yallo* brands and the other brands used under licenses as part of our multi-branding strategy, such as *MTV mobile*, *Ortel*, *Lebara* and *Aldi*, through extensive marketing campaigns, website promotions, customer referrals, and the use of a dedicated sales force and dealer networks. Our own brands and licensed brands represent material and valuable assets. We cannot guarantee that our brands will not be damaged by circumstances that are outside our control or by third parties, such as hackers, sponsorees, or interfaces with their clients, such as subcontractors' employees or sales forces, with a resulting negative impact on our activities. It is possible that the use of testimonials in the advertising and promotion of our brands, such as the endorsement of our *Sunrise* brand under the recent long-term partnership with Swiss tennis player Roger Federer, could have a negative impact on customer retention and acquisition if the reputation of the testimonial provider is hurt. Furthermore, some of our brands are trademarks that we license from third parties, such as *MTV mobile*, *Ortel* and *Lebara*. Because we do not control the trademarks licensed to us, our licensors could make changes to their brands or business models, or such brands could suffer damages on an international level, that could result in a downturn in our business and adversely affect our sales and results of operations. A failure on our part to protect our image, reputation and the brands under which we market our products and services may have a material adverse effect on our business and results of operations.

We depend on our reseller and multi-brand strategy to access a broader and more diverse base of subscriptions.

We have put significant effort into expanding our reach to customers through multi-branding, including our own *Sunrise* and *yallo* brands, brands for which we hold licenses, such as *MTV mobile*, *Ortel* and *Lebara*, and agreements with branded resellers, such as *Aldi*, all of which have contributed to the increase of our subscription base over the last few years. Both licensed and reseller brands enable us to target specific segments of the market, such as particular age ranges, and to reach out to a more diverse base of subscriptions. Our license and reseller partners, however, may terminate their relationships with us or discontinue their services on relatively short notice, and we may, in the future, be unable to renew our existing arrangements with them on commercially favorable terms. Some of our reseller agreements may contain provisions that are unenforceable under Swiss law, such as exclusivity clauses or non-compete clauses. Our inability to maintain or renew our existing partnerships with resellers could damage our reputation, prevent us from further growing and diversifying our subscription base, result in a loss of customers and have a material adverse effect on our business, financial condition and results of operations.

Our reliance on major business customers leaves us vulnerable to various financial risks.

Unlike individual customers, some of our larger business customers individually provide material revenue streams. As such, the loss of any one of these customers could lead to a material decline in revenue. Furthermore, due to this customer concentration, the credit risk associated with larger business customers is of particular significance to us. If one or several of these customers fails to fulfill its payment obligations or reduces its or their business with us, there may be a material adverse effect on our business, financial condition or results of operations. Additionally, we are at times required to commit significant capital to create customized infrastructures for some of our larger business customers. Due to these significant investments, any miscalculations regarding customization or the economics of large projects may lead to material financial losses. Further, our contracts with business customers may hold us financially liable for service outages or delays in delivering products and services. Our customer contracts may also contain provisions that are unenforceable under Swiss law or prevent us from using third parties as subcontractors. As a result, we may not be able to subcontract services required for the provision of major business services. Each of these risks could have a material adverse effect on our business, financial condition and results of operations.

Equipment and network systems failures could result in reduced user traffic and revenue, affect our billing and other administrative functions, and require unanticipated capital expenditures or harm our reputation.

Our entire technological infrastructure is vulnerable to damage and disruptions from numerous events, including fire, flood, windstorms and other natural disasters, power outages, terrorist acts, equipment and system failures, human errors and intentional wrongdoings, including breaches of our network and information technology security and in need for upgrades throughout the lifecycle for which we could incur higher costs than planned. Unanticipated problems at our facilities, network or system failures, hardware or software failures or computer viruses, or the occurrence of such unanticipated problems at the facilities, network or systems of third-party owned local and long distance networks on which we rely for the provision of interconnection and roaming services, could result in reduced user traffic and revenue as a result of customer dissatisfaction with poor performance, reliability and security, result in regulatory penalties or penal sanctions or require unanticipated capital expenditures. The occurrence of network or system failure could also harm our reputation or impair our ability to retain current customers or attract new customers, which could have a material adverse effect on our business, financial condition and results of operations. In addition, our business is critically dependent on certain sophisticated systems, including exchanges, switches and other key network elements and our billing and customer service systems. Our customers may also become dissatisfied by any disruptions or failures that affect our billing and other administrative functions. The hardware supporting those systems is housed in a relatively small number of locations and if damage were to occur or a lease agreement for any of those locations were to be terminated and we could not relocate our hardware quickly enough to other premises, or if those systems develop other problems, it could have a material adverse effect on our business, financial condition and results of operations. Our insurance policies may not cover all of these scenarios. Any of these risks not covered under one of our insurance policies could have a material adverse effect on our business, financial condition and results of operations.

Increasing data security requirements by financial institutions, certain other corporate customers and governmental entities may adversely affect our business and profitability.

We are a provider of mobile and landline services to a number of public and private financial institutions, government entities and corporate customers with data security requirements. These customers may continue to increase their data security requirements, and we may be required to undertake additional investments in order to adhere to these enhanced data security requirements, as well as evolving statutory and regulatory requirements, including obtaining and maintaining certain ISO certifications, improving access rights management systems and developing a corporate data encryption infrastructure. These customers may terminate their contracts with us if we do not adhere to these security standards. Such terminations may have a material adverse effect on our business, financial condition and results of operations.

We are exposed to the risk of fraudulent or otherwise improper behavior by customers, distribution partners, suppliers, employees and others, which our risk management and internal controls may not prevent or detect.

We are exposed to the risk that customers, distribution partners, suppliers, employees and others with whom we deal may act fraudulently. For example, we experience that some of our customers falsify their names or use fake or stolen documents of identification to by-pass our credit checks, use stolen credit cards for payments or obtain unlawful access to our or other customers' system or otherwise place large number of fraudulent calls, *e.g.*, to national or international premium rate service numbers (so-called "international revenue share fraud"). In addition, some of our distribution partners by-pass our rules and processes to obtain unjustified commissions for justified, or in some cases, fraudulent sales to our customers. While we seek to manage these risks and take steps to detect any such fraud, we may not detect all such fraudulent activity, and, even where we do, may not be able to prevent or recover losses incurred. Significant or regular fraudulent or improper activities may have an adverse effect on our business, results of operations, financial condition and reputation. Furthermore, our compliance processes and internal controls may not prove sufficient to effectively prevent or detect inadequate practices, fraud and violations of law or our policies by our subsidiaries, intermediaries, employees, outsourced staff, directors and officers. We may be exposed to the risk that such persons receive or grant inappropriate benefits or generally use corrupt, fraudulent or other unfair business practices. For example, employees could grant unjustified discounts to certain customers that are inconsistent with our rate plans. Since our employees have access to our infrastructure, it is possible that they steal money, devices and other objects of value. In addition, our employees could use our information, confidential customer information or other confidential information provided by third parties to us for personal or other improper purposes, as well as misrepresent or conceal improper activities from us. Such practices could result in legal sanctions, penalties and loss of business as well as harm to our reputation. Our employees may also commit errors or take actions that could subject us to financial claims for negligence or otherwise as well as regulatory actions. Such errors or actions could result in unforeseen business risk, losses, and regulatory and other sanctions, could damage our reputation and expose us to litigation, including financial losses resulting from the need to reimburse customers or business partners or as a result of fines or other regulatory sanctions.

A significant disruption in our supply of equipment and services from key vendors may adversely affect our business and profitability.

We have important relationships with certain suppliers of services and equipment that are critical to conducting our business. In particular, we are party to an outsourcing agreement (the "**Master Service Agreement**") with Huawei as the exclusive supplier of equipment and installation, operation and maintenance services for our networks. Services under the Master Service Agreement commenced in September 2012 with an initial term of five years, but can be renewed by us for two additional two-year periods. The Master Service Agreement also contains limitations on the liability of Huawei that may limit our ability to recover damages from Huawei should it fail to adequately perform the services under the Master Service Agreement. Huawei's aggregate liability under the Master Service Agreement is limited in each consecutive twelve-month period to 100% of the invoices paid or payable in that period. See "*Business—Certain Contracts Relating to the Operation of Our Business*". Although we believe Huawei has extensive experience in the installation, operation and maintenance of network infrastructure, it does not have such experience or a significant presence in Europe and our network may be less attractive to customers due to concerns about their reputation. Any failure of Huawei to provide adequate installation, operation and maintenance services for our networks, or to perform such services to the satisfaction of our customers and in a secure way, could impact our ability to attract customers or provide attractive product offerings. Our reliance on Huawei as the sole provider of certain key network components creates additional risks.

In addition, we have relationships with a number of key vendors for mobile and landline network equipment and software and the provision of certain call center services. In particular, we source from handset and tablet providers, such as Apple, Samsung, HTC, Huawei, Nokia, LG and Sony. Our ability to grow our subscription base depends in part on our ability to source adequate supplies of network equipment, mobile handsets, tablets, set-top boxes and software in a timely manner and in sufficient quantities at an economical price from these suppliers. Suppliers of handsets and tablets are at times subject to supply constraints, particularly when there is high demand for a particular handset, such as the iPhone or iPad, or during the winter holiday season, during which there may be a shortage of components. Supply can be particularly difficult, for example, with the launch of a new Apple product when demand is so high that customers are willing to switch to a competitor in order to receive the product. We rely on companies such as Huawei, Cisco and Alcatel-Lucent for the purchase of the majority of our network equipment and software. Suppliers of network equipment have limited resources which may impact the speed of our network expansion. Further, we rely on single suppliers for each of the development and provision of our IPTV platform, the supply of our VoD content and the provision of set-top boxes. We may also lose certifications by certain key suppliers that allow us to act as distributors for the resale of network equipment and software to our business customers.

We do not have direct operational or financial control over our key suppliers and have limited influence with respect to the manner in which these key suppliers conduct their business. In addition, if one of our suppliers was acquired by a company with interests adverse to ours, we might not be able to continue our relationship with that supplier on favorable terms or at all. Our reliance on these suppliers may expose us to risks related to service interruptions, delays in the delivery of their services, significant costs or the inability to deliver products that our customers desire. Certain suppliers have entered into exclusive supply agreements with some of our competitors and may do so again in the future. Also, we have, from time to time, experienced extensions of lead times or limited supplies due to capacity constraints and other supply-related factors, such as with the iPhone. We may also not be able to recover amounts paid to such suppliers or obtain contractual damages to which we are entitled (if any) in such an event. Certain of our agreements with suppliers, handset and tablet providers and sourcing partners may be short-term and therefore subject to renewal, can be terminated upon reasonably short notice or are subject to termination for good cause under Swiss legal principles governing indefinite and long-term contracts (*e.g.*, if continuation of the agreement is, in good faith, unacceptable to the terminating party for any reason).

We cannot assure you that our suppliers will continue to provide services or equipment to us at attractive prices or that we will be able to obtain such equipment and services in the future from these or other providers on the scale and within the time frames we require, if at all. Some of our supply agreements provide for certain minimum quantities to be taken off and we may be liable for damages if our orders during a given period fall short of such minimum quantities. Furthermore, some of our supply agreements contain provisions that require us to order certain products and services exclusively from one supplier. If our key suppliers are unable to provide us with adequate services, equipment and supplies, cannot provide them in a timely manner, or withhold services or supplies to enforce disputed financial claims or for any other reasons, our ability to retain or attract customers or offer attractive product offerings could be negatively affected, which in turn could materially adversely affect our reputation, business, financial condition and results of operations.

If we are unable to identify, complete and successfully integrate acquisitions, our ability to grow our business may be limited and our business, financial condition and results of operations may be adversely impacted.

We have made, and may continue to make, strategic acquisitions that expose us to significant risks and uncertainties. These risks and uncertainties include:

- an inability to find suitable businesses to acquire at affordable valuations or on other acceptable terms;
- competition for acquisition targets, which may lead to substantial increases in purchase prices or terms that are not attractive to the buyer;
- continued dependence on external sources of capital;
- that proposed acquisitions may be prohibited by certain antitrust or other regulatory laws or may require divestitures;
- diversion of management's attention from existing operations to the acquisition process and integration of acquired companies;
- an inability to realize expected cost savings and synergies;
- expenses, delays and difficulties in integrating acquired businesses into our existing business structure; and
- difficulties in retaining key customers and management personnel.

We may not be able to identify, complete and successfully integrate acquisitions in the future, and our failure to do so may limit our ability to grow our business. If we are unable to continue to acquire and efficiently integrate suitable acquisition targets, our ability to maintain or increase our revenues may be adversely impacted. Any acquisitions we do complete may be financed with debt, which will increase our leverage and the risks related thereto.

We may not be able to attract and retain key personnel.

Our success and our growth strategy depend in large part on our ability to attract and retain key management, marketing, finance and operating personnel. There can be no assurance that we will continue to attract and retain the qualified personnel needed for our business. Competition for qualified senior managers in our industry is intense and there is limited availability of persons with the requisite knowledge of the telecommunications industry and relevant experience in Switzerland. Immigration laws may further restrict our ability to attract or hire qualified personnel, see "—*Our business may be exposed to risks associated with the implementation of the Swiss federal popular initiative "Against Mass Immigration*"". Moreover, integration of new management would require additional time and resources, which could adversely affect our ability to successfully implement our strategy. Our failure to recruit and retain key personnel or qualified employees could have a material adverse effect on our business, financial condition and results of operations.

Many of our supplier, customer and partner relationships are based on personal relationships with our executives or sales representatives. If these employees terminate their employment with us, we may be forced to spend substantial resources to attempt to retain the supplier, customer or partner. Ultimately, if we were unsuccessful in retaining them, our revenues would decline.

Our business may be exposed to risks associated with the implementation of the Swiss federal popular initiative "Against Mass Immigration".

On February 9, 2014, 50.3% of the Swiss voters approved the popular initiative "Against Mass Immigration" (the "**Immigration Initiative**"). The Immigration Initiative essentially seeks to limit immigration to Switzerland by implementing annual quotas on both residency permits and work permits for cross-border commuters. The Swiss Federal Council (*Bundesrat*) has three years to implement the initiative with the current bilateral agreements remaining in force during the interim period. In October 2014, the Swiss Federal Council (*Bundesrat*) approved a mandate for negotiations on this matter with the European Union, which, however, will need to agree to initiate such negotiations.

It is unclear how the Immigration Initiative will be implemented and what the exact terms of the implementing legislation will be. However, there is a substantial risk that the bilateral agreements between Switzerland and the European Union may be impacted. In particular, the "free movement of people" is part of the package of bilateral treaties between Switzerland and the European Union which contain a "guillotine clause", which means that if any of the agreements are terminated or not renewed, all of them will cease to apply. Thus, there is a substantial risk that all of the bilateral agreements with the European Union will need to be renegotiated. In statements following the results of the Immigration Initiative, the European Commission indicated that it would have to examine the implications on the relationship between the European Union and Switzerland.

To the extent that there are restrictions placed on the free movement of people as a result of the Immigration Initiative in Switzerland, our ability to hire and retain qualified personnel and talent that we require for our management and skilled workforce could be adversely impacted. The Immigration Initiative and its implementation could also have an adverse impact on the demographic dynamics or the general economic development in Switzerland, which could adversely affect our business.

Furthermore, any limitations or restrictions on trade relations between Switzerland and the European Union could potentially impair some of our customers' access to the single European market as a result of which they may seek to relocate outside Switzerland in pursuit of more lucrative business conditions. In addition, such limitations or restrictions may adversely affect the Swiss economy as a whole. Should any of these risks materialize, this could materially adversely affect our business, financial condition and results of operations.

The Swiss federal popular initiative "Pro Service public", if approved by Swiss voters, may oblige Swisscom to focus on public service and limit its ability to generate profits which could lead to lower prices and have an adverse effect on our business.

The Swiss federal popular initiative "Pro Service public" seeks to introduce new principles for the provision of universal services (*Grundversorgung*) by the Swiss Federation (*Bund*). According to the initiative, the Swiss Federation (*Bund*) shall be prohibited from generating profits and pursuing fiscal interests and would have to refrain from cross-subsidization in the area of universal services (*Grundversorgung*). These principles would not only apply to the Swiss Federation (*Bund*) itself, but also to entities controlled by it or entities providing such services on a statutory basis, such as Swisscom, Swiss Post and SBB. Further, the initiative seeks to cap the salaries of employees of such entities at the salary level of the Federal Administration (*Bundesverwaltung*). The Swiss Federal Council (*Bundesrat*) has recommended rejecting the initiative, deliberations in the Swiss Parliament are ongoing and the further timeline is currently uncertain. If Swiss voters approved the popular initiative "Pro Service public" or any similar proposal was enacted, Swisscom's future ability to generate profits would be limited which could result in price reductions and/or improved service offerings without corresponding price increases. As a result, pricing pressure in mobile and landline services could increase. In order to remain competitive, we could be forced to reduce prices and/or improve our service offerings, which could have an adverse effect on our competitive position, business, results of operations and financial condition.

Continuing uncertainties and challenging conditions in the European and global economy may adversely impact our business, financial condition and results of operations.

Continuing or renewed instability in global markets, including turmoil in Europe related to sovereign debt and the stability of the euro, has recently contributed to a global economic downturn and future developments may continue to be dependent upon a number of political and economic factors, including the effectiveness of measures by the European Central Bank and the European Commission to address debt burdens of certain countries in Europe and the continued stability of the Eurozone. Concerns persist regarding the debt burden of certain Eurozone countries, in particular Greece, and their ability to meet future financial obligations, the overall stability of the euro and the suitability of the euro as a single currency given the diverse economic and political circumstances in individual member states of the Eurozone. These and other concerns could lead to the re-introduction of individual currencies in one or more member states of the Eurozone, or, in particularly dire circumstances, the possible dissolution of the euro entirely. Should the euro dissolve entirely, the legal and contractual consequences for holders of euro-denominated obligations and for parties subject to other contractual provisions referencing the euro would be determined by laws in effect at such time. These potential developments, or market perceptions concerning these and related issues, could have adverse consequences for us with respect to our outstanding debt obligations that are euro-denominated and, as we have a substantial amount of debt denominated in euro, our financial condition may be materially affected. As a result, we cannot predict how long these challenging conditions will exist or the extent to which the markets in which we operate may further deteriorate. The political unrest surrounding the crisis in the Ukraine, specifically, existing or expanded economic sanctions imposed on Russia, and potential Russian response to those sanctions, could also have a negative impact on the European economy. These unfavorable economic conditions may impact a significant number of subscriptions and, as a result, it may, among others, be more difficult for us to attract new customers, retain existing customers and maintain ARPUs at existing levels, and thus adversely affect our results of operations.

We operate exclusively in the Swiss market and as a result our growth prospects depend on economic developments in Switzerland.

We operate exclusively in the Swiss market. Demand for our products and services in Switzerland is influenced by a number of factors, including the strength of the Swiss economy. Negative developments in, or the general weakness of, the Swiss economy may have a direct negative impact on the spending patterns of our customers and the willingness of business customers to make investments, which could adversely affect our revenues and profitability. For example, events impacting travel to or from Switzerland such as changes in the Swiss economy, changes in the relative value of the Swiss franc, in particular as a result of the significant recent appreciation of the Swiss franc against the euro, or general travel disruptions could negatively impact our revenue from roaming fees. Likewise, there has been a trend by Swiss consumers to disconnect landline retail voice lines, as consumers rely primarily on mobile telecommunications and view landlines as an expendable discretionary expense, although this trend has in the past not been as prominent in Switzerland as it has been in other European countries. Consumers may also spend less on an incremental basis, such as by placing fewer calls. In addition, recessionary conditions may weigh on the growth prospects in the Swiss telecommunications market in terms of the penetration of new value-added services and traffic, ARPU levels and number of subscriptions and, in particular, the volume of business customers.

Recently, the Swiss National Bank (*Schweizerische Nationalbank*) ceased its policy of capping the Swiss franc's value at CHF 1.20 per euro. The decision caused the value of the Swiss franc to appreciate considerably within a short period of time. Following the Swiss National Bank's decision, expectations for GDP growth in Switzerland have been negatively adjusted. An increase in unemployment rates may result in an increase of defaults among our customers. Therefore, if the Swiss economy weakens as a result of the rapid appreciation of the Swiss franc or otherwise, or stricter Swiss immigration laws result in negative demographic developments or have an adverse economic impact, our growth targets may be jeopardized and our business, financial condition and results of operations may be materially adversely affected.

We are subject to extensive regulation and have been, and may in the future be, adversely affected by regulatory measures applicable to us.

Our activities as a mobile and landline operator in Switzerland are subject to regulation and supervision by various Swiss national authorities, in particular ComCom and OFCOM. In addition to ComCom and OFCOM, the Competition Commission ("**ComCo**") and the price supervisor are also involved in regulatory issues relating to the telecommunications sector. While Switzerland is not a member of the European Union or the European Economic Area and is therefore not subject to the EU telecommunications legislation, liberalization of the Swiss telecommunications market has moved largely in parallel with the deregulation in the European Union.

In Switzerland, only a limited number of telecommunications operators invest in infrastructure, which may lead the regulator to declare that those operators, including us, have a collectively dominant position in certain infrastructure or downstream service provision markets. Regulators could conclude that we have acted in collusion due to our agreement on mobile termination rates with the other two significant players in the market, Swisscom and Orange. Regulators have already declared that an operator with its own infrastructure, such as us, can be deemed solely dominant in a narrowly defined field, such as origination or termination of calls on its own network. Should we be held as being (solely or collectively) dominant, we may face *de facto* price regulation and, in addition, the risk of being fined up to 10% of our revenue for the preceding three years in case of proven excessive or predatory pricing. Other regulatory restrictions on the conduct of our business, such as the prohibition to bundle certain services, may be relevant in such case as well. In addition, the present regulatory regime on LLU is technology-dependent and grants mandatory access at Long-Run Incremental Cost ("**LRIC**") conditions only to the incumbent's copper pairs. The roll-out of modern technologies, particularly FTTH, may force us to either buy access at conditions less favorable than LRIC or, in some cases, to invest (either independently or in cooperation with other operators or infrastructure providers) in such modern technologies without being capable of entirely or timely amortizing such investments. Further, our mobile services rely on licenses to use certain radio frequencies. If the license fees are not paid, our spectrum license will be reduced or lost. These spectrum licenses were renewed in 2012 and are limited in time. The spectrum licenses are subject to renewal in 2028. While we are confident in our ability to obtain renewals upon request, we may not reliably predict the financial and other conditions at which such renewals will be granted.

There are currently no regulations in place for international roaming tariffs that materially affect our business; however, this could change and the laws could be revised, for example through bilateral agreements with the European Union in order to harmonize international roaming tariffs. Several political initiatives have been introduced in the Swiss Parliament to reduce international roaming tariffs. Such changes could reduce revenue both from our own customers roaming on other networks and from other networks' customers roaming on our network. In September 2011, the Swiss National Council (*Nationalrat*) voted in favor of a motion brought by a member of Swiss Parliament to define maximum limits on international roaming prices. The Swiss Federal Council (*Bundesrat*) prepared a report on developments on roaming prices and potential regulatory measures which was published in late November 2014 and recommends not to regulate roaming tariffs. As a result of political debates, political pressure and the pressure from regulatory authorities, all Swiss operators have reduced their roaming prices. However, in January 2015, a committee of the Council of States (*Ständerat*) recommended to follow a parliamentary motion to enact maximum roaming tariffs. Nevertheless, roaming prices in Switzerland continue to be significantly higher than in the European Union; therefore we cannot exclude the possibility that in the future the Swiss legislator will enact rules limiting international roaming prices.

Subject to bi- or multilateral conventions, ComCom may prohibit the offering of telecommunication services by a foreign provider if the foreign provider's country of origin does not grant the same operational freedom to Swiss incorporated providers offering services in that particular country of origin. Likewise, the transfer of telecommunication licenses to a foreign provider is subject to the consent of ComCom which might be withheld if no reciprocal rights are granted.

As a relatively recent entrant to the IPTV market, we are still in the process of developing our technology and our compliance procedures and practices and cannot guarantee that we are fully compliant with all IPTV legal and regulatory requirements, such as those relating to subtitling, hybrid broadcast broadband TV and "must carry" regulations. Any inability to bring our IPTV offering into full compliance could materially adversely affect our business, financial condition and results of operations.

Changes in laws, regulations or governmental policy or the interpretation or application of those laws or regulations affecting our activities and those of our competitors could greatly influence our viability and how we operate our business and introduce new products and services. Further liberalization of the access regime, for example, may subject our own landline and mobile infrastructure to certain duties to grant access at regulated conditions and impact our margins. More generally, our ability to compete effectively in our markets could be adversely affected if regulators decide to further expand the restrictions and obligations, resulting in additional costs, to which we are subject, or extend such restrictions and obligations to new services and markets, or otherwise adopt regulations, including in respect of interconnection, access or other tariffs charged by Swisscom relating to services provided by Swisscom to us or to its customers. A copyright tariff with levies on the import and sale of handsets has been introduced by collection societies in 2010 and a global settlement for the period from 2010 through 2016 is pending approval. The Swiss Federal Council (*Bundesrat*) has commissioned a proposal for an amendment to the Swiss Copyright Act requiring us as internet access provider to block websites and send warning notices to our customers to prevent copyright infringements by our customers. Future legislation may introduce levies on internet access subscriptions in order to compensate rightsholders for copying and transmitting of protected works. A planned revision of the Swiss Gambling Act (*Spielbankengesetz*) foresees that internet access providers must block access to foreign web sites with gambling offerings. Consumer protection agencies may make use of their ability to initiate lawsuits to enforce claims under the Swiss Unfair Competition Act (*Gesetz gegen den unlauteren Wettbewerb*) and may engage in public campaigns aimed at changing our business practices which could have an adverse effect on our ability to offer and sell our products and services.

The revision of the Swiss Federal Act on the Surveillance of Postal and Telecommunications Traffic ("**BUPF**") is currently the subject of parliamentary deliberation and may subsequently lead to a revision of the respective and Ordinance ("**VUPF**") by the Swiss Federal Council (*Bundesrat*). The draft amendment proposes mainly an extension of the surveillance obligations. We face the risk of extended surveillance obligations which could result in higher capital expenditures and increased operational costs and lower compensation for the individual surveillance operations. Any such changes in laws, regulations, governmental policy, interpretation or application thereof or any such decisions by regulators or decisions regarding the granting, amendment or renewal of licenses, to us or to third parties, could materially adversely affect our business, financial condition and results of operations. See "*Regulation*".

According to a decision of the Swiss Federal Council on January 29, 2014, for reasons of national security, companies with a majority of foreign shareholders are not permitted to provide particularly critical information and communication infrastructure services for the federal government, which results in our inability to compete in tenders for such services and could materially adversely affect our business, financial condition and results of operations.

We face legal and regulatory dispute risks that could have a material adverse effect on our business, financial condition and results of operations.

We are subject to numerous risks relating to legal, employment, civil, tax, regulatory and competition proceedings to which we are a party or in which we are otherwise involved or which could develop in the future, and certain of these proceedings or proceedings in which we may become involved, if adversely resolved, could have a material adverse effect on our business, financial condition and results of operations. For example, we may be subject to employment disputes, such as those relating to working hours and conditions. Furthermore, our involvement in legal, regulatory and competition proceedings may harm our reputation. We cannot assure you what the ultimate outcome of any particular legal proceeding will be. For a description of our existing material legal, regulatory and competition proceedings, see "*Business—Legal Proceedings*".

Currently, several access proceedings that separately involve interconnection, LLU and the prices for interconnection and LLU, collocation, access to ducts and access rebilling for 2012 to 2014 are pending before ComCom or the Federal Administrative Tribunal (*Bundesverwaltungsgericht*). There is the risk that the decisions in these cases will not be made in our favor which could have a material adverse effect on our business, financial condition or operational results.

We may be subject to financial risks related to Swiss and foreign tax compliance.

We have and continue to develop our business by implementing new products and internal process changes. As we operationalize these changes, we cannot guarantee the ultimate outcome of any particular direct or indirect tax audit. Legislative changes in particular can have implications on our process streams and controls. In addition, as some of our network equipment is located outside of Switzerland, including the United States, we may be subject to an extended taxation, due to the fact that such equipment could be linked to the definition of a "Permanent Establishment" ("**PE**") according to OECD guidelines. We continue to assess and manage any tax issues in relation to possible PE topics.

Our business may be adversely affected by actual or perceived health risks and other environmental requirements relating to mobile telecommunications transmission equipment and devices, including the location of antennas.

Various reports have alleged that there may be health risks associated with the effects of electromagnetic signals from antenna sites, mobile handsets and other mobile and wireless telecommunications devices. We cannot assure you that further medical research and studies will not establish a link between electromagnetic signals or radio frequency emissions and these health concerns. The actual or perceived risk of mobile and wireless telecommunications devices, press reports about risks or consumer litigation relating to such risks could adversely affect the size or growth rate of our subscription base and result in decreased mobile usage or increased litigation costs. We are currently party to certain pending proceedings in which plaintiffs are seeking prohibitions of antenna construction and compensation for damages caused by planned antenna construction based, *inter alia*, on alleged exposure to electromagnetic radiation from our technology. In addition, these health concerns may cause the Swiss authorities to impose stricter regulations on the construction of base stations or other telecommunications network infrastructure. In particular, public concern over actual or perceived health effects related to electromagnetic radiation may result in increased costs related to our networks, which may hinder the completion or increase the cost of network deployment, reduce the coverage of our network and hinder the commercial availability of new services.

We are also subject to a variety of laws and regulations relating to land use and the protection of the environment, including those governing the storage, management and disposal of hazardous materials and the clean-up of contaminated sites. We could incur substantial costs, including clean-up costs, fines, sanctions and third-party claims for property damage or personal injury, as a result of violations of, or liabilities under, such laws and regulations. In some of our antenna sites, we maintain batteries or diesel generators that may cause spills resulting in contamination of the soil. If actual or perceived health risks were to result in decreased mobile usage, increased consumer litigation or stricter regulation, our business, financial condition and results of operations could be materially and adversely affected.

The loss of important intellectual property rights, including our key trademarks and domain names, could adversely affect our competitiveness.

Some of our intellectual property rights, including our key trademarks and domain names which are well known in the telecommunications markets in which we operate, are important to our business. A significant part of our revenue is derived from products and services marketed under our *Sunrise* brand name. We rely upon a combination of trademark and copyright laws, database protections and contractual arrangements, where appropriate, to establish and protect our intellectual property rights. We have registered the trademark *Sunrise* in Switzerland, Liechtenstein and Germany. Additionally, we are required from time to time to bring claims against third parties in order to protect our property rights, and we may not succeed in protecting such rights.

In addition to the risk that a third party will infringe on our intellectual property rights, we face the risk that a third party may claim that we are infringing on such third party's intellectual property rights. As a result, we may not be able to use intellectual property that is material to the operation of our business and may need to indemnify the rights holders. Following a trademark settlement agreement with the California-based company Sunrise Telecom Inc., we cannot use the trademark *Sunrise* to brand products and services in connection with testing equipment of electronic telecommunications and data communications. Alternatively, a third party may allege one of our suppliers is infringing on such third party's intellectual property rights and may bring suit to prevent such supplier from providing us with products or services important to our business.

In addition, certain of our material intellectual property rights are currently pledged to secure our obligations under the Existing Revolving Credit Facility Agreement and the Existing Senior Secured Notes and will also be initially pledged to secure our obligations under the Post IPO Credit Facilities Agreement. If these security interests are enforced for any reason, we may lose the right to market our products and services under our brand names.

We may also not comply with our reporting obligations to software suppliers at times, which could result in claims by these providers or problems with acquiring additional software licenses.

We cannot be sure that any lawsuits or other actions brought by us to protect our intellectual property rights will be successful or that our suppliers will not be found to infringe the intellectual property rights of third parties. Any lawsuits, regardless of their outcome, could result in substantial costs and diversion of resources and could have a material adverse effect on our business, financial condition and results of operations. The illegal use by third parties or the loss of our important intellectual property rights, such as our trademarks and domain names, could have a material adverse effect upon our business, financial condition and results of operations. If we are prevented from using certain products and services or if we are forced to pay significant damages or higher prices for important products or services due to a third party's successful intellectual property claim, we may not be able to recover costs incurred as a result of infringement claims which may have a material adverse effect on our business.

We may need to allocate additional managerial and operational resources to meet our needs as our business grows and becomes more complex.

As a result of technological advancements and the offering of innovative services and products, the operating complexity of our business, as well as the responsibilities of management, has increased over time, which may place significant strain on our managerial and operational resources. Specifically, changes in accounting principles and financial reporting requirements could require us to increase our expenses for implementation and maintenance. The IFRS reporting requirements are complex, continually evolving and may be subject to varied interpretation by the relevant authoritative bodies. Changes to IFRS and financial reporting requirements, or in the interpretation of IFRS or those requirements, as well as certain key performance indicators and other metrics to be reported to shareholders could result in material changes to our reported results and financial condition. We will have to maintain close coordination among our logistical, technical, accounting, finance, marketing and sales personnel. Management of growth will also require, among other things, continued development of financial and management controls and information technology systems. The constant growth may strain our managerial resources which may require us to hire additional personnel. We may incur additional cost to hire managers with the relevant expertise and the hiring process may require significant time and resources, all of which could have an adverse impact on our management, growth, operational and financial systems, managerial controls and procedures and results of operations.

Our pension liability may reduce our cash flows, profitability, financial condition, net assets, distributable reserves and our ability to pay dividends.

We provide retirement benefits to our employees as required by Swiss law by means of a pension fund that is a separate legal entity. The pension fund operates a basic pension plan for all of our employees, and a supplemental plan for employees having an insured annual salary in excess of CHF 150,000. Both plans qualify as defined benefit plans under IAS 19. As of December 31, 2013, we reported an employee benefit obligation of CHF 57.4 million in accordance with IAS 19 revised. This liability could increase depending, among other things, on changes in the valuation of publicly traded equities and interest rates. Currently, the pension plan is fully funded according to the actuarial valuation prepared in accordance with Swiss GAAP. Should the Swiss actuarial valuation at any time disclose a significant underfunding, TopCo could be obliged to make additional contributions into the pension plan in addition to the regular contributions defined in the pension plan regulations, typically if the funding level drops below 90% as calculated in accordance with Swiss GAAP. We maintain flexibility to adjust benefit levels under the plans that would reduce any remaining cash liability. Any such contributions may adversely affect our ability to distribute dividends or service our debt. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates—New Accounting Standards*".

Portions of our landline network and antenna sites are not owned by us and/or reside on customer premises.

Our landline business model is based to a large degree on the availability of a fiber-optic regional and local telecommunications network for the provision of our services. Approximately 15% of this network is held in operating leases, which typically have a duration of one to three years. Furthermore, portions of our antenna sites that are crucial for a comprehensive mobile network coverage are leased. There can be no guarantee that these lease agreements will be extended or renegotiated at reasonable terms upon expiration of their respective terms, or that they will be extended at all. If we are unable to use our leased networks after the relevant agreements expire, or are unable to use them at reasonable terms and do not succeed in finding comparable replacements, there may be a material adverse effect on our business, financial condition and results of operations. Additionally, some of the equipment used in our network is installed on customer premises. Disputes with these customers or legal proceedings involving their property may subject this equipment to encumbrances or cause it to be inaccessible, which could adversely affect our ability to operate our network.

We collect and process customer data as part of our daily business and the leakage of such data may violate laws and regulations which could result in fines, loss of reputation and customer churn.

We collect, store and use data in the ordinary course of our operations that is protected by data protection laws. Although we take precautions to protect customer data in accordance with the privacy requirements provided for under applicable laws, we may fail to do so and certain customer data may be leaked as a result of human error or technological failure or otherwise be used inappropriately. We work with independent and third-party suppliers, partners, sales agents, service providers and call center agents, and we cannot exclude that such third parties could also experience system failures involving the storage or transmission of proprietary information. Violation of data protection or lawful interception laws by us or one of our partners or suppliers may result in fines, reputational harm and customer churn and could have a material adverse effect on our business, financial condition and results of operations.

Disruptions in the credit and equity markets could increase the risk of default by counterparties to our financial instruments, undrawn credit facilities and cash investments and may impact our future financial position.

Although we seek to manage the credit risks associated with our financial instruments, cash and cash equivalents and undrawn debt facilities, disruptions in credit and equity markets could increase the risk that our counterparties could default on their obligations to us. If one or more of our counterparties failed or otherwise was unable to meet its obligations to us, our cash flows, results of operations and financial condition could be adversely affected. We cannot predict how disruptions in the credit and equity markets and the associated difficult economic conditions could impact our future financial position. In this regard, the financial failures of any of our counterparties could reduce amounts available under committed credit facilities and adversely impact our ability to access cash deposited with any failed financial institution and future tightening of the credit markets could adversely impact our ability to access debt financing on favorable terms, or at all.

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

The following is a discussion and analysis of our results of operations and financial condition based on the audited consolidated financial statements of Sunrise Holdings as of and for the years ended December 31, 2011, 2012 and 2013 and the unaudited condensed interim consolidated financial statements of Sunrise Holdings as of and for the nine-month period ended September 30, 2014, each prepared in accordance with IFRS, as adopted by the European Union.

Except as the context otherwise indicates, when discussing historical results of operations in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" ,"Sunrise", "we", "our" and other similar terms are generally used to refer to the business of Sunrise Holdingsand its consolidated subsidiaries. Under "—Liquidity and Capital Resources" we are also showing the effects of the indebtedness incurred, and debt service requirements relating to, the Existing PIK Toggle Notes issued by MCIG.

Overview

We are the second largest integrated telecommunications provider in Switzerland, based on revenues, which amounted to CHF 1,527.2 million for the nine-month period ended September 30, 2014. We market our services primarily through our *Sunrise* brand and address clearly defined market segments with a multi-brand strategy through the *MTV mobile* brand (Young & Youth), the *yallo*, *Ortel* and *Lebara* brands (Ethno) and *Business Sunrise* (Business Customers).

We are the leading fully-integrated challenger to Swisscom capable of delivering a full range of services across all market segments. We are the leading non-incumbent operator in both the mobile (prepaid and postpaid) and landline retail voice markets, with approximately 2.5 million mobile and 0.4 million landline customers, respectively, as of December 31, 2014. We are also the third-largest landline internet provider with approximately 0.3 million subscriptions and 0.1 million IPTV subscriptions as of December 31, 2014. As of September 30, 2014, we estimate that our market share by mobile and fixed broadband subscriptions as well as IPTV was 27%, 9% and 2%, respectively.

We believe that we are well positioned to achieve further growth through our commitment to deliver a best-in-class convergent experience while being fair, transparent and customer-oriented in all market segments. In cross-selling and up-selling mobile, broadband and IPTV services to our existing customers, we benefit from our 10,800 km nationwide state-of-the-art fiber network backbone, our integrated mobile and landline access networks, more than 600 points of presence in our fully-invested LLU network with a coverage of approximately 85% of households in Switzerland and full access to Swisscom's last mile at what we believe are cost-efficient and attractive terms, combined with our partnerships with Swisscom, SFN and local utilities for the most advanced next-generation fiber technologies, such as vectoring, FTTS, FTTB and FTTH. We provide our mobile services through our own mobile network based on GSM/GPRS/EDGE, UMTS/HSPA and LTE/4G technologies. As of December 31, 2014, our UMTS/HSPA coverage was approximately 99% while our LTE/4G coverage had reached approximately 85%, in each case as a percentage of the Swiss population. We provide our landline voice & other services through our national landline network.

We offer a broad range of services, including mobile voice and data, landline voice & other (retail voice, business services and wholesale voice) and landline internet & IPTV, to both residential and business customers as well as to other operators. With our recent innovations, including the launches of *Comeback TV*, Sunrise *Freedom* (mobile hardware de-coupling without fixed contract terms) and Sunrise *Home* (flexible new fixed portfolio) as well as the new Sunrise *Advantage* convergence offering further incentivizing fixed and mobile convergence, we are pursuing our commitment to deliver a best-in-class convergent experience. In addition, we recently launched Sunrise *Rewards*, our new customer loyalty and retention program aimed at increasing the loyalty and experience of our existing customers and consequently reducing churn.

For the financial year ended December 31, 2013, we generated total revenue of CHF 2,021.2 million and Adjusted EBITDA of CHF 620.3 million. During that period, our mobile, landline voice & other and landline internet & IPTV businesses comprised 62.6%, 27.6% and 9.8% of our total revenue, respectively. During the nine-month period ended September 30, 2014, our mobile, landline voice & other and landline internet & IPTV businesses comprised 64.9%, 25.1% and 10.0% of our total revenue, respectively. We are headquartered in Zurich, Switzerland, and had a total of 1,958 employees (full-time equivalents and including 106 apprentices) as of September 30, 2014.

Certain Factors Affecting Our Business

General Economic Conditions

We are focused on taking advantage of the affluent, quality-driven and data-savvy Swiss market that is supported by several attractive dynamics. Switzerland's population has grown at an annual compound growth rate of approximately 1.2% during the period from 2006 to 2013, compared to an equivalent growth rate of 0.4% for the EU-15 countries (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom). This population growth, which creates opportunities for further growth in subscription numbers, has largely been driven by immigration, with the number of foreigners having grown at an annual growth rate of 3.2% (2006 to 2013), as compared to 0.6% for Swiss nationals, mainly as a result of Switzerland's attractiveness to young and highly qualified immigrants. Switzerland is one of the wealthiest countries in Europe. According to the Economist Intelligence Unit ("**EIU**"), Switzerland had an estimated GDP per capita at nominal value of approximately CHF 75,000 for 2013 (or CHF 50,800 at purchase price parity), which is significantly higher than the EU-15 average of approximately CHF 37,200 (or CHF 35,000 at purchase price parity). EIU figures showed the Swiss economy to be relatively more robust than many European economies, with real GDP annual growth of 1.7% compared to EU-15 annual growth of 0.3% during the 2006 to 2013 period. According to the EIU, Switzerland recorded real GDP average annual growth rates of 2.0% from 2012 to 2014 (estimated) as compared to 0.8% for the EU-15 countries (source: EIU). Moreover, Switzerland has one of the lowest unemployment rates in Europe, with an average unemployment rate of 3.1% from the period 2006 to 2013 according to the EIU, compared to the EU-15 average in the same period of 8.9%. As a result of low unemployment rates, high levels of GDP per capita and GDP growth in excess of the EU-15 average, we believe that the Swiss population generally accepts higher price levels as long as the quality of service satisfies the higher requirements. In addition to these favorable macroeconomic and demographic trends, Switzerland benefits from one of Europe's most attractive business environments, supported by a stable currency, low interest rate levels and attractive corporate and individual tax rates significantly below the EU-15 average. See "*Business—Our Strengths—Focus on the affluent, quality-driven and data-savvy Swiss market*".

Many European countries, including Switzerland, have experienced an economic slowdown as a result of the global economic and financial crisis, which has included a general contraction in consumer spending resulting from, among other factors, reduced consumer confidence, declining gross domestic product, increases in unemployment rates and uncertainty in the macroeconomic environment. The telecommunications sector, however, is one of the industrial segments that has comparably been less affected by the global economic and financial crisis. In addition, the Swiss economy also proved relatively robust through the economic and financial crisis as compared to other European economies. However, recessionary conditions typically adversely impact Swiss consumer spending, including on telecommunications services and products, which in turn impacts our subscription numbers and customer spending. Recently, the Swiss National Bank (*Schweizerische Nationalbank*) ceased its policy of capping the Swiss franc's value at CHF 1.20 per euro. The decision caused the value of the Swiss franc to appreciate considerably within a short period of time. Following the Swiss National Bank's decision, expectations for GDP growth in Switzerland have been negatively adjusted. Reduced travel to Switzerland, in particular as a result of the significant recent appreciation of the Swiss franc against the euro, also affects our roaming revenues. See "*Risk Factors—Risks Related to Our Market and Our Business—We operate exclusively in the Swiss market and as a result our growth prospects depend on economic developments in Switzerland*" and "*—Continuing uncertainties and challenging conditions in the global economy may adversely impact our business, financial conditions and results of operations*".

Swiss Regulatory Regime and Spectrum License Purchase

Our activities as a mobile and landline operator in Switzerland are subject to regulation and supervision by several regulators, including ComCom, OFCOM and ComCo. While Switzerland is not a member of the European Union or the European Economic Area and is, therefore, not subject to the EU telecommunications regulations, liberalization of the Swiss telecommunications market has moved largely in parallel with the deregulation in the European Union and, subject to some conceptual deviations, such as the lack of regulation of roaming tariffs, is expected to continue to further develop in line with the main EU developments. The current regulatory framework was introduced in 2007. In March 2012, the Swiss Federal Council recommended the transition to a technology-neutral regulation. In its report of late November 2014, the Swiss Federal Council emphasized the need for extending cost-based access regulation from copper to fiber. In addition, bitstream access should be granted where access lines cannot be operated by individual operators, *e.g.*, for FTTB technologies. However, the Swiss Federal Council proposed to introduce such amendments only in a second phase. In order not to disturb current investments in the roll-out of fiber access. We may be affected by such developments in two different ways: On the one hand, we may benefit from further liberalizations of the access regime, expanding our options to provide services on the most modern infrastructure without being dependent on excessive pricing for interconnection and significant own investments. On the other hand, it is possible that even our own landline and mobile infrastructure might become subject to certain obligations to grant access to other operators at regulated conditions which might adversely impact our margins.

In early 2012, ComCom reallocated the entire mobile radio frequency spectrum for the provision of mobile telecommunications services in Switzerland through an auction and issued the new licenses on June 5, 2012. The spectrum licenses will expire on December 31, 2028. See "*Business—Licenses*". We acquired a new license for the provision of mobile telecommunications services based on the GSM, UMTS and LTE/4G standards on July 6, 2012 for an aggregate amount of CHF 481.7 million. We have opted to make payments in installments as follows: 60%, or CHF 289.0 million, of the license fee was paid on August 6, 2012 and the remaining 40% must be paid in two installments of 20% each with 3% compounding interest for the period ended December 31, 2013, which are due on June 30, 2015 and December 31, 2016, respectively. We plan to fund the second and third spectrum payments with cash from operations.

Developments in Mobile Tariffs and Sunrise Freedom

The Swiss mobile market has experienced pricing pressure and changes in consumer behavior that have resulted in a decrease in Total Mobile Blended ARPU and increasing landline and mobile convergence. In 2012, Swisscom introduced new speed-differentiated flat-rate postpaid mobile plans, which significantly lowered the monthly price of Swisscom's previous high-end rate plans and as a response resulted in the introduction of lower tariffs by us. As a result of lower tariffs in our flat-rate plans, Total Mobile Blended ARPU decreased from CHF 44.5 in the financial year ended December 31, 2012 to CHF 39.6 in the financial year ended December 31, 2013 and CHF 35.8 in the nine-month period ended September 30, 2014.

In April 2014, we introduced our Sunrise *Freedom* offering which is based on a de-coupling of mobile services and devices. If a customer enters into a mobile service contract (*Freedom* service rate plan), the customer may concurrently enter into a separate mobile device contract. Through this offering, we sell mobile phones and other mobile devices (*e.g.*, tablets) to our customers for a fixed price either for immediate payment of the total purchase price or for an upfront payment of part of the total purchase price and twenty-four subsequent monthly installments. Additionally, Sunrise *Freedom* provides flexibility in that it permits customers to switch tariffs within the Sunrise *Freedom* range on a cost-free basis at any time without having any effect on the mobile device plan and without a fee to change to Sunrise *Freedom* from an older SIM-only or other contract after the initial contract term. We were the first MNO to launch this concept in the Swiss market and have achieved strong initial results with approximately 37% of our postpaid subscription base having subscribed to a Sunrise *Freedom* offering as of December 31, 2014. The significant change of our business model by the de-coupling of mobile services and hardware impacts a variety of our performance and financial measures, including ARPU, hardware revenue, cost of goods sold, customer acquisition and retention costs and working capital. Key financial measures are impacted as described and shown below:

- ***Service revenue***. Before the introduction of Sunrise *Freedom*, our service subscription fees and our service revenue included a fee for services and a repayment of the subsidized mobile device sales price. Customers subscribing to a Sunrise *Freedom* service rate plan now pay a lower service subscription fee as the mobile device is subject to a separate device contract.

- ***Hardware revenue***. Before the introduction of Sunrise *Freedom*, only the upfront payment for the mobile device was recognized in hardware revenue whereas with Sunrise *Freedom* the total sales price of the mobile device is recognized upfront, including a margin on the sales price.

- ***Cost of goods sold and customer acquisition cost***. Before the introduction of Sunrise *Freedom*, the mobile device upfront payment was recognized as cost of goods sold and offset against the upfront payment for the mobile device at the gross profit level; the residual value of the mobile device was shown in our commercial operating expenses and effectively reflected the cost of our mobile device subsidy. Cost for mobile devices sold with a Sunrise *Freedom* device plan are fully recognized upfront as cost of goods sold leading to a marginally lower gross profit than before the introduction of Sunrise *Freedom* but resulting in a marginally higher EBITDA from the mobile device margin on the sales price.

- ***Working capital***. Working capital is affected by a higher volume of outstanding receivables in the form of future installments under the device plans. In that respect, we plan to improve our cash flows by optimizing working capital management, *inter alia*, by the Factoring Agreement that Sunrise Communications entered into with UBS AG on January 12, 2015. See "*Description of Certain Financing Arrangements—Factoring Arrangements*".

The following table illustrates the theoretical 24-month lifetime value of a mobile postpaid customer before and after the introduction of Sunrise *Freedom*. Revenues generated by mobile service are indexed to 100 in the table.

	Service Revenue		Hardware Revenue		Total Revenue	Cost of Goods Sold	Gross Profit	Operating Expense	EBITDA Contribution
	Mobile Service	Hardware Service	Handset	Margin				Subsidy Mobile Device	
Before *Freedom*	100 + 31 = 131		10	0	141	(10)	131	(31)	**100**
With *Freedom*	100	0	41 + 3 = 44		144	(41)	103	0	**103**

Driven by our new Sunrise *Freedom* offering, our mobile revenue was impacted during 2014 as outlined below:

	Mobile Revenue		
	As of and for the three-month periods ended		
	March 31	June 30	September 30
	2014		
	(CHF in thousands, except percentages)		
Mobile	**291,284**	**346,198**	**353,123**
Increase over prior period		18.9%	2.0%
Of which Hardware	**16,236**	**69,507**	**65,968**
Increase/(decrease) over prior period		328.1%	(5.1%)

Mobile revenue was CHF 346.2 million for the three-month period ended June 30, 2014, an increase of CHF 54.9 million, or 18.9%, from CHF 291.3 million for the three-month period ended March 31, 2014. Mobile revenue was CHF 353.1 million for the three-month period ended September 30, 2014, an increase of CHF 6.9 million, or 2.0%, from CHF 346.2 million for the three-month period ended June 30, 2014. The increase in mobile revenue was primarily attributable to hardware revenue based on our newly introduced Sunrise *Freedom* device rate plans in the three-month period ended June 30, 2014 as compared with the three-month period ended March 31, 2014. The increase during the three-month period ended September, 30, 2014 as compared with the prior three-month period was largely driven by seasonal effects. Hardware revenue in the three-month period ended September 30, 2014 was impacted by a backlog of approximately 17,000 orders for the new iPhone 6. As a result of the backlog as of September 30, 2014, iPhone 6 sales under the separate mobile device contracts during the fourth quarter of 2014 increased.

Because our competitors continue to subsidize sales of mobile devices in return for increased rates in their service rate plans, and for purposes of comparability with the ARPU that we published historically, we include the installment payments relating to the sale of mobile devices in our Mobile ARPU definition.

Developments in our Landline Offering and Convergence Trends

Historically, our profitability for landline and landline internet services depended primarily on the method used by customers to connect to our network and the terms we have negotiated with Swisscom or SFN and local utilities. While the number of landline subscriptions had been decreasing over the last years as a result of a lack of high-speed broadband offerings, now with full access to Swisscom’s last mile at what we believe are cost-efficient and attractive terms, combined with our partnerships with Swisscom, SFN and local utilities for the most advanced next-generation fiber technologies, we provide a full product portfolio to address the demand for high-speed connectivity. Under our partnerships with Swisscom, SFN and local utilities, our profitability will be less dependent on the particular access technology used to connect a customer but rather on the product portfolio provided to an individual customer. See “*Business—Certain Contracts Relating to the Operation of Our Business*”.

In the last few years, a significant increase in the smartphone penetration resulted in a rapid growth of mobile data traffic that increased on our network from the third quarter of 2012 to the third quarter of 2014 by a CAGR of 84%. At the same time, approximately 45% of Swiss internet users have an internet connection faster than 10 Mbit/s while in line with the migration from analogue to digital TV, IPTV services increased significantly. The combination of growth in mobile data traffic, higher speed requirements in broadband connections and growth in the IPTV offering have increasingly resulted in operators rewarding fixed and mobile convergence by attractive rate plans and benefits and a total of 607,000 customers who had subscribed to convergent services in Switzerland as of September 30, 2014. With our Sunrise *Home* and Sunrise *Advantage* offerings introduced in June 2014, we believe that we are providing attractive bundle and convergent offerings with distinct advantages over hard bundling offers that will reduce churn as customers who have subscribed to convergent services are less likely to churn. The higher speeds under our new partnerships with Swisscom and SFN also benefit convergence trends by driving landline internet & IPTV, which require higher speeds.

Mobile Network Modernization

We own our mobile network, which consists of GSM/GPRS/EDGE, UMTS/HSPA and LTE/4G network technologies. We have achieved competitive coverage and quality with our network in a market with difficult topographical circumstances and stringent environmental requirements that limit radiation from mobile antennas. As of December 31, 2014, our UMTS/HSPA coverage was approximately 99% while our LTE/4G coverage had reached approximately 85%, in each case as a percentage of the Swiss population outdoors (and 87% indoors), while our GSM/GPRS/EDGE network provided voice and data coverage to 99.9% of the population outdoors. We have invested more than CHF 1 billion in the last three years in network and spectrum licenses, to build a long-term technologically advanced infrastructure, notably through the acquisition of spectrum licenses and our partnership with our equipment and managed services provider Huawei which allows us to develop a technologically advanced integrated mobile and landline network at controlled cost. Our agreement with Huawei is structured as a long-term partnership and serves as a showcase for Huawei to demonstrate its leading technological capabilities and its ability in Europe to provide high-quality services. Huawei is our preferred equipment supplier and is responsible for the operation, maintenance and construction of our entire network. Key tasks, however, such as planning, engineering and optimization of the network, along with ownership of the infrastructure, remain exclusively with us. As of December 31, 2013, we had replaced our entire network infrastructure with MSR network equipment, which allows approximately 99% of the Swiss population to experience mobile internet speeds of up to 42 Mbit/s in our UMTS/HSPA network. The use of MSR technology in this roll-out has also enabled upgradability at limited cost to next generation Long-Term Evolution (LTE, also known as 4G) technology which is currently being rolled out, offers speeds of up to 100 Mbit/sec and reached approximately 85% coverage of Swiss households at the end of 2014. With the completion of the LTE/4G roll-out, the comprehensive modernization of our network infrastructure will be largely completed and we intend to capitalize on our significant recent investments to further enhance our network coverage and quality while reducing the level of capital expenditures to levels comparable to those prior to our major recent investments.

Based on our 10,800 km nationwide state-of-the-art fiber backbone, we operate integrated national mobile and landline access networks with more than 600 points of presence and full access to Swisscom's last mile at what we believe are cost-efficient and attractive terms, combined with our partnerships with Swisscom, SFN and local utilities for the most advanced next-generation fiber technologies, such as vectoring, FTTS, FTTB and FTTH, we provide a full product portfolio to address the demand for high-speed connectivity. While our strategy in the landline network is last mile capex-light and primarily relies on partnerships, we have undertaken considerable investments to further improve the quality and speed of our mobile network in order to provide a best-in-class convergent experience to our customers. In the financial year ended December 31, 2014, our capital expenditures reached a peak at an aggregate amount of approximately CHF 355 million. This aggregate amount includes significant investments in our ongoing LTE/4G roll-out and a one-time payment made in connection with our recent agreement with Swisscom. The agreement with Swisscom for access to Swisscom's copper lines, including VDSL and G-Fast technologies where deployed, and FTTH lines includes a one-time co-investment of CHF 74 million, of which CHF 45 million was realized in 2014. Going forward, we intend to benefit from our well-invested network requiring regular levels of investment in the future after the significant investments in 2013 and 2014 for the UMTS900 exchange and LTE/4G roll-out and expect capital expenditures from 2016 onwards to reach a level of approximately 11% of revenue (excluding voice hubbing).

Multi-Brand and Multi-Segment Strategy

We operate under two primary brand names: *Sunrise* for our residential customer segment and *Business Sunrise* for our business customer segment. We also successfully address clearly defined market segments with a multi-brand strategy through the *MTV mobile* brand (Young & Youth) and the *yallo*, *Ortel* and *Lebara* brands (Ethno). We capture first-time subscriptions through our distinct Young & Youth (accounting for approximately 22% of the total market, measured by addressable individuals) and Ethno (accounting for approximately 21% of the total market, measured by addressable individuals) brands targeted at young people and immigrants, respectively, in order to create up-sell potential for the mass market segment once customers become older or more settled and increase the domestic usage of their devices. We generally offer the same services, such as mobile voice and data, under these brands as we do under our own *Sunrise* brand, although we use differing rate plans. Offerings through our *yallo*, *Ortel* and *Lebara* brands focus on attractive international rate plans, targeting foreign residents, specifically the high number of foreigners living in Switzerland by offering better value for calls made to international destinations. Additionally, call costs for customers are reduced for calls made to other *yallo*, *Ortel* and *Lebara* customers using the same brand which creates a "community" effect as it encourages mobile users outside these brands to subscribe to *yallo*, *Ortel* and *Lebara*. We also maintain one partnership with a branded reseller that provides us with subscriptions on our network that are sold under the *Aldi* brand, which has existed for some time and is well-known to the public. We pay "airtime" share and marketing contributions to our reseller partners in exchange for the customers they provide. Our multi-brand strategy and branded resellers allow us to leverage our existing network infrastructure to provide additional revenue streams and reach a more diverse customer base.

Operational Efficiencies

We have improved, and plan to continue improving, our earnings and cash flow by reducing operating costs within our business through a number of measures, such as strict control on cash outflows, improved distribution, pricing and sales management, tighter steering of customer acquisition and retention costs and tighter control of workforce costs supported by continuously assessing further outsourcing opportunities. Specifically, we have realized synergies from the acquisition and subsequent integration of NextiraOne Switzerland, we have reduced our workforce in 2012 and, with our recently introduced *Freedom* offering, we have largely eliminated customer acquisition and retention costs by de-coupling offerings of services and mobile devices while our costs of goods sold have increased correspondingly. As a result, our Adjusted EBITDA margin excluding voice hubbing improved from 32.4% in the financial year ended December 31, 2011 to 33.1% in the financial year ended December 31, 2013, representing an average annual increase of 35 basis points, and reached 33.4% in the nine-month period ended September 30, 2014.

In order to improve our profitability and cash flow by reducing operating costs, we are increasingly focused on efficiency improvements throughout our company, in particular by focusing on network operating costs, improvements in our customer care department, deploying full self-care services through our website and increasing the proportion of our online sales to reach levels in line with our industry. We believe that these added efficiencies will permit us to continue to provide excellent quality products and services at reduced cost while experiencing improved profitability. We plan to continue reviewing our operations at all levels and implement efficiencies where appropriate. See "*Business—Our Strategy—Further enhance profitability and cash flow by maintaining a lean and cost-efficient management of our business*".

MVNOs, FVNOs and the Acquisitions of Ortel, Lebara and NextiraOne Switzerland

MVNOs are companies that provide mobile services but do neither have their own licensed frequency allocation of radio spectrum nor own their own nation-wide mobile network infrastructure. MVNOs rely on MNOs, such as Sunrise, to provide their customers access to licensed frequencies and the required infrastructure to use mobile services and otherwise make use of the mobile network. We also entered into one FVNO partnership. An FVNO contracts directly with customers to provide landline retail voice and internet services hosted on our landline network.

Revenue from MVNOs is typically generated by charging the MVNOs fees related to the capacity of their usage on our network. This revenue is accounted for in our Wholesale segment. We do not report ARPU or subscription data for MVNO customers because the end-customer relationship belongs to the respective MVNO. In July 2013, we acquired Lebara, which was formerly a key MVNO customer in our Wholesale segment, and Treternity Ortel Mobile AG. Both Lebara, which we believe at the time of our acquisition was the largest MVNO in the Swiss market by number of subscriptions, and Ortel have a clear focus on the ethnic segment and provide so-called "pay as you go SIM cards" for customers with a need for low-cost international rates on calls from Switzerland. The acquisition of both entities, which we consolidated as of the dates of the acquisitions, increased our prepaid subscriptions base by approximately 35%. By acquiring both MVNOs, we have secured access to the ethnic segment and established ourselves as the market leader in the ethnic segment with a view to leveraging the strength of our competitive position going forward. As a result of our acquisition of Lebara, there was a shift from revenue from MVNOs reported in the Wholesale segment (prior to the acquisition) to prepaid revenue reported in the Residential segment (after the acquisition). Since the acquisition of Lebara, revenue generated in the Wholesale segment with Lebara, is eliminated in the consolidated financial statements of Sunrise Communications Holdings S.A.

In November 2011, we entered into an agreement to acquire NextiraOne Switzerland (renamed Business Sunrise Enterprise Solutions GmbH and subsequently merged into Sunrise Communications AG in October 2012) for a total consideration of CHF 40.9 million in cash. BSES provides communications solutions that help organizations run their businesses more effectively. With the acquisition of the leading Swiss company for integration business, we have further strengthened our position in the business market segment. By integrating BSES's operations and our existing business operations under the single *Business Sunrise* brand, we have created a full-service provider for small, medium and large enterprises across nearly all industries, enabling the latest services for business needs, such as cloud computing.

Seasonality

Although our businesses are not subject to significant seasonal effects, mobile revenue tends to increase during the Christmas holiday period, Easter and spring vacation periods, the summer months and Ramadan, particularly revenue from roaming fees from tourists travelling to Switzerland. Mobile revenue then tends to decrease in the first quarter of each year due to lower usage after the Christmas period and the smaller number of days in February. Postpaid mobile revenue is generally higher during the Swiss ski season than at other times. Landline retail voice revenue tends to be slightly lower during summer holiday months. Certain patterns, for example in bonus payments and a shift in receivables from the first to the second quarter, also result in seasonal effects on our cash flow and net working capital.

Subscription, or RGU, Base

The following table shows our total subscription, or RGU, base in mobile and internet & IPTV as of the dates indicated:

	Mobile and Landline Subscription, or RGU, Base(1)				
	As of December 31,			As of September 30,	
	2011	2012	2013	2013	2014
	(in thousands of subscriptions)				
Mobile	**2,116.0**	**2,141.5**	**2,491.0**	**2,494.2**	**2,496.3**
Prepaid	1,011.3	960.4	1,233.0	1,261.3	1,192.8
Postpaid	1,104.7	1,181.1	1,258.0	1,232.9	1,303.5
Primary	961.4	1,033.3	1,067.2	1,052.7	1,104.2
Secondary	143.3	147.8	190.8	180.2	199.4
Landline	**884.8**	**882.1**	**859.0**	**867.2**	**823.7**
Retail Voice(2)	514.4	474.4	436.7	447.2	401.0
Internet	370.4	369.3	348.0	354.3	325.9
IPTV	0.0	38.4	74.3	65.6	96.8

	Mobile and Landline Subscription, or RGU, Base[1]				
	As of December 31,			As of September 30,	
	2011	2012	2013	2013	2014
	(in thousands of subscriptions)				
Total	**3,000.8**	**3,023.6**	**3,350.00**	**3,361.3**	**3,320.0**

(1) Subscriptions are equivalent to "revenue-generating units" or "RGUs".

(2) In our retail voice business, we report subscriptions of customers, or RGUs, using our landline voice services via a network pre-fix dial-in based on activity within the last month.

Key Drivers of Our Mobile Revenue and Profitability

General

Our mobile revenue is principally driven by the number of mobile subscriptions on our network, the services that our customers use and mobile termination rates ("**MTR**").

Our subscription base is driven by market dynamics, gross connections of new subscriptions, which shows our ability to capture new subscriptions, and our churn rate, which shows our ability to retain existing subscriptions. Mobile revenue is generated from monthly subscription fees for postpaid plans, usage fees for services that are incremental to the services included within our monthly subscription fees, such as services included in our flat-rate plans, and MTR, which are revenues generated from other operators for calls terminated on our mobile network. In addition to revenue from postpaid subscriptions, mobile revenue is also generated from prepaid subscriptions through various tariff plans in which prepaid revenue is earned on a per-unit, per-day or per-month basis. In general, postpaid subscriptions generate higher mobile revenue in the period divided by the average number of mobile subscriptions in the period ("**ARPU**") and therefore generate higher gross profit by subscription than prepaid subscriptions. We address the residential segment and small offices and home offices ("**SoHo**") as part of the business segment with "off the shelf" products where service and tariff combinations are standardized. In addition, we are offering products designed for the special needs of business customers and services on a Wholesale basis to other operators. Our pricing of those offerings reflects individual circumstances.

Mobile revenue is also affected by industry factors, such as competition-driven price evolution, general macroeconomic conditions impacting consumer spending and consumer trends. The rapid growth in data traffic as a result of increased smartphone and tablet penetration provides additional potential to market and monetize higher LTE/4G speeds. At the same time, the risk of voice and data traffic continuing to shift towards IP or OTT services has further increased. As a result, we are facing increasing competition from non-traditional mobile voice, data and TV services based on IP technologies, in particular OTT applications that are often free of charge, accessible via smartphones and tablets and allow their users to have access to potentially unlimited messaging and voice services over the internet, thus bypassing more expensive traditional voice, messaging (SMS/MMS) and TV services provided by mobile and landline network operators like us. In the Swiss market data flat-rate models have been established either in terms of unlimited speed until a certain data volume is reached (Sunrise and Orange) or in terms of unlimited volume at a certain speed (Swisscom). In case of unlimited speed within a limited data volume, additional data traffic generated by OTT services could result in additional revenue for network operators if the use of certain OTT services, such as streaming of videos, requires higher data speed and such higher speed is only available as additional data option after exceeding the limited data volume. Furthermore, in order to counter increased competition from OTT applications, in several of our tariff plans, we have included more favorable terms for WhatsApp use in Switzerland where data traffic related to the use of WhatsApp is free, and, within certain limits, free WhatsApp usage abroad and free calls to "community" groups.

Our principal cost of mobile services is attributed to termination rates (mostly, MTR) that we pay to other national and international operators for calls made by our customers but terminated on mobile and landline networks belonging to such other operators. We also incur customer acquisition and retention costs, which are costs associated with acquiring a new mobile subscription or prolonging the contract of an existing mobile customer. Our primary customer acquisition and retention costs associated with postpaid subscriptions include incentives offered to our postpaid subscriptions in the form of subsidies for mobile phones and other devices, agent commissions (including revenue share commissions ("airtime") and temporary benefits offered on existing plans. Our recently introduced Sunrise *Freedom* offering is based on a de-coupling of services and mobile device and has significantly reduced our customer acquisition and retention costs. This change in the de-coupling of services and mobile devices impacts a variety of our financial measures. Until the launch of our Sunrise *Freedom* offering, our revenues from hardware sales were largely offset by handset subsidies that we provided as a marketing strategy to grow our mobile subscription base and reduce churn. Our hardware revenues significantly increased after the launch of Sunrise *Freedom*. Prior to the launch of *Freedom*, we recognized only the upfront payment when selling the mobile devices as hardware revenue. With Sunrise *Freedom*, the full sales price is shown as revenue if a customer subscribes to a device plan offered within our Sunrise *Freedom* offering. Because our competitors continue to subsidize sales of mobile devices in return for increased rates in their service rate plans, and for purposes of comparability with the ARPU that we published historically, we include the installment payments relating to the sale of mobile devices in our Mobile ARPU definition. Our net working capital is negatively impacted as a result of an increase in trade receivables from *Freedom* (sale of mobile device). As a result, we plan to improve our cash flows by optimizing working capital management, *inter alia*, by the Factoring Agreement that Sunrise Communications entered into with UBS AG on January 12, 2015. See "*Description of Certain Financing Arrangements—Factoring Arrangements*".

Our primary customer acquisition costs associated with prepaid subscriptions are generally significantly lower than our postpaid customer acquisition costs (except for Sunrise *Freedom* offerings where customer acquisition costs are very limited), and typically include any agent commissions plus either the cost of the mobile SIM card or the cost of a low-cost handset bundled with a mobile SIM card.

Indirect costs associated with mobile subscriptions are shared with our landline voice & other services. These indirect costs include external expenses, such as the costs associated with our retail stores, outsourced customer care costs, costs associated with the operations and maintenance of our network, and the wages and associated pension costs of our employees.

Current Trends and Financial Implications

Our mobile operations contributed 62.6% and 64.9% of our total revenue for the financial year ended December 31, 2013 and the nine-month period ended September 30, 2014, respectively. We believe that key drivers for this development are as discussed below:

Mobile Subscription Base

Our mobile subscription base has increased, from 2,116.0 thousand subscriptions as of December 31, 2011 to 2,141.5 thousand as of December 31, 2012, 2,491.0 thousand as of December 31, 2013 and 2,496.3 thousand as of September 30, 2014, excluding MVNOs but including reseller-originated and *yallo*, *Ortel* and *Lebara* subscriptions. In the fourth quarter of 2014, our mobile subscription base declined slightly to approximately 2,465 thousand.

The total number of our postpaid mobile subscriptions steadily increased by 76.3 thousand from December 31, 2011, or 6.9%, to 1,181.1 thousand as of December 31, 2012 and by 76.9 thousand from December 31, 2012, or 6.5%, to 1,258.0 thousand as of December 31, 2013. From December 31, 2013, the total number of our postpaid mobile subscriptions increased by 45.5 thousand, or 3.6%, to 1,303.5 thousand as of September 30, 2014 and by approximately 16.500, or 1.3%, to approximately 1,320 thousand as of December 31, 2014. We believe that the increase was primarily driven by our competitive flat-rate and mobile data plans as well as attractive hardware offerings as well as migration from prepaid to postpaid. The significant increases in the smartphone penetration in the past three years have resulted in a rapid growth of mobile data traffic that increased on our network from the third quarter of 2012 to the third quarter of 2014 by 84%. We believe that customer demand for mobile data is also reflected in the increase of secondary subscriptions (*e.g.*, multi-SIM and data-SIM) used by customers in addition to their primary subscription. We believe that Sunrise *Freedom* was the primary reason behind the increase of our share in net postpaid additions from 18% in the twelve-month period ended September 30, 2013 to 27% in the twelve-month period ended September 30, 2014 as well as the continued increase in postpaid mobile subscriptions in the fourth quarter of 2014.

The total number of our prepaid mobile subscriptions decreased by 50.9 thousand from December 31, 2011, or 5.0%, to 960.4 thousands as of December 31, 2012. We believe that this decrease was driven by several factors, including increased smartphone usage which is predominately postpaid because for prepaid subscriptions no subsidized handset devices or installment plans are available. The total number of our prepaid mobile subscriptions increased by 272.6 thousand from December 31, 2012, or 28.2%, to 1,233.0 thousand as of December 31, 2013 and declined to approximately 1,145 thousand as of December 31, 2014. The increase was driven by our acquisitions of Lebara and Ortel which allow us, despite the general market trend of a contracting prepaid market, to be the preferred carrier within the ethnic market segment. The decrease to approximately 1,145,000 as of December 31, 2014 is mainly attributable to a lower number of gross additions from one of our indirect sales channels and the loss of lower value subscribers from discontinued offerings. At the same time, postpaid flat-rate plans provide similar cost control as prepaid mobile subscriptions, while our recently introduced Sunrise *Freedom* offering provides significant flexibility to customers in that the Sunrise *Freedom* service rate plan may be terminated upon one month's notice. In combination, these factors have been driving prepaid to postpaid migration.

Our total mobile market share on our network, excluding MVNOs and branded resellers and applying the 12-month rule for prepaid customers, decreased marginally to 27.3% as of September 30, 2014, from 27.7% as of December 31, 2013. As of December 31, 2013, prepaid and postpaid subscriptions comprised approximately 50% each of our mobile subscription base. As of December 31, 2013, our strategic focus on increasing our postpaid subscription base resulted in a 6.5% increase from December 31, 2012.

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

	Mobile Subscription Base[1]				
	As of and for the financial year December 31,			As of and for the nine-month period ended September 30,	
	2011	2012	2013	2013	2014
	(in thousands of subscriptions, except percentages)				
Subscriptions at end of period[2]	**2,116.0**	**2,141.5**	**2,491.0**	**2,494.2**	**2,496.3**
Subscription growth over prior period	—	1.2 %	16.3 %		0.1 %
Of which:					
Prepaid[2][4]	1,011.3	960.4	1,233.0	1,261.3	1,192.8
Postpaid[2][3]	1,104.7	1,181.1	1,258.0	1,232.9	1,303.5
Primary[5]	961.4	1,033.3	1,067.2	1,052.7	1,104.2
Secondary[5]	143.3	147.8	190.8	180.2	199.4
Net additions during period	**100.8**	**25.4**	**349.5**	**352.8**	**5.4**
Of which:					
Prepaid[2][4]	(8.6)	(50.9)	272.6	300.9	(40.2)
Postpaid[2][3]	109.4	76.3	76.9	51.8	45.5

(1) Subscriptions are equivalent to "revenue-generating units" or "RGUs".

(2) Excludes MVNO subscriptions and machine-to-machine SIM cards but includes reseller-originated and *yallo* subscriptions.

(3) Postpaid mobile subscriptions are counted in our subscription base as long as they have an active contract.

(4) Prepaid mobile subscriptions are counted in our subscription base if they have had an activity event, such as a usage or refill, within the last 91 days. The increase in the number of prepaid mobile subscriptions during the financial year ended December 31, 2013 is mostly attributable to our acquisitions of Ortel and Lebara in July 2013; as a result of these acquisitions, the number of prepaid mobile subscriptions increased by 341.8 thousand.

(5) Primary postpaid subscriptions are rate plans customers are using as the main subscription, whereas secondary postpaid subscriptions are rate plans used by customers in addition to their main subscription (*e.g.*, multi-SIM or data-SIM used for tablet mobile data usage).

Mobile Churn

"Churn" refers to the percentage of subscription deactivations during a given period. Churn affects other key performance indicators, including total subscriptions. We deem mobile postpaid subscriptions to have churned when customers voluntarily terminate their mobile subscription with us (and either move to a different provider or choose not to have a mobile service) or if we terminate their subscriptions for a misuse of our services, fraud or default on payment. Postpaid mobile subscriptions are deemed to have churned as well if the customers have switched their postpaid subscription to a prepaid subscription with us using their same mobile number (postpaid to prepaid conversion). We calculate mobile churn by dividing the gross decrease in the number of mobile subscriptions for a period by the average number of subscriptions during that period.

After declining from 15.1% in the financial year ended December 31, 2011 to 13.9% in the financial year ended December 31, 2012, our postpaid mobile churn rate for the financial year ended December 31, 2013 showed a marginal increase to 14.3%. In the twelve-month period ended September 30, 2014, our postpaid mobile churn rate increased slightly to 14.5% as compared to 14.4% for the twelve-month period ended September 30, 2013. The annual churn in our *Sunrise* and *MTV mobile* branded postpaid subscription base has gradually stabilized in recent years and we believe the leading causes of churn have been the price and competition on quality of service in the market. As a result of discontinuing rollover contracts in the first quarter of 2014 and introducing our *Freedom* mobile postpaid portfolio without fixed contract terms, the risk of churning subscriptions has increased and we may be more susceptible to losing customers to our competitors.

	Postpaid Mobile Churn[1]				
	For the financial year ended December 31,			For the twelve-month period ended September 30,	
	2011	2012	2013	2013	2014
	(in percentages)				
Mobile Churn					
Postpaid mobile churn	15.1%	13.9%	14.3%	14.4%	14.5%

(1) Postpaid mobile subscriptions are counted in our subscription base as long as they have an active contract. Once the contract is terminated these subscriptions are counted as churn.

Mobile ARPU

Mobile ARPU consists of revenues generated from monthly subscription fees, usage fees for services that are incremental to the services allocated within the monthly subscription fees, MTR paid to us by other operators for calls terminated on our mobile network and installments paid by customers subscribed to a mobile device plan in addition to a service plan (Sunrise *Freedom* offering).

Total Mobile Blended ARPU decreased over the reported periods significantly by CHF 4.9, or 11.0%, to CHF 39.6 for the financial year ended December 31, 2013, from CHF 44.5 for the financial year ended December 31, 2012 and the financial year ended December 31, 2011. Total Mobile Blended ARPU decreased significantly from CHF 40.8 for the nine-month period ended September 30, 2013 to CHF 35.8 for the nine-month period ended September 30, 2014. We attribute this significant decrease to dilutive effects from the acquisition of Lebara and Ortel in July 2013 as well as customers moving to lower rate plans after Swisscom's introduction of new flat-rate postpaid mobile plans, which significantly lowered the monthly price of Swisscom's previous high-end rate plans and as a response resulted in the introduction of lower tariffs by us. However, with the backbook repricing after introducing lower rates in the summer of 2012 almost complete, Total Mobile Blended ARPU has stabilized.

Mobile Postpaid ARPU had decreased by CHF 0.8, or 1.1%, to CHF 66.0 for the financial year ended December 31, 2012, from CHF 66.8 for the financial year ended December 31, 2011. We attribute this decrease primarily to a change in our subscription mix towards customers subscribing to rate plans with lower average prices. Mobile Postpaid ARPU had decreased by CHF 6.3, or 9.6%, to CHF 59.7 for the financial year ended December 31, 2013, from CHF 66.0 for the financial year ended December 31, 2012. Mobile Postpaid ARPU continued to decrease by CHF 6.8, or 11.2%, from CHF 60.9 in the nine-month period ended September 30, 2013 to CHF 54.1 in the nine-month period ended September 30, 2014. We attribute this significant decrease primarily to customer's migrating their subscriptions to rate plans with lower prices in reaction to market prices that declined significantly in 2012. We believe that currently more than 90% of our mobile postpaid subscription base has migrated their subscriptions to these offers. In the Swiss market data flat-rate models have been established either in terms of unlimited speed until a certain data volume is reached (Sunrise and Orange) or in terms of unlimited volume at a certain speed (Swisscom). In case of unlimited speed within a limited data volume, additional data traffic generated by OTT services could result in additional revenue for network operators if the use of certain OTT services, such as streaming of videos, requires higher data speed and such higher speed is only available as additional data option after exceeding the limited data volume. Furthermore, in order to counter increased competition from OTT applications, in several of our tariff plans, we have included more favorable terms for WhatsApp use in Switzerland where data traffic related to the use of WhatsApp is free, and, within certain limits, free WhatsApp usage abroad and free calls to "community" groups.

Mobile Prepaid ARPU decreased by CHF 2.0, or 9.4%, from CHF 21.2 for the financial year ended December 31, 2011 to CHF 19.2 for the financial year ended December 31, 2012. Mobile Prepaid ARPU decreased further by CHF 1.9, or 9.9%, to CHF 17.3 for the financial year ended December 31, 2013, from CHF 19.2 for the financial year ended December 31, 2012. Mobile Prepaid ARPU decreased by CHF 1.2, or 6.9%, from CHF 17.5 for the nine-month period ended September 30, 2013 to CHF 16.3 for the nine-month period ended September 30, 2014. We attribute this steady decrease primarily to a change in our prepaid customer's mix (high value customer with demand for mobile data and smartphones migrating to postpaid) and introduced lower prices in response to Swisscom's introduction of new flat-rate postpaid mobile plans, which significantly lowered the monthly price of Swisscom's previous high-end rate plans. Our acquisition of Ortel and Lebara, two MVNOs with a strong position in the ethnic segment in July 2013 partially mitigated the impact of prepaid to postpaid migration but did not reverse the trend. During the nine-month period ended September 30, 2014 high-value prepaid customers continued to migrate to postpaid offerings.

	Mobile ARPU				
	For the financial year ended December 31,			For the nine-month period ended September 30,	
	2011	2012	2013	2013	2014
			(in CHF, except percentages)		
Total Mobile Blended ARPU[(1)]	**44.5**	**44.5**	**39.6**	**40.8**	**35.8**
Increase/(decrease) from prior equivalent period	—	0%	(11.0)%	—	(12.4)%
Postpaid	**66.8**	**66.0**	**59.7**	**60.9**	**54.1**
Increase/(decrease) from prior equivalent period	—	(1.1)%	(9.6%)	—	(11.2)%
Prepaid	**21.2**	**19.2**	**17.3**	**17.5**	**16.3**
Increase/(decrease) from prior equivalent period	—	(9.4)%	(9.9%)	—	(6.9)%

(1) We define mobile ARPU as the total mobile revenue in the period divided by the average number of mobile subscriptions in the period, which is subsequently divided by the number of months in the period. The average number of mobile subscriptions during a period is calculated by adding together

the number of subscriptions 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.

Mobile Termination Rates

MTR contribute to our mobile revenue and costs as well as landline costs. We receive revenues from other operators for calls terminated on our mobile network and we pay fees to other operators for calls terminated on their mobile networks. Mobile-to-mobile and fixed-to-mobile termination rates were bilaterally agreed between Sunrise, Swisscom and Orange in January 2007 and have since undergone a number of changes as set out below:

MTR in CHF/minute	Termination on Swisscom Mobile Network	Termination on Sunrise or Orange Mobile Network
Effective Date		
Before October 1, 2010	0.14	0.17
October 1, 2010	0.08	0.10
January 1, 2011	0.07	0.0875
July 1, 2013	0.0665	0.0825
July 1, 2014	0.0625	0.0775

Each of these rate decreases resulted in a corresponding decline in our revenue from mobile termination rates which were only partially offset by reduced costs for terminating calls on another operator's network.

Key Drivers of Our Landline Revenue and Profitability

General

We provide landline voice & other and landline internet & IPTV services to both residential and business customers. Our landline revenues are generated by two categories of services, landline voice & other and landline internet & IPTV. Within our landline voice & other we offer three primary sub-categories of services: retail voice, business and integration services and wholesale.

We provide our landline voice & other and landline internet & IPTV services through our LLU infrastructure or indirectly through Swisscom's network for CPS, VDSL and fiber or through SFN and local utilities for fiber access. With the availability of LLU in the Swiss market in 2007, we initially focused on migrating our customers on LLU. As a result of increasing speed requirements and our IPTV offering, higher bandwidth services based on VDSL and fiber became necessary. While the number of landline subscriptions had been decreasing over the last years as a result of lack of high-speed broadband offerings, now with full access to Swisscom's last mile at what we believe are cost-efficient and attractive terms, combined with our partnerships with Swisscom, SFN and local utilities for the most advanced next-generation fiber technologies, such as vectoring, FTTS, FTTB and FTTH, we provide a full product portfolio to address the demand for high-speed connectivity.

Historically, our profitability for landline voice & other and landline internet & IPTV services depended primarily on the method used by customers to connect to our network and the terms we had negotiated with Swisscom, SFN and local utilities. Under our partnerships with Swisscom, SFN and local utilities for the most advanced next-generation fiber technologies, our profitability will be less dependent on the particular access technology used to connect a customer but rather on the product portfolio provided to an individual customer. Most importantly, the higher speeds under our new partnerships with Swisscom, SFN and local utilities also benefit convergence trends by driving landline internet & IPTV, which require higher speeds.

Landline Voice & Other—Retail Voice

We offer a variety of voice services to residential and business customers throughout Switzerland. Our retail voice revenue is principally driven by the number of subscriptions on our network and the services customers use. Retail voice ARPU consists of revenues generated from monthly subscription fees, usage fees for services that are incremental to the services allocated with our monthly subscription fees and landline termination rates. In addition, we generate revenue from large corporate customers based on the contractual terms of the relevant engagement.

Landline Voice & Other—Business and Integration Services

We offer a broad range of business and integration services for medium and large enterprises and SoHo/small enterprises. Our business and integration services revenue is driven by the quantity and scope of our individual contracts. These contracts vary significantly and are entered into with medium and large enterprises and SoHo/small enterprises. Generally, the services for small enterprises and SoHos are "off the shelf", while services for larger corporations are customized. With the acquisition of NextiraOne Switzerland, we have extended our business service portfolio to include integration services, which include planning, construction, implementation and usage of complex ICT solutions and management services of ICT systems.

Landline Voice & Other—Wholesale

We also generate revenue by carrying voice and data traffic on our landline network on a wholesale basis. The majority of our wholesale voice revenue is generated from hosting transit traffic that originates or terminates outside of Switzerland, which we refer to as "voice hubbing". We offer voice hubbing services on the basis of excess capacity of our proprietary landline network. We also offer termination services for international carriers and are involved in wholesale line leasing, although these represent less significant portions of our wholesale voice business than voice hubbing.

Our wholesale revenue is driven by contracts with our customers. We charge our customers on a per-minute basis, and the rates are closely linked to the termination rates we pay to other landline operators for calls terminating on their networks. In essence, the wholesale voice segment is an arbitrage business in which we trade minutes with other carriers and charge a "trading fee" per minute in excess of the cost per minute. As such, voice hubbing margins are very low for calls terminating outside of Switzerland. In line with industry practice, we contract with customers for wholesale products within framework agreements and make volume commitments on short notice.

Our principal wholesale cost of services is attributed to termination costs that we pay to other operators for calls terminated on their networks. Indirect costs associated with wholesale services are shared with our mobile and landline business.

The aggregate revenue generated by contracts for the provision of voice hubbing services was CHF 116.2 million for the nine-month period ended September 30, 2014, as compared to CHF 110.0 million for the nine-month period ended September 30, 2013, and CHF 149.4 million, CHF 129.5 million and CHF 127.1 million for the years ended December 31, 2013, 2012 and 2011, respectively. Voice hubbing is essentially an arbitrage business, which typically produces margins of up to 6% for calls terminated outside of Switzerland.

Landline Internet & IPTV

We offer two primary sub-categories of landline internet services: internet services and IPTV services. We offer internet services to residential and business customers on monthly rate plans. The substantial majority of our internet subscriptions are also retail voice subscriptions which are offered as ADSL services primarily through our own LLU platform and VDSL services indirectly through Swisscom's network. In January 2012, we launched our IPTV service, *Sunrise TV*, and positioned ourselves as the only quadruple play operator in Switzerland other than Swisscom at that time. Our IPTV service is targeted primarily at residential customers.

Our internet & IPTV services revenue is principally driven by the number of subscriptions and the services customers use. Internet ARPU consists primarily of revenue generated from monthly subscription fees. In addition, we generate revenue from business customers based on the contractual terms of the engagement. Our principal IPTV cost is the provision of content-related cost. Costs related to customer hardware installations for our current rate plans are capitalized and depreciated over 36 months. In addition, access costs and line rental charges incurred in product bundling with retail voice and internet are partially attributed to our IPTV services. Our IPTV service is a hosted service operated by a third-party supplier which is delivered over our IP core and currently broadly relies on a Swisscom-based VDSL BBCS product. At customer premises, the DSL signal is terminated on a modem to which the set-top box is connected. Customers may gain access to our network directly through our LLU platform or indirectly through Swisscom's network. Our indirect (*i.e.*, non-ULL) landline voice & other customers use CPS to access our network for voice and BBCS for internet subscriptions. Generally, LLU customers were historically considerably more profitable than CPS or BBCS customers (assuming that the same number of products was used).

Based on a new agreement we recently entered into with Swisscom, we have full access to Swisscom's last mile at what we believe are cost-efficient and attractive terms. Under our partnerships with Swisscom, SFN and local utilities for the most advanced next-generation fiber technologies, our profitability will be less dependent on the particular access technology used to connect a customer but rather on the product portfolio provided to an individual customer.

Our landline subscription acquisition costs depend on the method of connectivity offered and may include the cost of customer premise equipment, such as in-house wiring and installation and commissions paid to agents. For LLU subscriptions, we also incur an installation charge from Swisscom to unbundle an existing Swisscom customer, which we capitalize and amortize over twenty-four months. Indirect costs associated with retail voice subscriptions are shared with our mobile and wholesale business. With the re-launch of the internet portfolio in February 2013, costs related to customer hardware installations are capitalized and depreciated over 36 months.

Current Trends and Financial Implications

Overview

Our landline operations contributed 37.4% and 35.1% of our total revenue for the financial year ended December 31, 2013 and the nine-month period ended September 30, 2014, respectively.

We believe key drivers are as discussed below:

Landline Subscription Base

The total number of our retail voice subscriptions decreased by approximately 39.9 thousand, or 7.8%, as of December 31, 2012 to 474.4 thousand from 514.4 thousand as of December 31, 2011 and by approximately 37.7 thousand, or 7.9%, as of December 31, 2013 to 436.7 thousand from 474.4 thousand as of December 31, 2012. The total number of our landline subscriptions continued to decrease by approximately 43.7 thousand, or 5.0%, from 867.2 thousand as of September 30, 2013 to 823.7 thousand as of September 30, 2014. We attribute these steady decreases primarily to the departure of retail voice-only CPS customers and the migration to VoIP, including customers acquired as part of the acquisition of Tele2 Switzerland (now operating as TelCommunication Services AG) in 2008 as well as customers churning from our retail voice network or customers substituting their landline services with mobile services.

The total number of our landline internet subscriptions decreased by 1.1 thousand, or 0.3%, as of December 31, 2012 to 369.3 thousand from 370.4 thousand as of December 31, 2011 and decreased further by 21.3 thousand, or 5.8%, as of December 31, 2013 to 348.0 thousand from 369.3 thousand as of December 31, 2012. As of September 30, 2014, the total number of our landline internet subscriptions was 325.9 thousand; in the fourth quarter of 2014, we experienced a slight increase to approximately 327 thousand. The total number of our landline internet subscriptions continued to decrease from 354.3 thousand as of September 30, 2013 by approximately 28.4 thousand, or 8.0%, to 325.9 thousand as of September 30, 2014. Our subscription base of IPTV shows a growth path over the reported period and reached approximately 74.3 thousands as of December 31, 2013 and 96.8 thousand as of September 30, 2014 and approximately 107 thousand as of December 31, 2014, hence we attribute the overall stabilization of our landline internet & IPTV subscriptions primarily to the launch of our IPTV service in January 2012. Internet-only and voice-internet bundles declined while *Sunrise TV* customers (which bundle voice-internet and IPTV) contributed to stabilizing the subscription base.

Landline Subscription Base(1)(2)

	As of and for the financial year ended December 31,			As of and for the nine-month period ended September 30,	
	2011	2012	2013	2013	2014
	thousands of subscriptions, except percentages				
Retail Voice	**514.4**	**474.4**	**436.7**	**447.2**	**401.0**
Increase/(decrease) over prior period	—	(7.8)%	(7.9)%	—	(10.3)%
Internet	**370.4**	**369.3**	**348.0**	**354.3**	**325.9**
Increase/(decrease) over prior period	—	(0.3)%	(5.8)%	—	(8.0)%
IPTV	**0.0**	**38.4**	**74.3**	**65.6**	**96.8**
Increase/(decrease) over prior period	—	>100.0%	93.4	—	47.5%
Total	**884.8**	**882.1**	**859.0**	**867.2**	**823.7**

(1) Subscriptions are equivalent to "revenue-generating units" or "RGUs".

(2) In our retail voice business, we report subscriptions of customers using our landline voice services via a network pre-fix dial-in based on activity within the last month.

Landline Churn

Our landline churn rate for the financial year ended December 31, 2013 of 17.3% was slightly below the financial year ended December 31, 2012 of 17.7% and considerably lower than the landline churn rate of 21.2% in the financial year ended December 31, 2011. We believe that the improvement of the churn rate over that period was primarily based on the bundles sold which have a positive impact on customer loyalty. For the twelve-month period ended September 30, 2014, our landline churn rate was 18.9%, which was higher than the landline churn rate of 16.8% for the comparative period. We believe that the increase in the churn was primarily attributable to our landline internet offering that was not fully competitive in terms of price and speed. As a result of increased demand for our convergent offerings from our Sunrise *Home* portfolio, our retail voice subscription base continued to stabilize in the fourth quarter of 2014 and amounted to approximately 398,000 as of December 31, 2014. Churn is primarily influenced by the quality of services and prices as compared to our competitors.

	Landline Churn[1]				
	For the financial year ended December 31,			For the twelve-month period ended September 30,	
	2011	2012	2013	2013	2014
	(in percentages)				
Landline Churn					
Total	21.2%	17.7%	17.3%	16.8%	18.9%

(1) Churn refers to the percentage of subscription deactivations during the indicated period in relation to the average subscription base of the indicated period. Subscriptions have churned when customers voluntarily terminate their subscriptions with us or if we terminate their subscriptions for misuse of our services, fraud or default on payment.

Landline ARPU

Internet and Internet & IPTV blended ARPUs have shown a positive trend over the past three years. Landline Blended ARPU increased steadily from CHF 67.0 in the financial year ended December 31, 2011 by CHF 3.4, or 5.1%, to CHF 70.4 in the financial year ended December 31, 2012 and further by CHF 2.9, or 4.1% to CHF 73.3 in the financial year ended December 31, 2013. It increased further by CHF 3.8, or 5.2%, to CHF 76.4 in the nine-month period ended September 30, 2014 from CHF 72.6 in the nine-month period ended September 30, 2013. We attribute the steady increase primarily to the increasing customer demand for higher speed and therefore a higher share of xDSL customers within the subscription base.

Retail voice ARPU continuously decreased over the reported period. It decreased by CHF 0.40, or 0.9%, from CHF 44.2 in the financial year ended December 31, 2011 to CHF 43.8 in the financial year ended December 31, 2012 and further by CHF 2.2, or 5.0%, to CHF 41.6 in the financial year ended December 31, 2013. It further decreased by CHF 1.6, or 3.7%, from CHF 41.7 in the nine-month period ended September 30, 2013 to CHF 40.1 in the nine-month period ended September 30, 2014. We attribute the continuing decrease primarily to the reduction in voice volumes due to accelerating fixed-to-mobile substitution and growth of VoIP.

	Landline ARPU[1]				
	For the financial year ended December 31,			For the nine-month period ended September 30,	
	2011	2012	2013	2013	2014
	(in CHF, except percentages)				
Total Landline Blended	**67.0**	**70.4**	**73.3**	**72.6**	**76.4**
Increase/(decrease) over prior period	—	5.1%	4.1%	—	5.2%
Retail Voice[2]	**44.2**	**43.8**	**41.6**	**41.7**	**40.1**
Increase/(decrease) over prior period	—	(0.9)%	(5.0)%	—	(3.7)%
Internet	**34.9**	**35.7**	**37.3**	**37.0**	**39.5**
Increase/(decrease) over prior period	—	2.3%	4.5%	—	6.9%
Internet & IPTV blended	**—**	**36.5**	**41.4**	**40.7**	**46.3**
Increase/(decrease) over prior period	—		13.4%	—	13.8%

(1) We define total landline blended ARPU as the total landline revenue in the period divided by the average number of landline subscriptions in the period, which is subsequently divided by the number of months in the period. The average number of landline subscriptions in a period is calculated by adding together the number of landline subscriptions 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.

(2) We define landline retail voice ARPU as the total retail voice revenue in the period divided by the average number of subscriptions in the period, which is subsequently divided by the number of months in the period. The average number of subscriptions in a period is calculated by adding together the number of subscriptions 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. Total landline blended ARPU takes into account the total landline revenue and total landline subscriptions, whereas Retail Voice, Internet and Internet & IPTV blended ARPU is based on the Retail Voice, Internet or Internet & IPTV revenue and subscriptions, respectively.

Key Drivers of Our Revenues Generated by Bundled Landline Products and Landline and Mobile Convergent Product Combinations

Within our Residential segment, our revenues are affected by bundles. Bundles are special packages that combine several of our products on one customer account (customer bill). Convergent bundles combine mobile products with landline products. As such, customers who subscribe to convergent services use both mobile services and landline services. As a customer who has subscribed to convergent services is less likely to churn, such a customer is characterized by higher loyalty and higher life-time value compared to a non-convergent landline customer.

The table below presents the break-down of total billed customers into different categories, as of the dates indicated:

	Billed Customer Base[1]				
	As of December 31,			As of September 30,	
	2011[2]	2012		2013	2014
	(in thousands of billed customers)				
Non-convergent Mobile (1P Mobile)[3]	**—**	**501.3**	**515.5**	**507.8**	**545.9**
1P landline[2]	—	43.4	37.4	39.1	32.6
2P landline[2]	—	111.6	98.2	102.1	86.1
3P landline[2]	—	5.6	10.6	10.1	14.6
Non-convergent Landline[3]	**—**	**160.6**	**146.2**	**151.3**	**133.3**
2P convergent[4]	—	8.6	7.2	7.8	5.6
3P convergent[5]	—	175.9	142.5	150.7	121.6
4P convergent[6]	—	32.6	61.0	53.8	73.9
Mobile and Landline Convergent	**—**	**217.1**	**210.7**	**212.2**	**201.2**
Billed Customers	**—**	**879.0**	**872.4**	**871.3**	**880.4**

(1) Billed customer refers to billed customer accounts; each customer bill may include one or many (*i.e.*, bundling) subscriptions of mobile and/or landline products.

(2) Data as of December 31, 2011 not available.

(3) Non-convergent customers refer to customers that either use only mobile products (non-convergent mobile, *i.e.*, 1P mobile) or only landline products (non-convergent landline, *i.e.*, 1P landline, 2P landline, 3P landline).

(4) 2P convergent refers to customers with a mobile postpaid subscription combined with a landline voice subscription (in rare cases, landline internet instead of landline voice).

(5) 3P convergent refers to customers with a mobile postpaid subscription with landline voice and internet (in rare cases, landline internet / IPTV instead of landline voice).

(6) 4P convergent refers to customers with a mobile postpaid subscription combined with landline voice, internet and IPTV.

Recent Developments

Developments Relating to Our Business

Effective as of December 1, 2014, we entered into a long-term partnership with Swiss tennis player Roger Federer who will act as a Sunrise brand ambassador to increase the emotional experience linked to our brand. As part of the agreement, Roger Federer and Sunrise will implement various events and joint activities. Roger Federer will also use Sunrise products himself.

With the release of the most recent Connect test results in December 2014, we experienced an 86 point increase from 356 (out of a maximum 500) in 2012 to 442 in 2014, the highest two-year improvement among all Swiss MNOs. The December 2014 results ranked Sunrise in first place for mobile telephony ahead of all mobile players in Switzerland, Germany and Austria and the overall rating of our network was upgraded from “good” in 2013 to “very good”. We have achieved to increase the population coverage of our latest mobile network technology LTE/4G to approximately 85% as of December 31, 2014.

In the fourth quarter of 2014, we continued to experience growth in postpaid mobile and fixed broadband subscribers. Our postpaid mobile subscription base grew by more than 16,000 subscriptions to approximately 1,320,000 as of December 31, 2014. The improvement was predominantly attributable to primary postpaid contracts, which showed the highest number of quarterly net additions for two years. Sunrise *Freedom* continued to contribute to the growth in primary postpaid subscriptions with approximately 37% of our postpaid subscription base having subscribed to a Sunrise *Freedom* offering as of December 31, 2014. Due to a lower number of gross additions from one of our indirect sales channels and the loss of lower value subscribers from discontinued offerings, the number of mobile prepaid subscriptions declined to approximately 1,145,000 as of December 31, 2014. As a result of increased demand for our convergent offerings, our retail voice subscription base continued to stabilize in the fourth quarter of 2014 and amounted to approximately 398,000 as of December 31, 2014. For the first time since the second quarter of 2012, we had a positive number of net additions so that the internet subscription base increased to approximately 327,000 subscriptions as of December 31, 2014. With approximately 10,300 IPTV net additions, we recorded the highest increase since the first quarter of 2013; as of December 31, 2014, the total number of IPTV subscriptions amounted to approximately 107,100.

On December 18, 2014, Apax Partners announced that it had agreed to sell Orange to NJJ Capital, the private holding company of entrepreneur and telecommunications investor Xavier Niel, for a total consideration of CHF 2.8 billion. The sale to NJJ Capital is subject to customary regulatory approval requirements and currently expected to close by the end of the first quarter 2015.

On January 12, 2015, Sunrise Communications entered into a factoring agreement with UBS AG under which it agreed to sell certain receivables arising out of our time payment plans regarding the sale of mobile devices to UBS AG (the “**Factoring Agreement**”). Subject to certain conditions, we expect that a maximum in the amount of CHF 100 million in advance payments will be available to Sunrise Communications under the Factoring Agreement. With the amount of receivables from our Sunrise *Freedom* offering building up, we estimate that we will be able to extend the maximum advance payment ceiling to CHF 130 million. We estimate that the Factoring Agreement will have a total positive effect of approximately CHF 130 million over the next two years, with just over CHF 100 million already materializing in 2015.

Guidance for the Financial Year ended December 31, 2014

For the financial year ended December 31, 2014, we estimate that revenue and Adjusted EBITDA increased within a range of 2-3% on a year-on-year basis, supported by strong growth in the fourth quarter of 2014. We further estimate that the Adjusted EBITDA margin (excluding voice hubbing revenue) exceeded 33% for the financial year ended December 31, 2014.

These estimates are based on operational data and are subject to change. We caution that the foregoing information has not been audited or reviewed by our independent auditors and should not be regarded as a representation or forecast by us or any other person regarding our results that will be reported for the financial year ended December 31, 2014.

Planned SIX Listing and Refinancing

On January 13, 2015, Sunrise Communications entered into the Post IPO Credit Facilities. Subject to market conditions, among other things, the Post IPO Credit Facilities Agreement may be amended and/or restated prior to the consummation of the planned SIX listing announced previously on January 14, 2015 and/or Incremental Facilities may be raised to increase the aggregate amount of senior secured term loan facilities available under the Post IPO Credit Facilities. See "*Description of Certain Financing Arrangements—Post IPO Credit Facilities Agreement*". Utilizations under the Post IPO Credit Facilities are conditional upon, among other things, the consummation of the planned SIX listing announced previously on January 14, 2015.

The planned listing and commencement of trading on the SIX is expected to take place on or before February 6, 2015. We expect to raise primary proceeds of approximately CHF 1.35 billion to substantially strengthen the balance sheet of TopCo by bringing net leverage ratio (net debt to EBITDA) to 2.7x following the planned listing and the refinancing. As a result of the planned listing, free float of up to 57.2% is expected prior to the exercise of the over allotment option (at the lower end of the price range).

Presentation of Financial Statements

Revenue

Revenue comprises goods and services provided during the year after deduction of value added taxes ("**VAT**") and rebates relating directly to sales. We derive revenue primarily from the sale of services and from the sale of goods.

Revenue from Sale of Services

Revenue from services consists of revenue from:

- telephone services, including revenue from, among others, traffic, roaming revenues from our customers traveling abroad, fees and contributions from our mobile, landline voice & other and landline internet & IPTV;
- interconnection traffic, relating to incoming calls from other operators' networks to our mobile and landline networks;
- international roaming, relating to calls made by foreign MNOs customers while traveling in Switzerland;
- revenue from IPTV services, relating to non-recurring installation and connection charges and recurring subscription fees;
- other revenue from services, which primarily relate to business services, such as leased lines and data services, access fees charged to telecom operators and penalties charged to our mobile and landline subscriptions; and
- distribution and sales of ICT and telecommunication products in the e-business sector, and consulting, installation, operation and maintenance services for these products.

Revenue from Sale of Goods

Revenue from sale of goods mainly relates to the sale of SIM cards, mobile and landline devices and related accessories as well as hardware related to our integration business.

Transmission Costs and Cost of Goods Sold

Transmission costs and cost of goods sold primarily includes:

- interconnection traffic costs relating to the costs incurred to connect our subscriptions to other networks;
- costs associated with SIM cards, mobile and landline devices and related accessories;
- costs associated with providing connectivity to business customers, such as leased lines; and
- costs related to the acquisition of IT and telecommunication products and the rendering of consulting and maintenance services.

Other Operating Expenses

Other external expenses include:

- subscription acquisition costs mainly relating to mobile device subsidies (other than our Sunrise *Freedom* offerings), commissions to agents and dealers, customer premise equipment, in-house wiring and installation costs;
- lease and rental costs, which include lease of civil and technical sites, lease of telecommunications circuits and lease of local access network;
- advertising and promotional services;
- other costs incurred in the provisions of services, including maintenance costs for network and information systems, costs for raw, ancillary and consumable materials and goods and costs for outsourced services (*e.g.*, call center services, invoice delivery and credit collection);
- write-down of trade receivables and current assets, annual contribution for license fees, gifts, provision for charges, provision for risks and other operating expenses; and
- costs related to personnel, such as travel expenses and training.

Wages, Salaries and Pension Costs

Wages, salaries and pension costs consist primarily of wages, social security, pensions and certain employees' termination benefits.

Other Income and Expenses

Other income and other expenses primarily include significant amounts that cannot be attributed to the normal course of operations. Other income is primarily comprised of early termination fees, which result from the early termination of legal contracts either by our Group or by a customer, aperiodic settlements of charges for access services and acquisition costs. Other expenses includes, for example, provisions for restructuring and costs related to the change of our network outsourcing provider from Alcatel Lucent to Huawei in 2012.

Depreciation, Amortization and Impairment Losses

Depreciation and amortization relate to property, plant and equipment and intangible assets, respectively. Impairment losses include losses related to the impairment of property, plant and equipment and intangible assets, and the reversal of impairment losses on property, plant and equipment and intangible assets (other than goodwill). In the financial year ended December 31, 2012, we recognized the acquired mobile license as an intangible asset which will be amortized in a straight line from January 1, 2013 to December 31, 2028. Under Swiss statutory accounts, Sunrise has elected an accelerated amortization starting from the time of acquisition of the intangible asset. This will result in higher amortization charges in our Swiss statutory accounts compared to our IFRS accounts.

Net Foreign Currency Gains/(Losses)

Foreign exchange gains/(losses) arise primarily from differences between exchange rates on the date of a transaction and on the date of its settlement. Unrealized gains/(losses) are primarily due to revaluations of accounts payables and accounts receivable. We hedge our foreign currency interest payments and principal amounts for notes denominated in currencies other than Swiss francs, except for the euro-denominated portion of Existing PIK Toggle Notes. To date, we have not utilized any currency hedging for operational purposes.

Finance Income and Expenses

Finance income includes cash flows related to interest income from banks and from receivables classified as non-current assets, fair value adjustments of derivative instruments used for hedging purposes and changes in the fair value of embedded derivatives representing early termination options related to financial instruments issued by the Group. Finance expense includes interest expense on bonds, fair value adjustment of derivative instruments used for hedging purposes, bank borrowings, capital leases, shareholder loans, discounting of provisions and asset retirement obligations and credit card fees.

Income Taxes

Income tax comprises current income tax expense, offset by deferred tax benefits or expenses. Changes between statutory and IFRS accounts will give rise to deferred taxes.

Results of Operations

The table below shows our results of operations for the financial years ended December 31, 2011, 2012 and 2013 as well as the nine-month periods ended September 30, 2013 and 2014.

	For the financial year ended December 31,			For the nine-month period ended September 30,	
	2011	2012[1]	2013	2013	2014
	(consolidated, audited)			(consolidated, unaudited)	
	(CHF in thousands)				
Revenue:					
Mobile	1,272,255	1,308,557	1,265,673	942,785	990,606
Landline Voice & Other	535,324	575,195	557,957	414,746	383,078
of which, Voice Hubbing	*127,109*	*129,498*	*149,426*	*109,988*	*116,206*
Landline Internet & IPTV	176,277	182,723	197,615	146,846	153,471
Total revenue	**1,983,856**	**2,066,475**	**2,021,245**	**1,504,377**	**1,527,155**
Transmission costs and cost of goods sold	(618,167)	(653,128)	(666,199)	(482,555)	(534,531)
Other operating expenses	(594,125)[2]	(610,534)	(555,466)	(417,121)	(367,962)
Wages, salaries and pension costs	(196,605)	(220,386)	(214,199)	(160,594)	(168,557)
Total operating expenses before other income and expenses, depreciation, amortization and impairment losses	**(1,408,897)**[2]	**(1,484,048)**	**(1,435,864)**	**(1,060,270)**	**(1,071,050)**
Other income and (expenses), net	32,652	46,800	28,164	18,375	16,465
Income before depreciation, amortization and impairment losses, net financial items and income taxes	607,611	629,227	613,545	462,482	472,570
Depreciation, amortization and impairment losses	(373,461)	(396,135)	(484,309)	(369,292)	(329,433)
Operating income	**234,150**	**233,092**	**129,236**	**93,190**	**143,137**
Net foreign currency gains/(losses)	32,437	9,310	(22,718)	(19,042)	27,129
Financial income	155,606	151,633	144,149	108,937	135,831
Financial expenses	(379,025)	(362,667)	(319,714)	(244,022)	(247,670)
Net financial items	**(190,982)**	**(201,724)**	**(198,283)**	**(154,127)**	**(84,710)**
(Loss)/income before taxes	43,168	31,368	(69,047)	(60,937)	58,427
Income taxes	(32,516)	(15,305)	(12,843)	(9,619)	(17,792)
Net income/(loss) attributable to equity holders of the company	**10,652**	**16,063**	**(81,890)**	**(70,556)**	**40,635**

(1) Restated.

(2) Derived from the comparative figures in the audited consolidated financial statements as of and for the financial year ended December 31, 2012.

Nine-Month Period Ended September 30, 2014 as Compared to the Nine-Month Period Ended September 30, 2013

Revenue

Our total revenue was CHF 1,527.2 million for the nine-month period ended September 30, 2014, an increase of CHF 22.8 million, or 1.5%, from CHF 1,504.4 million for the nine-month period ended September 30, 2013. The increase in revenue was primarily attributable to higher mobile revenue, mainly related to our new Sunrise *Freedom* offering, and growth in our landline internet & IPTV revenue, only partially offset by a decrease in landline voice & other revenue.

The table below sets forth our revenue for the nine-month period ended September 30, 2014 as compared to the nine-month period ended September 30, 2013.

	For the nine-month period ended September 30,				Change	
	2013	% of total revenue	2014	% of total revenue	(amount)	(%)
	(CHF in thousands, except percentages) (unaudited)					
Revenue:						
Mobile	942,785	62.7	990,606	64.9	47,821	5.1
Landline Voice & Other	414,746	27.6	383,078	25.1	(31,668)	(7.6)
Landline Internet & IPTV	146,846	9.8	153,471	10.0	6,625	4.5
Total revenue	**1,504,377**	**100.0**	**1,527,155**	**100.0**	**22,778**	**1.5**

Mobile revenue was CHF 990.6 million for the nine-month period ended September 30, 2014, an increase of CHF 47.8 million, or 5.1%, from CHF 942.8 million for the nine-month period ended September 30, 2013. The increase in mobile revenue was primarily attributable to higher hardware revenue from our Sunrise *Freedom* offering based on a de-coupling of services and mobile devices. Prepaid revenue increased during the nine-month period ended September 30, 2014 as compared to the same period in the prior year as a result of the integration of YOL Communication GmbH and YOL Services AG only in the third quarter of 2013.

Landline voice & other revenue was CHF 383.1 million for the nine-month period ended September 30, 2014, a decrease of CHF 31.7 million, or 7.6%, from CHF 414.7 million for the nine-month period ended September 30, 2013. The decrease in landline voice & other revenue was primarily attributable to a decrease in the customer base and was only partially offset by higher voice hubbing revenue.

Landline internet & IPTV revenue was CHF 153.5 million for the nine-month period ended September 30, 2014, an increase of CHF 6.6 million, or 4.5%, from CHF 146.8 million for the nine-month period ended September 30, 2013. The increase in landline internet & IPTV for the nine-month period ended September 30, 2014 was primarily attributable to the growth of the IPTV customer base.

Transmission Costs and Cost of Goods Sold

Transmission costs and cost of goods sold was CHF 534.5 million for the nine-month period ended September 30, 2014, an increase of CHF 52.0 million, or 10.8%, from CHF 482.6 million for the nine-month period ended September 30, 2013. The increase in transmission costs and cost of goods sold was primarily attributable to the introduction of Sunrise *Freedom*. Costs of sales of mobile devices are now recorded under cost of goods sold, whereas before the introduction of Sunrise *Freedom* subsidies for mobile devices coupled with service plans were recorded under other operating expenses.

Other Operating Expenses

Other operating expenses were CHF 368.0 million for the nine-month period ended September 30, 2014, a decrease of CHF 49.2 million, or 11.8%, from CHF 417.1 million for the nine-month period ended September 30, 2013. The decrease in other operating expenses was primarily attributable to the shift of expenses for subsidized mobile devices from other operating expenses to cost of goods sold following the introduction of Sunrise *Freedom*.

Wages, Salaries and Pension Costs

Wages, salaries and pension costs were CHF 168.6 million for the nine-month period ended September 30, 2014, an increase of CHF 8.0 million, or 5.0%, from CHF 160.6 million for the nine-month period ended September 30, 2013. The increase in wages, salaries and pension costs was primarily attributable to an increase in the number of our employees (full-time equivalents) as a result of the insourcing of the engineering department from our managed services provider Huawei.

Other Income and (Expenses), Net

Other income and expenses were CHF 16.5 million for the nine-month period ended September 30, 2014, a decrease of CHF 1.9 million, or 10.4%, from CHF 18.4 million for the nine-month period ended September 30, 2013. The increase in other income and expense was primarily attributable to lower early termination fees in an amount of CHF 4.3 million.

Depreciation and Amortization

Depreciation and amortization losses were CHF 329.4 million for the nine-month period ended September 30, 2014, a decrease of CHF 39.9 million, or 10.8%, from CHF 369.3 million for the nine-month period ended September 30, 2013. The decrease in depreciation and amortization expenses was primarily attributable to non-recurring write-offs of CHF 48.1 million related to the replacement of the radio network with multi standard radio equipment in 2013.

Net Foreign Currency Gains/(Losses)

Net foreign currency gains were CHF 27.1 million for the nine-month period ended September 30, 2014 as compared to a net foreign currency loss of CHF 19.0 million for the nine-month period ended September 30, 2013. The decrease in net foreign currency losses was primarily attributable to opposite movements in the Euro exchange rate in the nine-month periods ended September 30, 2013 and 2014.

Financial Income

Financial income was CHF 135.8 million for the nine-month period ended September 30, 2014, an increase of CHF 26.9 million, or 24.7%, from CHF 108.9 million for the nine-month period ended September 30, 2013. The increase in financial income was primarily attributable to the change in fair value of embedded derivatives and fair value adjustment of derivative instruments used for hedging purposes.

Financial Expenses

Financial expenses were CHF 247.7 million for the nine-month period ended September 30, 2014, an increase of CHF 3.7 million, or 1.5%, from CHF 244.0 million for the nine-month period ended September 30, 2013. The slight increase in financial expenses was primarily attributable to fair value adjustments on derivatives. Our primary financial expenses for the nine-month period ended September 30, 2014 included interest expense resulting from our financial liabilities, capital lease expenses and accretion of interest related to asset retirement obligations.

Income Tax

The following table sets forth our income tax expense for the nine-month period ended September 30, 2014 as compared to the nine-month period ended September 30, 2013.

	For the nine-month period ended September 30,		Change	
	2013	2014		
	(unaudited)		Amount	%
	(CHF in thousands)			
Current tax	6,732	8,608	1,876	27.9
Deferred tax (expense)/income	2,887	9,184	6,297	218.1
Total income tax	**9,619**	**17,792**	**8,173**	**85.0**

Total income tax was CHF 17.8 million for the nine-month period ended September 30, 2014, an increase of CHF8.2 million, or 85.0%, from CHF 9.6 million for the nine-month period ended September 30, 2013. The increase in total income tax was primarily attributable to an increase of CHF 1.9 million, or 27.9%, in current tax as a result of the decrease in depreciation, amortization and impairment losses partially offset by an increase of CHF 6.3 million in deferred tax expense for the nine-month period ended September 30, 2014.

EBITDA

Our EBITDA was CHF 472.6 million for the nine-month period ended September 30, 2014, an increase of CHF 10.1 million, or 2.2%, from CHF 462.5 million for nine-month period ended September 30, 2013. The increase in EBITDA was attributable to increased revenue and decreased operating expenses and partially offset by lower other income and expenses. With Sunrise *Freedom*, the full value of the mobile device is recognized upfront as cost of goods sold, whereas previously only the portion paid upfront was recognized as cost of goods sold while the remaining portion was recognized as other operating expenses (customer acquisition and retention costs). The margin on the cost of the mobile device under our Sunrise *Freedom* offering resulted in a slightly higher EBITDA.

Financial Year Ended December 31, 2013 as Compared to the Financial Year Ended December 31, 2012

Revenue

Our total revenue decreased from CHF 2,066.5 million in the prior year by CHF 45.2 million, or 2.2%, and amounted to CHF 2,021.2 million in the financial year ended December 31, 2013. The decrease in revenue was primarily attributable to lower mobile revenue of CHF 42.9 million and a decrease in landline voice & other revenue of CHF 17.2 million, partially offset by an increase in internet service & IPTV revenue of CHF 14.9 million. During the period from the date of acquisition to December 31, 2013, the subsidiaries Ortel and Lebara contributed CHF 26.2 million to revenue.

The table below sets forth our revenue for the financial year ended December 31, 2013 as compared to the financial year ended December 31, 2012.

	For the financial year ended December 31,				Change	
	2012	% of total revenue	2013	% of total revenue	(amount)	(%)
	(audited)					
	(CHF in thousands, except percentages)					
Revenue:						
Mobile	1,308,557	63.3	1,265,673	62.6	(42,884)	(3.3)
Landline Voice & Other	575,195	27.8	557,957	27.6	(17,238)	(3.0)
Landline Internet & IPTV	182,723	8.8	197,615	9.8	14,892	8.2
Total revenue	**2,066,475**	**100.0**	**2,021,245**	**100.0**	**(45,230)**	**(2.2)**

Mobile revenue decreased by CHF 42.9 million, or 3.3% , from CHF 1,308.6 million for the financial year ended December 31, 2012 to CHF 1,265.7 million for the financial year ended December 31, 2013. The postpaid revenue decrease was mainly driven by the price reductions introduced in July 2012 and was only partially compensated by a larger subscription base and higher prepaid revenue driven by the acquisition of Ortel and Lebara in 2013.

Landline voice & other revenue was CHF 558.0 million for the financial year ended December 31, 2013, a decrease of CHF 17.2 million, or 3.0%, from CHF 575.2 million for the financial year ended December 31, 2012. The decrease in landline voice & other revenue was primarily attributable to a decrease in the subscription base and declining retail voice revenues, only partially offset by higher hubbing revenues.

Landline internet & IPTV revenue amounted to CHF 197.6 million for the financial year ended December 31, 2013, an increase of CHF 14.9 million, or 8.2%, from CHF 182.7 million for the financial year ended December 31, 2012. The increase in landline internet & IPTV for the financial year ended December 31, 2013, was primarily attributable to the growth of the IPTV subscription base.

Transmission Costs and Cost of Goods Sold

Transmission costs and cost of goods sold was CHF 666.2 million for the financial year ended December 31, 2013, an increase of CHF 13.1 million, or 2.0%, from CHF 653.1 million for the financial year ended December 31, 2012. The increase in transmission costs and cost of goods sold was primarily attributable to higher wholesale volumes. As a result of our acquisition of Ortel and Lebara, our cost for termination rates (mostly, MTR) paid to international operators for calls made by Ortel and Lebara customers but terminated on mobile and landline networks belonging to such other operators increased.

Other Operating Expenses

Other operating expenses were CHF 555.5 million for the financial year ended December 31, 2013, a decrease of CHF 55.1 million, or 9.0%, from CHF 610.5 million for the financial year ended December 31, 2012. The decrease in other operating expenses was primarily attributable to lower marketing expenses caused by reduced marketing activities and was only partially offset by higher system and maintenance expenses in the financial year ended December 31, 2013.

Wages, Salaries and Pension Costs

Wages, salaries and pension costs were CHF 214.2 million for the financial year ended December 31, 2013, a decrease of CHF 6.2 million, or 2.8%, from CHF 220.4 million for the financial year ended December 31, 2012. The decrease in wages, salaries and pension costs was primarily attributable to a decrease in the number of our employees (full-time equivalents).

Other Income and (Expenses), Net

Other income and expenses, net amounted to CHF 28.2 million for the financial year ended December 31, 2013, a decrease of CHF 18.6 million, from CHF 46.8 million for the financial year ended December 31, 2012. The decrease in other income and expense, net was primarily attributable to a decrease of aperiodic settlements of charges for access services which was only partially offset by lower costs related to the change of our equipment and managed services provider from Alcatel-Lucent to Huawei.

Depreciation, Impairment Losses and Amortization

Depreciation, impairment losses and amortization for the financial year ended December 31, 2013, increased from CHF 396.1 million in the prior year to CHF 484.3 million, an increase of CHF 88.2 million, or 22.3%. The significant increase in depreciation, impairment losses and amortization was primarily attributable to non-recurring write-offs of CHF 48.1 million related to the replacement of the radio network with multi-standard radio equipment performed during 2013 and the amortization of the spectrum license (CHF 30.1 million) acquired in July 2012.

Net Foreign Currency Gains/(Losses)

Net foreign currency gains/(losses) were negative CHF 22.7 million for the financial year ended December 31, 2013, a decrease of CHF 32.0 million from CHF 9.3 million for the financial year ended December 31, 2012. The decrease in net foreign currency gains/(losses) was primarily attributable to the increase of the Euro-CHF exchange rate which was 1.2274 as of December 31, 2013 compared to 1.2077 as of December 31, 2012.

Financial Income

Financial income was CHF 144.1 million for the financial year ended December 31, 2013, a decrease of CHF 7.5 million, or 4.9%, from CHF 151.6 million for the financial year ended December 31, 2012. The decrease in financial income was primarily attributable to fair value adjustments on derivatives.

Financial Expenses

Financial expenses were CHF 319.7 million for the financial year ended December 31, 2013, a decrease of CHF 43.0 million, or 11.8%, from CHF 362.7 million for the financial year ended December 31, 2012. The decrease in financial expenses was primarily attributable to lower interest expenses for loans and notes as a result of the repayment of the floating rate note in a principal amount of CHF 175.0 million only partially offset by drawings under the Existing Revolving Credit Facility of CHF 95.0 million.

Income Tax

The following table sets forth our income tax expense for the financial year ended December 31, 2013 as compared to the financial year ended December 31, 2012.

	For the financial year ended December 31,		Change	
	2012	2013		
	(audited)		Amount	%
	(CHF in thousands)			
Current tax	(10,776)	(18,174)	(7,398)	68.7%
Deferred tax (expense)/income	(4,529)	5,331	9,860	—
Total income tax	**(15,305)**	**(12,843)**	**2,462**	**(16.1)%**

Total income tax was CHF 12.8 million for the financial year ended December 31, 2013, a decrease of CHF 2.5 million, or 16.1%, from CHF 15.3 million for the financial year ended December 31, 2012. Although current tax expense for the financial year ended December 31, 2013 was higher than in the prior year, as a result of lower depreciation charges recognized, total income tax for the financial year ended December 31, 2013 was lower due to deferred tax income effects.

EBITDA

Our EBITDA was CHF 613.5 million for the financial year ended December 31, 2013, a decrease of CHF 15.7 million, or 2.5%, from CHF 629.2 million for the financial year ended December 31, 2012. The decrease in EBITDA was primarily attributable to a decrease in revenue and other income and expenses, net, partially offset by a decrease in operating expenses and wages as a result of cost measures introduced in the fourth quarter of the financial year ended December 31, 2012.

Financial Year Ended December 31, 2012 as Compared to the Financial Year Ended December 31, 2011

Revenue

Our total revenue was CHF 2,066.5 million for the financial year ended December 31, 2012, an increase of CHF 82.6 million (of which CHF 64.8 million relates to the acquisition of NextiraOne Switzerland (later renamed Business Sunrise Enterprise Solutions GmbH and merged into Sunrise Communications AG)), or 4.2%, from CHF 1,983.9 million for the financial year ended December 31, 2011. Organic growth (exclusive of BSES) was 0.9% driven by an increase in mobile revenue.

The table below sets forth our revenue for the financial year ended December 31, 2011 as compared to the financial year ended December 31, 2012.

	For the financial year ended December 31, (audited) (CHF in thousands, except percentages)				Change	
	2011	% of total revenue	2012	% of total revenue	(amount)	(%)
Revenue:						
Mobile	1,272,255	64.1	1,308,557	63.3	36,302	2.9
Landline Voice & Other	535,324	27.0	575,195	27.8	39,871	7.5
Landline Internet & IPTV	176,277	8.9	182,723	8.8	6,446	3.7
Total revenue	**1,983,856**	**100.0**	**2,066,475**	**100.0**	**82,619**	**4.2**

Mobile revenue was CHF 1,308.6 million for the financial year ended December 31, 2012, an increase of CHF 36.3 million, or 2.9%, from CHF 1,272.3 million for the financial year ended December 31, 2011. The increase in mobile revenue was primarily attributable to higher postpaid revenue driven by an increase in subscription base. The growth in mobile revenue was partially offset by lower prepaid revenue and lower “roaming in” revenues.

Landline voice & other revenue was CHF 575.2 million for the financial year ended December 31, 2012, an increase of CHF 39.9 million, or 7.5%, from CHF 535.3 million for the financial year ended December 31, 2011. The increase in landline voice & other revenue was primarily attributable to BSES which contributed CHF 85.1 million (CHF 20.3 million in 2011) to the increase in landline voice & other revenue. Organic growth (exclusive of BSES) decreased 4.1% driven by declining retail and wholesale voice revenues.

Landline internet & IPTV revenue was CHF 182.7 million for the financial year ended December 31, 2012, an increase of CHF 6.5 million, or 3.7%, from CHF 176.3 million for the financial year ended December 31, 2011. The increase in landline internet for the financial year ended December 31, 2012, was primarily attributable to changes in the product mix.

Transmission Costs and Cost of Goods Sold

Transmission costs and cost of goods sold was CHF 653.1 million for the financial year ended December 31, 2012, an increase of CHF 35.0 million, or 5.7%, from CHF 618.2 million for the financial year ended December 31, 2011. The increase in transmission costs and cost of goods sold was primarily attributable to increased costs related to BSES and a year-on-year growth of traffic volumes.

Other Operating Expenses

Other operating expenses were CHF 610.5 million for the financial year ended December 31, 2012, an increase of CHF 16.4 million, or 2.8%, from CHF 594.1 million for the financial year ended December 31, 2011. The increase in other operating expenses was primarily attributable to higher system and maintenance costs and BSES partially offset by lower outsourcing costs.

Wages, Salaries and Pension Costs

Wages, salaries and pension costs were CHF 220.4 million for the financial year ended December 31, 2012, an increase of CHF 23.8 million, or 12.1%, from CHF 196.6 million for the financial year ended December 31, 2011. The increase in wages, salaries and pension costs was primarily attributable to an increase in FTEs, mainly in the customer care organization and Sunrise shops as well as to the acquisition of BSES.

Other Income and (Expenses), Net

Other income and expenses were CHF 46.8 million for the financial year ended December 31, 2012, an increase of CHF 14.2 million, from CHF 32.7 million for the financial year ended December 31, 2011. The increase in other income and expense was primarily attributable to aperiodic settlements of leased line and interconnection charging disputes related to prior years and an increase of net collectible early termination fees, partially offset by higher costs related to the change of our network outsourcing partner from Alcatel-Lucent to Huawei as well as costs related to the restructuring announced by Sunrise in October 2012.

Depreciation, Amortization and Impairment Losses

Depreciation, amortization and impairment losses were CHF 396.1 million for the financial year ended December 31, 2012, an increase of CHF 22.6 million, or 6.1%, from CHF 373.5 million for the financial year ended December 31, 2011. The increase in depreciation, amortization and impairment losses was primarily attributable to MSR network equipment replacements performed during the fourth quarter of 2012 which enhanced network coverage and capacity with UMTS and LTE/4G technologies.

Net Foreign Currency Gains/(Losses)

Net foreign currency gains/(losses) were CHF 9.3 million for the financial year ended December 31, 2012, a decrease of CHF 23.1 million, or 71.3%, from CHF 32.4 million for the financial year ended December 31, 2011. The decrease in net foreign currency gains/(losses) was primarily attributable to the valuation of financial liabilities denominated in foreign currency.

Financial Income

Financial income was CHF 151.6 million for the financial year ended December 31, 2012, a decrease of CHF 4.0 million, or 2.6%, from CHF 155.6 million for the financial year ended December 31, 2011. The decrease in financial income was primarily attributable to fair value adjustments on derivatives.

Financial Expenses

Financial expenses were CHF 362.7 million for the financial year ended December 31, 2012, a decrease of CHF 16.4 million, or 4.3%, from CHF 379.0 million for the financial year ended December 31, 2011. The decrease in financial expenses was primarily attributable to fair value adjustments on derivatives. Our primary financial expenses for the financial year ended December 31, 2012 included interest expense resulting from our financial liabilities, capital lease expenses and accretion of interest related to asset retirement obligations.

Income Tax

The following table sets forth our income tax expense for the financial year ended December 31, 2011 as compared to the financial year ended December 31, 2012.

	For the financial year ended December 31,		Change	
	2011	2012		
	(audited)		Amount	%
	(CHF in thousands)			
Current tax	(35,885)	(10,776)	25,109	(70.0)%
Deferred tax (expense)/income	3,369	(4,529)	(7,898)	(234.4)%
Total income tax	**(32,516)**	**(15,305)**	**17,211**	**(52.9)%**

Total income tax was CHF 15.3 million for the financial year ended December 31, 2012, a decrease of CHF 17.2 million, or 52.9%, from CHF 32.5 million for the financial year ended December 31, 2011. The decrease in total income tax was primarily attributable to a decrease of CHF 25.1 million, or 70.0%, in current tax as a result of the increase in depreciation, amortization and impairment losses partially offset by an increase of CHF 7.9 million in deferred tax expense for the financial year ended December 31, 2012.

EBITDA

Our EBITDA was CHF 629.2 million for the financial year ended December 31, 2012, an increase of CHF 21.6 million (of which CHF 3.4 million relates to the acquisition of NextiraOne Switzerland, or 3.6%, from CHF 607.6 million for the financial year ended December 31, 2011. The increase in EBITDA was primarily attributable to an increase in gross profit partially offset by higher operating expenses and wages and salaries.

Liquidity and Capital Resources

Historical Cash Flow

Our historical liquidity needs have arisen primarily from the need to finance capital expenditures for the maintenance and expansion of our operations, including deployment of new technologies, expansion of network coverage and efforts to maintain our quality of service as well as liquidity needs for tax, interest payments and mandatory repayments of existing credit facilities. We have invested heavily in the development of our network over the last decade. Our capital expenditure plans are subject to change depending, among other things, on the evolution of market conditions, the cost and availability of funds and the availability of internal resources. See "*Business—Network and Infrastructure—Construction, Maintenance and Development*". Our principal source of funds has been cash flow from operating activities. Our ability to generate cash from our operations will depend on our future operating performance, which is in turn dependent, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control.

The table below sets out certain information related to our cash flows.

	For the financial year ended December 31,			For the nine-month period ended September 30	
	2011[1]	2012[2]	2013	2013	2014
	(consolidated, audited)			(consolidated, unaudited)	
	(CHF in thousands)				
(Loss)/Income before income taxes	43,168	31,368	(69,047)	(60,937)	58,427
Depreciation and impairment losses	373,461	396,135	484,309	369,292	329,433
Gain on disposal of property, plant and equipment	(111)	(352)	123	(3)	(194)
Movement in pension	(2,049)	(4,276)	2,343	1,408	(612)
Movement in provisions	(195)	3,056	(9,437)	(8,455)	(652)
Change in net working capital	20,278	(35,866)	66,513	15,199	(82,357)
Cash flow from operating activities before net financial items and tax	**434,552**	**390,065**	**474,804**	**316,504**	**304,045**
Financial income	(155,606)	(151,633)	(144,149)	(108,937)	(135,831)
Financial expense	379,025	362,667	319,714	244,022	247,670
Foreign currency gains/(losses), net	(32,262)	(6,457)	23,402	19,253	(26,799)
Interest received	120,719	204,385	115,458	61,007	104,686
Interest paid	(311,752)	(379,718)	(287,938)	(154,480)	(191,300)
Corporate income and withholding taxes paid	(67,498)	(35,647)	(14,511)	(19,997)	6,491
Total cash flow from operating activities	**367,178**	**383,662**	**486,780**	**357,372**	**308,962**
Acquisition of a subsidiary, net of cash acquired	(38,019)	—	(95,662)	(95,662)	—
Purchase of property, plant and equipment	(121,935)	(189,850)	(221,143)	(155,796)	(176,226)
Purchase of intangible assets	(30,390)	(324,043)	(60,242)	(20,797)	(81,356)
Sale of property, plant and equipment	111	11,208	594	544	194
Investment in other financial assets	(100,102)	—	—	—	—
Short-term deposit reclassified to/from cash and cash equivalents during period	—	100,052	—	—	—
Total cash flow used in investing activities	**(290,335)**	**(402,633)**	**(376,453)**	**(271,711)**	**(257,388)**
Redemption of PECs	—	(86,847)	(47,548)	(47,548)	(55,451)
Proceeds from long-term loans and notes	320,754	891,415	95,000	95,000	20,000
Repayments of long-term loans and notes	(37,500)	(1,093,656)	(175,000)	(175,000)	(35,000)
Repayments of capital leases	(4,689)	(5,439)	(5,023)	(3,439)	(4,425)
Proceeds from settlement of swaps	—	—	—	—	2,355
Other financing activities	—	—	—	—	(4,231)
Total cash flow used in financing activities	278,565	(294,527)	(132,571)	(130,987)	(76,752)
Total cash flow	355,408	(313,498)	(22,244)	(45,326)	(25,178)
Cash and cash equivalents at beginning of period	126,754	485,387	170,601	170,601	149,198
Foreign currency impact on cash	3,225	(1,288)	841	508	1,180
Cash and cash equivalents at end of period	**485,387**	**170,601**	**149,198**	**125,783**	**125,200**

(1) Financial information as of and for the financial year ended December 31, 2011 has been taken from the consolidated financial statements as of and for the financial year ended December 31, 2012.

(2) Restated.

Total Cash Flow from Operating Activities

Nine-Month Period Ended September 30, 2014 as Compared to Nine-Month Period Ended September 30, 2013

For the nine-month period ended September 30, 2014, total cash flow from operating activities decreased by CHF 48.4 million, or 13.6%, to CHF 309.0 million from CHF 357.4 million for the nine-month period ended September 30, 2013. The decrease was primarily due to cash outflow related to working capital which was only partially offset by improved income before taxes and an improvement in paid taxes.

Financial Year Ended December 31, 2013 as Compared to Financial Year Ended December 31, 2012

For the financial year ended December 31, 2013, total cash flow from operating activities increased by CHF 103.1 million, or 26.9%, to CHF 486.8 million, from CHF 383.7 million for the financial year ended December 31, 2012. The increase was primarily due to a positive change in working capital and lower taxes partially offset by a decline in EBITDA and payments related to restructuring.

Financial Year Ended December 31, 2012 as Compared to Financial Year Ended December 31, 2011

For the financial year ended December 31, 2012, total cash flow from operating activities increased by CHF 16.5 million, or 4.5%, to CHF 383.7 million, from CHF 367.2 million for the financial year ended December 31, 2011. The increase was primarily due to higher EBITDA, lower taxes, a decrease in net interest and foreign currency losses partially offset by a higher change in working capital.

Total Cash Flow Used in Investing Activities

Nine-Month Period Ended September 30, 2014 as Compared to Nine-Month Period Ended September 30, 2013

For the nine-month period ended September 30, 2014, total cash flow used in investing activities decreased by CHF 14.3 million, or 5.3%, to CHF 257.4 million from CHF 271.7 million in the nine-month period ended September 30, 2013. The decrease was primarily attributable to high investments in subsidiaries in the nine-month period ended September 30, 2013 (acquisition of Lebara and Ortel) with no similar investments in the nine-month period ended September 30, 2014. This effect was partially offset by additional investments in connection with the Swisscom BBCS deal and software developments as well as continued mobile and landline investments.

Financial Year Ended December 31, 2013 as Compared to Financial Year Ended December 31, 2012

For the financial year ended December 31, 2013, total cash flow used in investing activities decreased by CHF 26.2 million, or 6.5%, to CHF 376.5 million, from CHF 402.6 million for the financial year ended December 31, 2012. The decrease was primarily due to the first payment of the mobile license (CHF 289.0 million) in the financial year December 31, 2012, partially offset by higher costs in connection with the U900 roll-out, investments in our landline network and customer-oriented projects.

Financial Year Ended December 31, 2012 as Compared to Financial Year Ended December 31, 2011

For the financial year ended December 31, 2012, total cash flow used in investing activities increased by CHF 112.3 million, or 38.7%, to CHF 402.6 million, from CHF 290.3 million for the financial year ended December 31, 2011. Adjusting for the reclassification of financial assets (CHF 100.1 million), the increase in total cash flow used in investing activities would have been CHF 312.5 million. The increase was primarily due to the first payment of the mobile license (CHF 289.0 million) and increased investments in our mobile network.

Total Cash Flow Used in Financing Activities

Nine-Month Period Ended September 30, 2014 as Compared to Nine-Month Period Ended September 30, 2013

For the nine-month period ended September 30, 2014, total cash flow used in financing activities decreased by CHF 54.2 million, or 41.4%, to CHF 76.8 million from CHF 131.0 million for the nine-month period ended September 30, 2013. The decrease was primarily attributable to the net repayment of loans of CHF 80.0 million in the nine-month period ended September 30, 2013 and net repayment of CHF 15.0 million in the nine-month period ended September 30, 2014.

Financial Year Ended December 31, 2013 as Compared to Financial Year Ended December 31, 2012

For the financial year ended December 31, 2013, total cash flow used in financing activities decreased by CHF 162.0 million, or 55.0%, to CHF 132.6 million, from total cash flow from financing activities of CHF 294.5 million for the financial year ended December 31, 2012. The decrease was primarily due to the change in financing activities. In the financial year ended December 31, 2013, we repaid one bond with a principal amount of CHF 175.0 million and utilized CHF 95 million in drawings under the Existing Revolving Credit Facility for the acquisitions of Lebara and Ortel. In the financial year ended December 31, 2012, in connection with a refinancing and the redemption of PECs plus accrued interest for the purpose of early repayment of the former PIK facility, we had repaid debt totaling by CHF 202.2 million.

Financial Year Ended December 31, 2012 as Compared to Financial Year Ended December 31, 2011

For the financial year ended December 31, 2012, total cash flow used in financing activities decreased by CHF 573.1 million to CHF 294.5 million, from total cash inflow from financing activities of CHF 278.6 million for the financial year ended December 31, 2011. The decrease was primarily due to the change in financing activities. In 2011, we increased borrowings in anticipation of the license auction by CHF 320.7 million. In 2012, in conjunction with a refinancing and the redemption of PECs plus accrued interest for the purpose of early repayment of the former PIK facility, we repaid debt in a total amount of CHF 202.2 million.

Net Working Capital Development

The following table shows changes in our net working capital position on a quarterly basis during each of the financial years ended December 31, 2011, 2012 and 2013 and the nine-month period ended September 30, 2014:

	Net Change in Working Capital (consolidated, unaudited)				
	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Full Year**
2011	(73.3)	3.8	20.7	69.1	20.3
2012	(114.4)	(5.0)	(33.2)	116.8	(35.9)
2013	(20.7)	(0.9)	36.8	51.3	66.5
2014	(98.8)	(34.1)	50.6	—	—

Changes in our net working capital position have been driven, in large part, by changes in our accounts receivable and accounts payable during this period. Our accounts receivable have been affected by two main factors during the period from 2011 through 2014. From December 2011 to March 2012, we implemented an initiative focused on making our monthly invoices more easily understandable for our customers which resulted in accelerated payments and a reduction of our accounts receivable in the first quarter 2012. In April 2014, we introduced Sunrise *Freedom* which is based on a de-coupling of mobile services and devices. With Sunrise *Freedom*, the full sales price for the mobile device is recognized upfront as hardware revenue if a customer subscribes to a device plan under our Sunrise *Freedom* offering, whereas actual cash payments are received over the 24-month installment plan period. Our working capital is therefore negatively impacted by a higher volume of outstanding accounts receivable in the form of future installments under the device plans. In that respect, we plan to improve our cash flows by optimizing working capital management, *inter alia*, by the Factoring Agreement that Sunrise Communications entered into with UBS AG on January 12, 2015. As a result, we anticipate that the negative cash impact of the increase in trade receivables following the introduction of Sunrise *Freedom* will be significantly reduced by the positive impact from the Factoring Agreement. See "*Description of Certain Financing Arrangements—Factoring Arrangements*".

Historically, our accounts payable have been driven by our spending levels. In recent years the level of our capital expenditures has fluctuated significantly. Typically, capital expenditures are not spread evenly over the four quarters of a financial year. Capital expenditures and marketing expenses reaching the highest levels in the fourth quarter has historically resulted in an increase in accounts payable in the fourth quarter and a decrease in the first quarter of the following year as these accounts payable are actually paid.

In mid-2012, we changed our main infrastructure outsourcing partner from Alcatel-Lucent to Huawei. As part of the negotiations with Huawei, we were able to obtain more favorable payment terms for capital expenditures and flat fees accounting for an improvement in trade payables and working capital throughout 2013. With respect to future network enhancements, we intend to benefit from our well-invested network requiring regular levels of investment in the future after the significant investments in 2013 and 2014 for the UMTS900 exchange and LTE/4G roll-out and expect capital expenditures from 2016 onwards to reach a level of approximately 11% of revenue (excluding voice hubbing). If the level of capital expenditures is reduced, such reduction will result in an adverse effect in accounts payable for up to six months.

Furthermore, the annual payment of employee bonus awards and prepayments of leases for mobile and landline sites frequently has an adverse effect on working capital in the first quarter of the financial year. Employee bonus payments are considered part of working capital and are accrued monthly over the year with an actual payout in March of the following year. Lease payments for mobile and landline sites are made up to a year in advance with payment occurring mostly in January. As a result, the prepayment is expensed evenly over the year.

Certain Other Contractual Commitments

The following tables summarize our contractual obligations as of December 31, 2013 and September 30, 2014. The information presented in this table reflects, in part, management's estimates of the contractual maturities of our obligations, which may differ significantly from the actual maturities of these obligations:

Payments due by period (as of December 31, 2013)	Less than 1 year	1-2 years	2-5 years	More than 5 years	Total
			(CHF in thousands)		
Operating lease obligations[1]	90,180	51,959	103,476	63,688	309,303
Purchase obligations[2]	76,249	—	—	—	76,249
Total contractual obligations	**166,429**	**51,959**	**103,476**	**63,688**	**385,552**

(1) Operating lease obligations primarily relate to leases of real property, mobile sites, and leased lines, and are included as other operating expenses above operating income.

(2) Purchase obligations include purchase orders relating to property, plant and equipment and intangible assets.

Payments due by period (as of September 30, 2014)	Less than 1 year	1-2 years	2-5 years	More than 5 years	Total
			(CHF in thousands)		
Operating lease obligations[1]	92,607	49,300	88,254	66,508	296,670
Purchase obligations[2]	41,133	1,847	0	0	42,980
Total contractual obligations	**133,740**	**51,147**	**88,254**	**66,508**	**339,650**

(1) Operating lease obligations primarily relate to leases of real property, mobile sites, and leased lines, and are included as other operating expenses above operating income.

(2) Purchase obligations include purchase orders relating to property, plant and equipment.

Since September 30, 2014, we have entered into additional significant contractual commitments of approximately CHF 11 million for one supply contract.

Capital Expenditures and Investments

The following table shows our capital expenditures defined as additions of property, plant and equipment and intangible assets for the financial years ended December 31, 2011, 2012 and 2013 and the nine-month periods ended September 30, 2013 and 2014:

	For the financial year ended December 31,			For the nine-month period ended September 30	
	(adjusted, unaudited)	(audited)		(unaudited)	
	2011	2012	2013	2013	2014
			(CHF in thousands)		
Property, plant and equipment	121,935	189,850	221,143	155,796	176,226
Intangible assets	30,390	324,043	60,242	20,797	81,356
Total capital expenditure[1]	**152,325**	**513,893**	**281,385**	**176,593**	**257,582**

(1) Capital expenditures reported here exclude asset retirement obligations, capitalized interest and additions from the acquisition of subsidiaries.

For the nine-month period ended September 30, 2014, our capital expenditures amounted to CHF 257,6 million, of which CHF 176.2 million related to property, plant and equipment and CHF 81.4 million related to intangible assets. Capital expenditures during the nine-months ended September 30, 2014 were primarily attributable to CHF 153.0 million in our mobile network, CHF 86 million in our landline network (CHF 45.0 million thereof related to right-of-use for future landline technologies as part of the one-time co-investment of CHF 74 million under agreement with Swisscom for access to Swisscom's copper and fiber lines) and CHF 19.0 million in other assets, primarily driven by IT and customer-oriented projects.

For the financial year ended December 31, 2013, our capital expenditures amounted to CHF 281.4 million, of which CHF 221.1 million related to property, plant and equipment and CHF 60.2 million related to intangible assets. Capital expenditures during the financial year ended December 31, 2013 were primarily attributable to CHF 132.6 million in our mobile network, CHF 88.5 million in our landline network and CHF 60.3 million in other assets, primarily driven by IT and customer-oriented projects.

For the financial year ended December 31, 2012, our capital expenditures amounted to CHF 513.9 million, of which CHF 189.9 million related to property, plant and equipment and CHF 324.0 million related to intangible assets. Capital expenditures during the financial year ended December 31, 2012 were primarily attributable to investments of CHF 289.0 million for the first payment of the mobile spectrum license, of which CHF 132.8 million in our mobile network, CHF 63.4 million in our landline network and CHF 28.8 million in other assets, primarily driven by IT projects.

For the financial year ended December 31, 2011, our capital expenditures amounted to CHF 152.3 million, of which CHF 121.9 million related to property, plant and equipment and CHF 30.4 million related to intangible assets. Capital expenditures during the financial year ended December 31, 2011 were primarily attributable to investments of CHF 65.2 million in our mobile network, CHF 15.5 million in our landline network and CHF 71.6 million in other assets, which was driven by IT projects.

We have undertaken considerable investments in our assets and the market over the last decade. Our ongoing investments in our mobile network include investments for the completion of the nationwide roll-out of UMTS/HSPA technologies. In addition, we completed our nationwide roll-out of UMTS/HSPA using cost-efficient 900 MHz technology in 2013, which allows for increased speeds of up to 42 Mbit/s, improved quality and coverage, and provides the capability of switching to LTE/4G technology which we commercially launched in 2013 and which allows for speeds of up to 100 Mbit/s. As December 31, 2014, our UMTS/HSPA coverage was approximately 99% while our LTE/4G coverage had reached approximately 85%, in each case as a percentage of the Swiss population. In the spectrum license auction in 2012, we secured what we believe to be sufficient spectrum until 2028 in all frequency bands, for CHF 481.7 million. We opted for payments in installments as follows: 60%, or CHF 289.0 million, of the license fee was paid on August 6, 2012 and the remaining 40% must be paid in two installments of 20% each with 3% compounding interest for the period ended December 31, 2013, which are due on June 30, 2015 and December 31, 2016, respectively. Before June 30 2014, the remaining 40% and the compounding interest were classified under the line item "non-current portion of trade and other payables". From June 30, 2014, 20% are classified under the line item "current portion of trade and other payables" as the payment will be due within one year.

We continue to make investments in our landline network to increase the bandwidth capacity of our broadband network and expand our LLU footprint to additional sites where we have large and key business accounts. We also plan to make products and services available on FTTH access technology in the areas where it is available and cost-efficient. We also intend to make investments in our IPTV platform. Our future capital expenditures in our networks will comprise life-cycle (maintenance) expenditures and discretionary build-out of our network, including an investment in LTE/4G technologies. In the financial year ended December 31, 2014, our capital expenditures reached a peak at an aggregate amount of approximately CHF 355 million. This aggregate amount includes significant investments in our ongoing LTE/4G roll-out and a one-time payment made in connection with our recent agreement with Swisscom for full access to Swisscom's last mile at what we believe are cost-efficient and attractive terms, combined with our partnerships with Swisscom, SFN and local utilities for the most advanced next-generation fiber technologies, such as vectoring, FTTS, FTTB and FTTH. The agreement with Swisscom for access to Swisscom's copper lines, including VDSL and G-Fast technologies where deployed, and FTTH lines includes a one-time co-investment of CHF 74 million, of which CHF 45 million was realized in 2014.

Going forward, we intend to benefit from our well-invested network requiring regular levels of investment in the future after the significant investments in 2013 and 2014 for the UMTS900 exchange and LTE/4G roll-out and expect capital expenditures from 2016 onwards to reach a level of approximately 11% of revenue (excluding voice hubbing), in part so that we can maintain the cushion of excess network capacity that we currently enjoy while facing the expected increase in mobile data usage. However, should this expected data growth fail to materialize, we believe that we would have the flexibility to reduce our capital expenditures to the incremental upgrades required by actual new customer subscriptions and increased data usage, together with regular maintenance expenditures. See "*Business—Network and Infrastructure—Construction, Maintenance and Development*" for a discussion of our plans to expand network coverage.

Investment of Surplus Cash

We have a net debt position. Excess cash flow has been primarily used historically to reduce the net debt position as demonstrated by our use of CHF 175.0 million and CHF 202.2 million of cash to repay one floating rate bond in the financial year ended December 31, 2013, the reduction of gross debt in the refinancing in the financial year ended December 31, 2012 and the historic payment of debt amortization under our previous senior credit facilities.

Off Balance Sheet Arrangements

The following table summarizes our off balance sheet arrangements for the periods presented, and does not include certain liabilities with respect to hedging arrangements:

	As of December 31,			As of September 30,
	2011	2012	2013	2014
	(CHF in thousands)			
Guarantees granted(1)	11,222	11,134	11,176	13,318

(1) Guarantees granted mostly relate to rental and payment guarantees.

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	(CHF in thousands)			
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Quantitative and Qualitative Disclosures about Market Risk

We are exposed to various market risks, including interest rate, foreign currency exchange rate, credit and liquidity risks associated with our underlying assets, liabilities, forecast transactions and firm commitments. Our treasury department is responsible for managing exposure to market risk that arises in connection with operations and financial activities, including interest rate and foreign currency exchange.

The following sections discuss our significant exposures to market risk. The following discussions do not address other risks that we face in the normal course of business, including country risk and legal risk.

Interest Rate Risk

We are exposed to market risks as a result of changes in interest rates, particularly in relation to floating-rate indebtedness, including, as of the date of this report, borrowings under the Existing Revolving Credit Facility and the 2012 Floating Rate Senior Secured Notes. Financial liabilities issued at floating rates will expose us to cash-flow interest rate risk, while financial liabilities issued at fixed rates expose us to fair value interest rate risk.

We regard fluctuations in interest rates in our indebtedness as one of our market risk exposures. To manage the exposure to changes in interest rates and to lower the overall costs of financing under the proposed new capital structure, we intend to enter into interest swaps to exchange the rates exposures on the underlying liabilities from a floating interest rate to a fixed interest rate for the majority of our indebtedness.

Foreign Currency Exchange Rate Risk

Our foreign exchange rate exposure relates to our euro denominated indebtedness as well as to future commercial transactions denominated in foreign currencies and to our operating activities (when revenue and expenses are denominated in a currency different from our presentation currency). We currently manage, and expect to continue to manage, our foreign currency exchange rate risk related to financial borrowings denominated in another currency than our functional currency by hedging most of our exposure except for the euro-denominated portion of Existing PIK Toggle Notes through cross-currency swaps. For the nine-month period ended September 30, 2014, we estimate that an increase or decrease in the exchange rate between the Swiss francs and the euro of 10% would have resulted in an effect on profit before tax of CHF 1.7 million.

Credit Risk

Our credit risk is principally associated with gross trade receivables, billed and unbilled, which, as of September 30, 2014 and December 31, 2013, amounted to CHF 330.3 million and CHF 62.3 million, respectively. We seek to minimize credit risk through a preventative credit check process that ensures that all customers requesting new products and services or changes to existing services are reliable and solvent. We also seek to minimize credit risk by preferring contracts that provide for the use of automatic payment methods with the aim of reducing the underlying credit risk. This control is carried out at the customer acceptance phase through the use of internal and external information.

Additionally, we exercise timely pre- and post-subscription acquisition measures for the purpose of credit collection, such as the following:

- sending reminders to customers;
- employing measures for the collection of overdue receivables, separated by strategy, portfolio and customer profiles; and
- measuring and monitoring debt status through reporting tools.

The result of this effective action is that we have a limited amount of credit losses. Additionally, as a general rule, we have a limited level of credit concentration as a result of diversifying our product and services portfolio to our customers.

We also receive guarantees, including sureties issued by primary banks, as collateral for the obligations resulting from supplies to and receivables from dealers.

On the dealer side, we have a certain degree of concentration offset by bank guarantees and credit limits delivered by credit insurers. Concentration of credit risk relating to accounts receivable from customers is limited due to the large number of customers. For accounts receivable from foreign telecommunications operators, the concentration of credit risk is also limited due to netting agreements with accounts payable to these companies, prepayment obligations, imposed bank guarantees and credit limits delivered by credit insurers.

Credit risk relating to cash and cash equivalents, derivative financial instruments and financial deposits and money market funds arises from the risk that the counterparty becomes insolvent and, accordingly, is unable to return the deposited funds or execute the obligations under the derivative transactions as a result of the insolvency. To mitigate this risk, wherever possible we conduct transactions and deposit funds with investment-grade rated financial institutions and monitor and limit the concentration of our transactions with any single party.

Our maximum exposure to credit risk (not taking into account the value of any collateral or other security held) in the event the counterparty fails to perform its obligations in relation to each class of recognized financial assets is the carrying amount of those assets as indicated on our balance sheet.

As of September 30, 2014 and December 31, 2013, we had cash in bank accounts amounting to CHF 125.2 million and CHF 149.2 million, respectively, which is included in cash and cash equivalents.

Liquidity Risk

Liquidity risk arises mostly in connection with cash flows generated and used in financing activities, and particularly by servicing debt, in terms of both interest and capital, and from all of our payment obligations that result from business activities.

In general, we manage our liquidity risk by monitoring our cash flow and rolling liquidity reserve forecast in order to ensure that we have sufficient committed facilities to meet our liquidity needs, including the Existing Revolving Credit Facility and the Revolving Credit Facility under the Post IPO Credit Facilities Agreement. Mandatory repayments of the Existing Revolving Credit Facility, Post IPO Credit Facilities and the Existing Notes may occur in certain circumstances. See "*Description of Certain Financing Arrangements*". Our interest rate and currency hedges contain clauses that enable the counterparties thereto to terminate the contracts in advance (*i.e.*, break clauses).

Critical Accounting Estimates

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

Our significant accounting estimates are set out in note (5) to our consolidated financial statement for the financial year ended December 31, 2013 included elsewhere in this report. The following describes estimates and judgments that are considered important when portraying our financial position.

Determination of Useful Lives and Recovery of Long-Lived Assets

Useful lives for intangible assets and property, plant and equipment, as shown in note (4) to our consolidated financial statements for the financial year ended December 31, 2013 included elsewhere in this report, are assigned based on periodic studies of actual useful lives and the intended use for those assets. Such studies are completed annually or updated when new events occur that have the potential to impact the determination of the useful life of the asset, such as when events or circumstances have occurred which 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 lives of these assets is recognized in the financial statements as soon as any such change is determined.

Intangible Assets

Intangible assets comprise a significant portion of our total assets. Impairment tests on goodwill are performed at least annually and, if necessary, when events or changes in circumstances indicate that their carrying value 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 in future periods. The assumptions for significant goodwill amounts are set out in note (15) to our consolidated financial statements for the financial year ended December 31, 2013 included elsewhere in this report.

Defined Benefit Plans

Net periodic pension cost for defined benefit plans is estimated based on certain actuarial assumptions, the most significant of which relate to discount rate, future salary increases and demography (mortality, disability, etc.). As shown in note (21) to our consolidated financial statements for the financial year ended December 31, 2013 included elsewhere in this report, the assumed discount rate reflects changes in market conditions. We believe these assumptions illustrate current market conditions and expectations for market returns in the long term.

Although the Group reports an employee benefit obligation of CHF 57.4 million in its consolidated financial IFRS financial statement as of December 31, 2013, the pension fund of Sunrise Communications AG is overfunded according to Swiss law. The different results are mainly driven by differences in valuation methods. Swiss law prescribes a static valuation method whereas IFRS (IAS 19 revised) requests the usage of a dynamic valuation method. Therefore, the IFRS employee benefit obligation should not be regarded as a cash liability based on current facts and circumstances. As of January 1, 2013, IAS 19 (revised) became applicable and has been applied retrospectively to comparative periods in our consolidated financial statements for the financial year ended December 31, 2013 in accordance with IAS 8.

Deferred Taxes

Estimates of deferred taxes and significant items giving rise to the deferred assets and liabilities are shown in note (14) to our consolidated financial statements for the financial year ended December 31, 2013 included elsewhere in this report. 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 could 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 our tax returns by tax authorities.

Contingent Assets and Liabilities

The determination of the treatment of contingent assets and liabilities in the financial statements, as shown in note (34) to our consolidated financial statements for the financial year ended December 31, 2013 included elsewhere in this report, is based on the expected outcome of the applicable positive or adverse probability. Legal counsel and other experts are consulted both within and outside Sunrise. An asset is recognized if the likelihood of a positive outcome is virtually certain. A liability is recognized if the likelihood of an adverse outcome is probable and the amount is determinable. If not, we disclose the matter. Resolution of such matters in future periods may result in realized gains or losses deviating from the amounts recognized.

Asset Retirement Obligations

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. For more details regarding asset retirement obligations, see note (26) to our consolidated financial statements for the financial year ended December 31, 2013 included elsewhere in this report.

Revenue

Revenues, as shown in note (9) to our consolidated financial statements for the financial year ended December 31, 2013 included elsewhere in this report, are recognized when realized or realizable and earned. Revenues from non-refundable up-front connection fees are deferred and recognized as income over the expected term of the related customer relationship. The term is estimated using historical customer churn rates. A change of management estimates may have a significant impact on the amount and timing of our revenues for any period.

New Accounting Standards

The following new accounting standards (IFRS) are effective for the first time for the financial year beginning January 1, 2013:

- IAS 1 – Presentation of items of other comprehensive income: The amendment to IAS 1 introduces a new grouping of items presented in Other Comprehensive Income (OCI). The amendment affected presentation and disclosure only and had no impact on the Group's financial position or performance.
- IAS 19 – Employee Benefits (revised 2011): IAS 19 revised (IAS 19R) includes a number of amendments to the accounting for defined benefit plans such as expected returns on plan assets that are no longer recognized in profit and loss, instead there is a requirement to recognize interest on the net defined benefit obligation in profit and loss, calculated using the discount rate used to measure the defined benefit obligation. IAS 19R requires a restatement of previous periods. As a consequence, we restated our comparative figures. The impact on the consolidated financial positions, consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flow and the consolidated statement of changes in equity is presented in note (7) to the consolidated financial statements for the financial year ended December 31, 2013 included elsewhere in this report.
- IFRS 13 – Fair Value Measurement: The new standard establishes a single source of guidance for all fair value measurements and provides guidance on how to measure fair values under IFRS. The application of IFRS 13 has not materially impacted our financial position and performance. IFRS 13 also requires specific disclosures on fair values in the consolidated annual financial statements. See note 24 to the consolidated financial statements for the financial year ended December 31, 2013 included elsewhere in this report.

The IASB has published the following new accounting standards (IFRS) that became effective for annual periods beginning on January 1, 2013 or later. Some of the accounting standards have not yet been endorsed by the European Union:

- IFRS 9, "Financial Instruments" effective for accounting periods beginning on or after January 1, 2017. In 2009, 2010 and 2011, the new standard (Phase 1) was issued which will substantially change the classification and measurement of financial instruments. The IASB is currently working on the other phases, such as impairment of financial instruments with a view towards replacing IAS 39 in its entirety (Phase 2). However, no final standard with respect to Phase 2 has been issued yet. Early application of the requirements is permitted. We are currently assessing the impact and will determine the date at which the new standard will be adopted.

The IASB has published the following amendments to current standards and/or has revised the following existing accounting standards that become effective for annual periods beginning on January 1, 2013 or later. Some of the amendments have not yet been endorsed by the European Union.

- IFRS 9, IFRS 7 and IAS 39 (Amendments) "Hedge Accounting" effective for accounting periods after January 1, 2017. In July 2014, the IASB completed its project to replace IAS 39 "Financial Instruments: Recognition and Measurement" by publishing the final version of IFRS 9 "Financial Instruments". IFRS 9 introduces a single approach for the classification and measurement of financial assets according to their cash flow characteristics and the business model they are managed in, and provides a new impairment model based on expected credit losses. IFRS 9 also includes new regulations regarding the application of hedge accounting to better reflect an entity's risk management activities especially with regard to managing non-financial risks. The new standard is effective for annual reporting periods beginning on or after January 1, 2018, while early application is permitted. The European Financial Reporting Advisory Group postponed its endorsement advice on IFRS 9. We are currently assessing the impacts of adopting IFRS 9 Sunrise's consolidated financial statements.
- IFRS 15 "Revenue from Contracts with Customers" effective for accounting periods beginning after January 1, 2017. In May 2014, the IASB issued IFRS 15. According to the new standard, revenue is recognized to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration to which Sunrise expects to be entitled in exchange for those goods or services. Revenue is recognized when, or as, the customer obtains control of the goods or services. IFRS 15 also includes guidance on the presentation of contract balances, *i.e.*, assets and liabilities arising from contracts with customers, depending on the relationship between the entity's performance and the customer's payment. In addition, the new standard requires a set of quantitative and qualitative

disclosures to enable users of consolidated financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 supersedes IAS 11 “Construction Contracts” and IAS 18 “Revenue” as well as related interpretations. The standard is effective for accounting periods beginning on or after January 1, 2017; early application is permitted. We are currently assessing the impact of adopting IFRS 15 on Sunrise’s consolidated financial statements and will determine the adoption date as well as the transition method.

- IAS 19 (Amendments) “Attribution of Employee Contributions” effective for accounting periods beginning on or after July 31, 2014. The amendment to IAS 19 relating to defined benefit plans clarifies how employee contributions which are linked to service should be attributed to the periods of service. For contributions that are independent of the number of years of service, the amendment permits a company to either (i) reduce service cost by attributing it to periods of service or (ii) by reducing service cost in the period in which the related service is rendered.

- IAS 27 (revised) “Investment Entities” effective for accounting periods beginning on or after January 1, 2014. The revised standard contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. We do not expect the new accounting standard to impact our results of operations and financial position. We will amend our disclosures as required by the amendments and implementations.

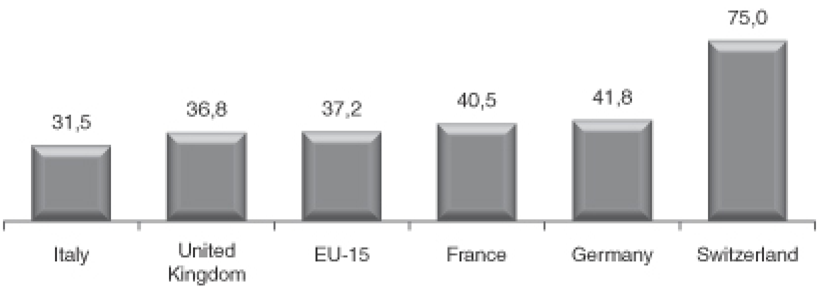
- IAS 32 (Amendments) “Offsetting financial assets and financial liabilities” effective for accounting periods beginning on or after July 1, 2014. The amendments address inconsistencies by clarifying the requirements for offsetting financial instruments such as settlement systems (*e.g.*, central clearing house systems), which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are not expected to impact our results of operations and financial position. We will amend our disclosures as required by the amendments and implementations.

Industry Overview

Switzerland's resident population was 8.14 million as of December 31, 2013, according to the Swiss Federal Statistics Office. This corresponds to a population density of approximately 203.5 inhabitants per square kilometer in 2013, which is higher than the average population density in the European Union of approximately 116.3 inhabitants per square kilometer in 2012. Switzerland combines urban agglomerations such as Zurich, Geneva, Basel, Bern and Lausanne with rural, often mountainous, low population density areas. According to the Swiss Federal Statistical Office, the population at the end of 2013 was distributed across age groups as follows: 20.3% aged 0-19 years, 26.7% aged 20-39 years, 35.4% aged 40-64 years and 17.6% over 65 years. The nationality of the Swiss resident population in 2013 was split between 76.2% Swiss and 23.8% foreign residents. Switzerland's population has grown at an annual compound growth rate of approximately 1.2% during the seven year period from 2006 to 2013, compared to an equivalent growth rate of 0.4% for the EU-15 countries (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom). This population growth has largely been driven by immigration, with the number of foreigners having grown at an annual growth rate of 3.2% (2006 to 2013), compared to 0.6% for Swiss nationals.

Switzerland is one of the wealthiest countries in Europe. According to the Economist Intelligence Unit ("**EIU**"), Switzerland had an estimated GDP per capita at nominal value of approximately CHF 75,000 for 2013 (or CHF 50,800 at purchase price parity), which was significantly higher than the EU-15 average of approximately CHF 37,200. EIU figures showed the Swiss economy to be relatively more robust than many European economies, with real GDP annual growth of 1.7% compared to EU-15 annual growth of 0.3% during the 2006 to 2013 period. According to the EIU, Switzerland recorded real GDP average annual growth rates of 2.0% from 2012 to 2014 (estimated) as compared to 0.8% for the EU-15 countries (source: EIU). Recently, the Swiss National Bank (*Schweizerische Nationalbank*) ceased its policy of capping the Swiss franc's value at CHF 1.20 per euro. The decision caused the value of the Swiss franc to appreciate considerably within a short period of time. Following the Swiss National Bank's decision, expectations for GDP growth in Switzerland have been negatively adjusted. Nonetheless, Switzerland has one of the lowest unemployment rates in Europe, with an average unemployment rate of 3.1% from the period 2006 to 2013 according to the EIU, compared to the EU-15 average in the same period of 8.9%.

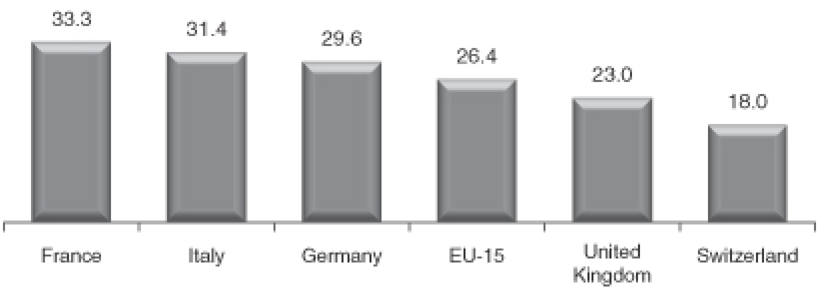
2013 GDP per capita at nominal value in '000 CHF



Source: Economist Intelligence Unit (converted from USD to CHF based on USD 1.00 = CHF 0.9268 (2013 year average))

Switzerland provides an attractive business environment with relatively low interest rate levels compared to other European countries (based on comparison of Swiss ten-year government bond yield to the EU-15 average as of September 2014), a stable currency and attractive corporate and personal income tax rates.

Corporate tax rate (%, 2013)



Source: KPMG corporate tax survey (based on mid-range of maximum effective corporate tax rate)

Switzerland provides an attractive market for telecommunications companies, as the average amount spent per consumer on mobile services is among the highest in Europe. According to Analysys Mason, the Swiss mobile services user spent CHF 480 per year on average for mobile services in 2013 compared to the EU-15 average (unweighted average and excluding Luxembourg) of CHF 266 (local currency data converted into CHF at 2013 average exchange rates). Mobile spending in 2013 accounted for 1.2% of private consumption in Switzerland compared to the EU-15 average of 1.3%. In 2013, Switzerland's estimated market services revenues in telecommunication and Pay TV amounted to CHF 10.5 billion excluding hardware revenue, of which CHF 5.3 billion (50%) was derived from mobile services, CHF 4.2 billion (40%) from landline services and CHF 1.0 billion (9%) from TV services. We estimate that hardware revenue for the market in 2013 was approximately CHF 0.4 billion.

The current structure of the Swiss telecommunications market was established in the late 1990's, when Swisscom was created from the state-owned post and telecoms monopoly. Since then, mobile licenses have been offered to new entrants to develop the market. The revised Swiss Federal Telecommunications Act (*Fernmeldegesetz*) came into force in 2007, requiring Swisscom to provide alternative operators with greater access to its landline network, thereby facilitating increased competition in this market.

While Switzerland is not a member of the European Union or the European Economic Area and is, therefore, not subject to the EU telecommunications regulation, the liberalization of the Swiss telecommunications market has moved largely in parallel with the deregulation in the European Union, and it is likely to develop further in line with future developments in the European Union. However, there are some differences, the most important being: (i) the *ex-post* regulation in Switzerland as opposed to the *ex-ante* regulation as applicable in the European Union, making it possible for operators to first negotiate the conditions of access among themselves and only allowing an intervention of the regulator on request if such negotiations fail, (ii) the technology-limited LLU regime in Switzerland granting access to the incumbent's copper infrastructure (since July 2014, access fees are partially with respect to ducts determined using the infrastructure renewal accounting method resulting in lower access fees compared to the previously used LRIC method) but not to other access technologies, such as fiber networks, and (iii) the lack of specific regulation on international and national roaming in Switzerland.

Switzerland has three main regulatory bodies which are involved in monitoring the telecommunications sector. First, ComCom is the independent regulatory authority for the telecommunications market. Established by the Swiss Federal Telecommunications Act (*Fernmeldegesetz*) of April 1997, it consists of seven members, who must be independent specialists, nominated by the Federal Council. The main activities of ComCom include granting licenses for the use of radio communication frequencies and laying down access conditions (unbundling, interconnection, etc.) when service providers fail to reach an agreement. Second, OFCOM which is responsible for tasks relating to the regulation of telecommunications, broadcasting and post. As provided for by law, OFCOM is responsible for implementing the decisions of ComCom and the Swiss Federal Council (*Bundesrat*). Third, ComCo, which is an independent federal authority responsible for applying the Cartel Act. The tasks of ComCo include combating harmful cartels, monitoring dominant companies for signs of anti-competitive conduct and enforcing merger control legislation.

Today, the Swiss telecommunications market is highly developed by international standards and characterized by a wide range of voice and data communications services.

Swiss Mobile Market

The number of mobile phone connections (excluding MVNOs) in Switzerland has grown at a compound annual growth rate of 3.9% since December 31, 2011 to reach 10.55 million in December 31, 2013, based on figures provided to ComCom by the three Swiss national mobile network operators (**"MNOs"**). The subscription figures reported by the MNOs and provided to ComCom in 2011 did not include Lebara and Ortel (considered as MVNOs) but did include them in 2013 following our acquisition of Lebara and Ortel in July 2013. The number of mobile subscriptions is greater than the resident population, due to certain customers owning multiple SIM cards (*e.g.*, mobile phone SIMs, smartphones, tablets, mobile broadband modems, etc.), non-resident customers and customers that are legal entities. According to Analysys Mason, the mobile penetration rate (excluding M2M) in Switzerland at the end of 2013 was 131.3%, which is in line with the EU-15 average (unweighted average and excluding Luxembourg) of 131.8%.

The three MNOs in Switzerland are Swisscom (listed and 51.2% owned by the Swiss Confederation according to a press release by the Swiss Confederation dated January 23, 2014), Sunrise (controlled by CVC Funds), and Orange (controlled by funds managed by Apax Partners) each with its own nationwide network infrastructure. In December 2014, funds managed by Apax Partners agreed to sell Orange to NJJ Capital, the private holding company of entrepreneur and telecommunications investor Xavier Niel. The sale to NJJ Capital is subject to customary regulatory approval requirements and currently expected to close by the end of the first quarter 2015.

From the first quarter of 2014, Orange only reports subscription figures based on the "12-month rule", listing the number of prepaid accounts with an active SIM card logging at least one incoming or outgoing call via the network over the previous twelve-month period. Previously, only Swisscom applied this "12-month rule", while Sunrise and Orange applied a "3-month rule" (account activity in the previous three-month period). Orange historically also provided subscription figures based on the "12-month rule" (since the fourth quarter of 2012). Sunrise has continued to report subscription based on the "3-month rule" but also provides subscription figures based on the "12-month rule" for comparison (since the first quarter of 2013). We believe that the "3-month rule" is a more accurate and fairer reflection of the active prepaid subscription base. The impact of the change in reporting methodology on subscription figures and operator market shares for 2013 and the comparison to the second quarter of 2014 has been summarized in the table below. As data for Swisscom applying the "3-month rule" is not available, the same number of subscriptions has been used as under the "12-month rule".

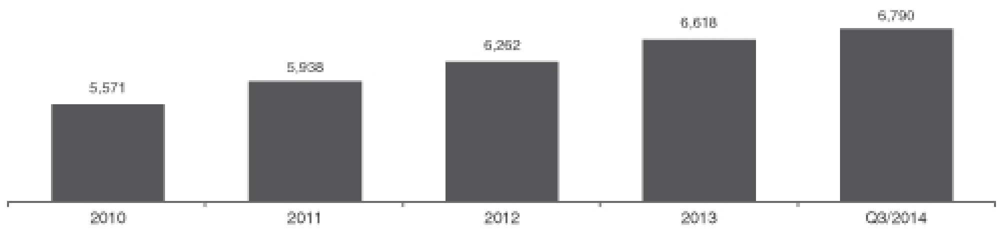
	Fourth Quarter 2013 (3-month rule)		Fourth Quarter 2013 (12-month rule)		Second Quarter 2014 (12-month rule)		Third Quarter 2014 (12-month rule)	
('000)	**Subscriptions**	**Market share**	**Subscriptions**	**Market share**	**Subscriptions**	**Market share**	**Subscriptions**	**Market share**
Swisscom	6,407	60.7%	6,407	54.2%	6,460	54.3%	6,499	54.7%
Sunrise	2,491	23.6%	3,274	27.7%	3,253	27.4%	3,239	27.3%
Orange	1,656	15.7%	2,146	18.1%	2,180	18.3%	2,141	18.0%
Total	**10,554**	**100%**	**11,827**	**100%**	**11,893**	**100%**	**11,879**	**100%**

Source: Annual and quarterly reports of Swisscom, Sunrise and Orange (subscriptions and market shares refer to total subscriptions (prepaid and postpaid).

Based on figures reported by the three national MNOs, mobile subscription market shares (excluding MVNOs) based on the 12-month reporting rule were 54.7% for Swisscom, 27.4% for Sunrise and 18.0% for Orange as of September 30, 2014. According to Analysys Mason, market shares based on mobile service revenue (which thus takes into account differences between ARPUs) were 56.9% for Swisscom, 22.8% for Sunrise and 20.3% for Orange for the financial year ended December 31, 2013.

The Swiss mobile market has a large proportion of postpaid subscriptions, which grew between December 2010 and December 2013 at a compound annual growth rate of 5.89%. Based on figures reported by the three Swiss MNOs, approximately 57% of subscriptions are postpaid as of September 30, 2014 (based on the "12-month rule" for prepaid subscriptions).

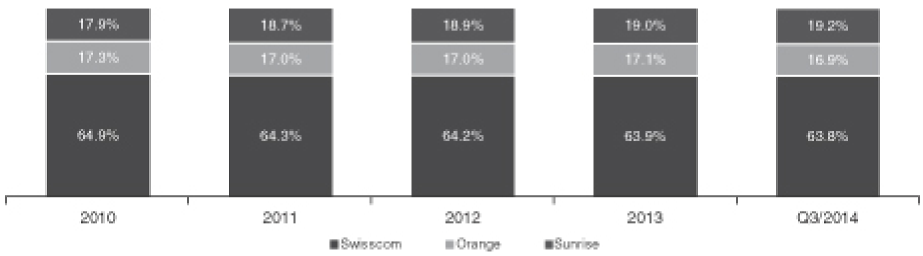
Postpaid Mobile subscription evolution in '000s (2010 – third quarter 2014)



Source: Annual and quarterly reports of Swisscom, Sunrise and Orange

Based on subscription figures reported by the three Swiss MNOs, Sunrise's share of the postpaid market increased from 17.9% in 2010 to 19.2% in the third quarter of 2014.

Postpaid mobile subscription market share evolution (2010 – third quarter 2014)



Source: Annual and quarterly reports of Swisscom, Sunrise and Orange

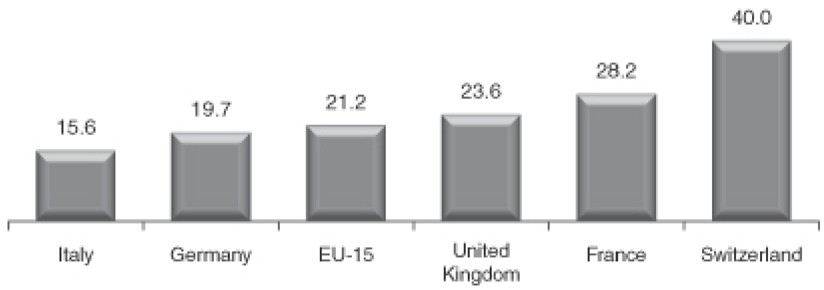
The current structure of three MNOs in Switzerland is a result of the withdrawal of previous MNOs as well as market consolidation. Previously, In&Phone also held a mobile telecommunications license but did not build a nationwide network, was not admitted to the spectrum auction in 2012 and has subsequently gone into administration. Previously, Telefónica and TelCommunication Services AG (formerly known as Tele2) also held mobile telecommunications licenses. ComCom withdrew the license from Telefónica in 2006 since the operator was not utilizing its license and not fulfilling its coverage obligations. TelCommunication Services AG surrendered its license in November 2008 after being acquired by Sunrise.

In addition to the MNOs, there are branded wholesale resellers on all three mobile networks, including *Aldi* (on Sunrise's network), *Migros* (on Swisscom's network) and *Coop* (on Orange's network). These resellers sell MNO services to customers (*e.g.*, as *Aldi*) and cooperate in the marketing of services, pursuant to which MNOs tend to enter into contracts directly with customers. Sunrise also uses own and licensed brands that target different segments in the market, *e.g.*, *MTV mobile* targeting the Young & Youth segment, *yallo*, *Ortel* and *Lebara* targeting specific ethnic segments and *Business Sunrise* targeting large and medium enterprises and SoHo/small enterprises. *MTV mobile*, *Ortel* and *Lebara* are licensed brands, whereas *yallo* is owned by Sunrise. Unlike Sunrise, Swisscom and Orange do not operate a multi-brand strategy, but provide benefits to the youth market.

The final group of market participants is MVNOs, which operate and are branded independently from the MNOs, but deliver their services over MNO networks under contractual agreements. MNOs are not currently required to grant access to MVNOs under Swiss telecommunication law. MVNOs contract directly with customers but rely on existing MNO networks to provide their services. For MNOs, enabling an MVNO to use its mobile network is a means to monetize otherwise unused capacity. Following the acquisition of Lebara and Ortel by Sunrise in 2013, *Lyca Mobile* (hosted on Swisscom's network) is the only remaining MVNO of significant size (150,000 subscriptions as of the fourth quarter of 2013 according to management estimates). Other smaller MVNO operators include Mobilezone (*TalkTalk*), Quickline (*Quickline*), Talk Easy (*ok-Mobile* and *Talkeasy Mobile*), *Mucho Mobile* and *YplaY Mobile*. upc cablecom also launched an MVNO on Orange's network in April 2014 but currently only offers mobile services to existing landline customers. upc cablecom reported that approximately 3,300 customers had taken up their mobile postpaid offering as of September 30, 2014.

The Swiss mobile market has one of the highest ARPU levels in Europe. According to Analysys Mason, the average Swiss mobile services user spent CHF 40.0 per month in 2013, representing an 80% premium over the EU-15 average (unweighted average and excluding Luxembourg) of CHF 21.2 per month. In part, this is a reflection of the high handset subsidies that Swiss consumers have historically had which are recovered by the operators within monthly services plans and thus affect ARPU.

Comparison of Wireless Monthly ARPU in CHF (2013)

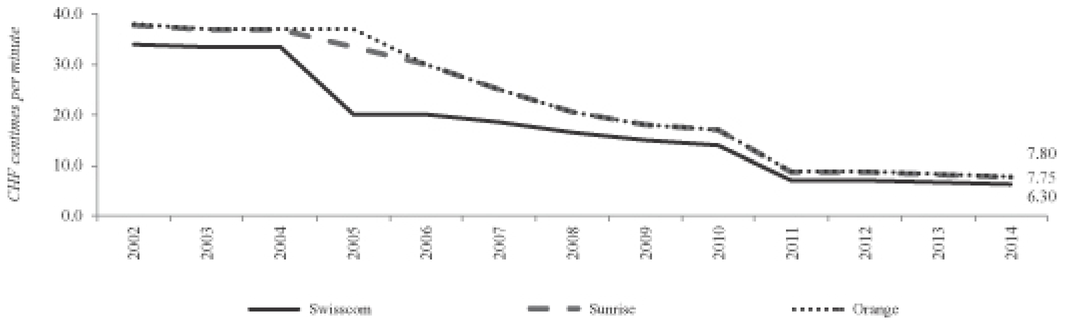


Source: Analysys Mason (data converted from local currency into CHF at the 2013 average exchange rate)

The Swiss mobile sector generated service revenues of approximately CHF 5.3 billion in 2013 (excluding hardware revenues), a decrease of 5.1% from CHF 5.6 billion in 2012 and a compounded annual decline of 2.3% from CHF 5.7 billion in 2010 according to Analysys Mason. The decline in mobile service revenues was driven by declining ARPUs in the Swiss market, which reduced by a compounded annual decline of 6.6% from 2010 to 2013.

One common explanation for the trend of declining ARPU in Switzerland and Western European markets is the reductions in MTR. MTR have declined sharply in the European Union as a result of specific EU directives and regulations. Such EU regulatory interventions do not apply in Switzerland, where operators have historically agreed on prevailing termination rates among themselves. MTR in Switzerland remain above the Western European average. In October 2010, the three Swiss MNOs agreed to reduce MTR by approximately 50% compared to the MTR applicable until September 2010. Currently asymmetric MTR exist with the Swisscom MTR of CHF 0.0625/minute and Sunrise and the Orange MTR of CHF 0.0775 cents/minute. However, the impact on EBITDA for the three MNOs has been significantly less than the impact on revenues, since MTR expenses paid to other operators also have decreased over time.

Switzerland mobile termination rate glide path



Wireless ARPU in Switzerland has also faced downward pressures from recent pricing strategies in the market. For example, in June 2012, Swisscom announced new speed-differentiated flat-rate postpaid mobile plans, which increased prices on some low-end rate plans but in many cases significantly lowered the monthly price of previous high-end rate plans. In July 2012, Sunrise announced new prices for its existing flat-rate plans, and in September 2012 launched a new online only flat-rate plan, in response to Swisscom's new flat-rate postpaid mobile plans. Orange also revised its tariff portfolio in 2013. As a result of these tariff changes and the MTR reductions, ARPU in Switzerland decreased by 5.5% *per annum* in the period from 2010 to 2013 according to Analysys Mason.

Mobile data traffic has shown significant growth, driven primarily by smartphone uptake and increased usage of mobile broadband and data intensive applications. The ComCom 2013 Activity Report states that according to various research estimates, approximately 1 billion smartphones were sold globally in 2013, representing between 25% and 30% of all mobile devices sold that year. The report also states that in Switzerland smartphones represented between 65% and 90% of the units sold in 2013 and more than two thirds of the mobile telephones used in Switzerland.

New Allocation of Mobile Radio Frequencies

On November 26, 2010, ComCom launched an auction process for the allocation of radio frequencies for the provision of mobile telecommunications services in Switzerland. The auction covered the re-allocation of all frequencies in the 900 MHz/1800 MHz frequency band (GSM/UMTS) and in the 2100 MHz band (UMTS core band), as well as the allocation of further frequencies in the 800 MHz and 2600 MHz LTE/4G bands. The auction was concluded in January 2012 and was conducted by OFCOM for multiple reasons. The licenses in place prior to the auction were due to expire in 2013 (900/1800 MHz) and 2016 (2100 MHz). New frequencies also became available for use by mobile services pursuant to a decision of the Swiss Federal Council (*Bundesrat*) in 2008 to modify the National Frequency Allocation Plan in light of the completion of the analog TV signal switch-off. This migration from analog to digital terrestrial television ("**DTT**") paved the way for digital dividend spectrum to be used for other mobile services. The auction enabled participants to acquire an optimal allocation of frequencies matching their different needs and business models. The 15-year duration of the new licenses, which expire in 2028, were intentionally of long duration so as to provide the necessary legal protection and economic incentives to facilitate investment in next generation mobile networks. As a result of the spectrum being secured to 2028 there is only a theoretical risk of a new MNO market entrant in the medium term.

The results of the spectrum auction are shown in the table below (all licenses valid through 2028):

	Sunrise	Orange	Swisscom	Date available
800 MHz	20 MHz	20 MHz	20 MHz	Jan. 1, 2013[(1)]
900 MHz	**30 MHz**	**10 MHz**	**30 MHz**	**Jan. 1, 2015**[(2)]
Total sub-1 GHz	**50 MHz**	**30 MHz**	**50 MHz**	
1,800 MHz	40 MHz	50 MHz	60 MHz	Jan. 1, 2015[(2)]
2,100 MHz	20 MHz	40 MHz	60 MHz	Jan. 1, 2017[(3)]
2,600 MHz paired	50 MHz	40 MHz	40 MHz	Immediately[(4)]
2,600 MHz unpaired	0 MHz	0 MHz	45 MHz	Immediately[(4)]
Total	**160 MHz**	**160 MHz**	**255 MHz**	
% of total	*28%*	*28%*	*44%*	

(1) Except for certain individual blocks in alpine region which may not be used before end of 2013

(2) Following a transitional phase. In Geneva and Basel regions, only fully available from January 1, 2016

(3) Frequencies not currently licensed to an operator are available immediately once new spectrum licenses enter into force

(4) Once new spectrum licenses enter into force

Source: ComCom (conditions of use: 50% population coverage and no frequency hoarding)

Sunrise placed particular value on the low-frequency spectrum blocks with superior propagation characteristics of voice and data transmission which would also leverage the topography of its existing low-frequency network. As a result of the auction, Sunrise obtained a very large spectrum allocation in the 800 MHz and 900 MHz frequency bands which results in a ratio of available sub-1 GHz spectrum per million customers that is superior to both Orange and Swisscom. Following the auction, operators have initiated plans to invest in upgrading their network infrastructure to handle larger volumes of data. All three major players started rolling out LTE/4G operations in 2012-13. Swisscom was the first operator to launch its LTE/4G network in 26 localities in late 2012. As of September 2014, 94% of Swiss households in urban and rural areas of Switzerland had access to Swisscom's LTE/4G network. Orange became the second operator to launch its 4G operations when it started its operations in May 2013. Orange's LTE/4G network covered 90% of Swiss households as of September 2014. In 2013, following the successful auction, Sunrise launched UMTS on the 900 MHz frequency (U 900) which permitted an integrated voice and data service to complement LTE/4G. We launched our LTE/4G operations in June 2013 and rolled out 4G to approximately 85% of Switzerland by the end of 2014, using low and high frequencies for an enhanced customer experience. In February 2014, Sunrise tested an LTE-Advance service, initially in Zurich, and was the first to do so in Switzerland.

Swiss Landline Market

According to Analysis Mason, the Swiss landline market generated service revenues of CHF4.2 billion in 2013. Swiss landline services are currently provided via Public Switched Network ("**PSTN**") copper lines, cable and fiber networks. Swisscom, as the incumbent operator, has historically dominated landline services. However, the Swiss Federal Telecommunications Act (*Fernmeldegesetz*), which came into full force in 2007, obligates Swisscom to provide alternative operators with greater access to its copper landline network, thereby facilitating increased competition in this market. As a result, competitors are able to resell Swisscom's products or establish their own networks through "unbundling" Swisscom's local loop network. This essentially consists of taking control of Swisscom lines through installation of third-party operators own equipment in Swisscom local exchanges, as set out in the Swiss Federal Telecommunications Act (*Fernmeldegesetz*). Until July 2014, access and interconnection prices were determined on a cost-oriented basis using the LRIC method. For 2012 and 2013, Swisscom set a price of CHF 15.8 per month. ComCom has intervened several times in response to claims from operators to cut prices. In December 2013, ComCom retrospectively reduced the access price to CHF 15.5 per month for 2012. Since July 2014, access fees are determined partially using the IRA method resulting in lower Swisscom access fees of CHF13.5/month. Typically, achievement of 100% coverage via an unbundled network is not economically viable and therefore LLU providers will still resell Swisscom's products to some of their customers. Sunrise is currently the largest LLU provider, with approximately 85% coverage of households through its own network of 600 points of presence. By contrast, a total of eleven other providers in the Swiss market together report approximately 32 points of presence.

According to numbers reported by Swisscom, at the end of the third quarter of 2014, there were 3.0 million landlines in use (including wholesale full access/unbundled lines). By September 30, 2014, the number of unbundled lines stood at approximately 204,000 and Sunrise was the largest user of LLU, with 167,400 subscriptions.

Landline services are also provided through cable infrastructure. Swisscable (trade association of Swiss cable service providers, including both private and public cable service providers across Switzerland) reported 660,700 telephony subscriptions on cable as of September 30, 2014. upc cablecom is currently the only cable operator with significant scale on a national level. According to upc cablecom, its network currently covers 70% of Swiss households. The majority of homes passed by upc cablecom have access to the company's full range of digital products. There are also a range of smaller cable companies who operate regional networks.

Fiber network coverage in Switzerland is expected to be an important driver of landline services growth in the coming years. To date the expansion has been driven by Switzerland's largely publicly-owned utility companies. Their current business model does not focus on becoming internet service providers; instead, they intend to open their networks for wholesale, with the infrastructure available to third parties on a non-discriminatory basis. Swisscom has also announced a program to roll out ultra-fast broadband technologies to over 2.3 million homes and businesses by the end of 2015 and over 4.6 million by 2020 through a combination of technologies such as "fiber-to-the-home" (**"FTTH"**), "fiber-to-the-building" (**"FTTB"**), "fiber-to-the-street" (**"FTTS"**) and Vectoring, partially in cooperation with the municipally-owned electricity companies. According to Swisscom, more than a million homes and businesses were connected to ultra-fast broadband by July 2014. According to the ComCom Activity Report 2013, six energy companies who are investing in FTTH have teamed up under the umbrella of SFN. As of year-end 2014, SFN and local utilities supplied 530,000 households, or 15%, with fiber infrastructure (FTTH) on an open access basis. Using uniform products for telecommunications services providers, SFN guarantees nationwide marketing of local PSC fiber networks. By 2020, 1.4 million households, or 40%, are expected to be supplied with fiber infrastructure (FTTH) on an open access basis.

There is limited governmental and no regulatory intervention in relation to fiber access in Switzerland. However, multi-lateral FTTH discussions since 2008 have resulted in non-discriminatory access to other network operators. Sunrise is therefore able to get full open access to the FTTH network being developed by both Swisscom and

SFN at competitive prices without large infrastructure investments of its own. Sunrise's extensive LLU network also allows it to connect to the fiber network at minimal cost.

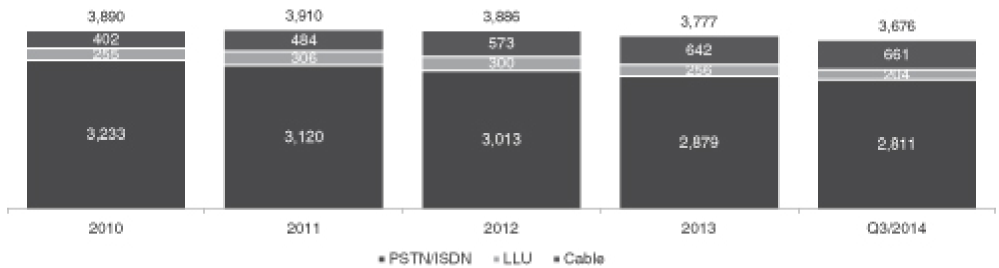
Landline customers in the business market are also served by various pan-European operators. These players have built fiber-optic metropolitan area networks in some of Switzerland's largest cities, attracted by a high concentration of financial institutions and non-governmental organizations (**"NGOs"**). The leading players include COLT, Orange, Interoute, T-Systems and Verizon Business. Swisscom remains the leading service provider for SoHo and small enterprise as well as medium and large enterprise customers.

Retail Voice Market

Retail voice is primarily based on the analog and digital access lines of the telephone network and the access lines of cable network operators. As with broadband delivery, historically Swisscom and upc cablecom (alongside other smaller providers) owned most of the landline infrastructure in Switzerland, but unbundling has made access lines available to other providers including Sunrise. According to the numbers reported by the operators (Swisscom, upc cablecom, Swisscable and Sunrise) as of September 30, 2014, Sunrise had an 11.0% share of subscriptions in the retail telephony market versus upc cablecom with 12.7%, Swisscom with 64.0% and other operators with a 12.3% market share.

Although the ongoing development of mobile telephony has led to a decline in the number of fixed telephony connections and a reduction in the number of calls made on the fixed network, ComCom expects that mobile networks will not replace the fixed network but will rather be complementary, especially given the expansion of VoIP telephony.

Swiss fixed voice retail access line evolution in '000 (2010 – third quarter 2014)

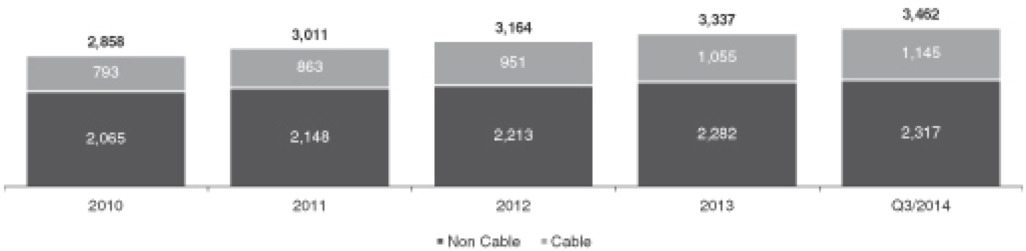


Source: Annual and quarterly reports of Swisscom and Swisscable press releases

Landline Internet

According to the numbers reported by the different operators (Swisscom, upc cablecom, Swisscable and Sunrise), there were 3.34 million landline broadband internet connections in Switzerland by the end of 2013, an increase of 5.3% compound annual growth rate since the end of 2010. The number of landline broadband subscriptions in the third quarter of 2014 increased to 3.46 million. Landline broadband internet connections can be established via various access technologies, including DSL, cable modem, fiber and public WLAN access points. In Switzerland, residential users are predominantly offered DSL or cable broadband connections, with limited fiber connections in certain areas.

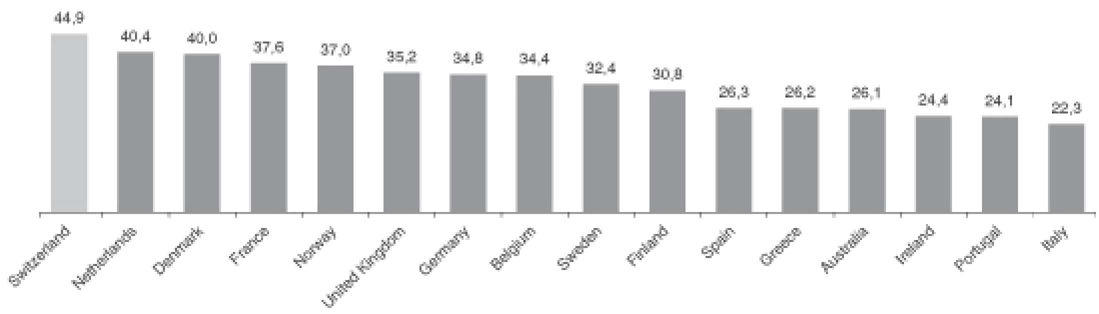
Swiss broadband subscription evolution in '000 (2010 – third quarter 2014)



Source: Annual and quarterly reports of Swisscom and Swisscable press releases

According to the Organization for Economic Co-operation and Development (**"OECD"**), 44.9% of the population in Switzerland had broadband internet access as of December 2013, making Switzerland the best connected of the OECD countries. The average for the OECD countries was 27%. Switzerland not only has a high broadband access penetration rate; users also benefit from ever higher speeds. Approximately 45% of Swiss internet users have an internet connection faster than 10 Mbit/s compared to the EU-15 average of 27%.

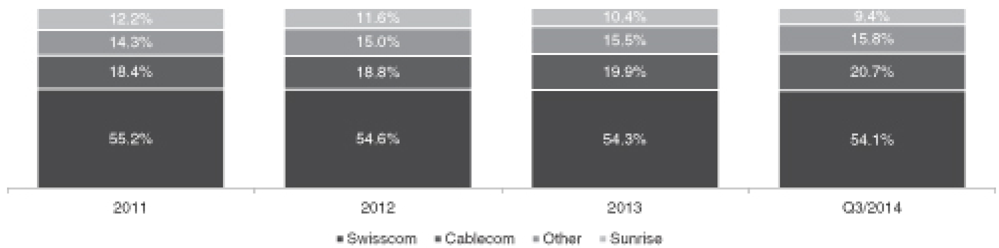
Broadband subscriptions per 100 inhabitants in Western Europe



Source: OECD, December 2013

According to the figures reported by different operators, Swisscom as the incumbent operator, leads the total broadband internet market with a 54.1% market share of subscriptions as of September 30, 2014. Competition mainly comes from Sunrise and upc cablecom with 9.4% and 20.7% of subscriptions market share respectively. Other market participants include VTX Services SA and Orange (currently as a VTX reseller) and other smaller operators through the resale of Swisscom's products or via the respective LLU networks.

Swiss total broadband subscription market share evolution (2011 – third quarter 2014)



Source: Annual and quarterly reports of Swisscom, upc cablecom, Swisscable press releases and Sunrise management estimates (total broadband market share)

In Switzerland and across Europe generally, the trend is towards higher broadband speeds to support data intensive applications and the delivery of interactive services, including TV and video content. This trend is expected to be an important driver of broadband growth as consumer uptake and usage of high bandwidth services increases. Operators are typically able to charge premiums for high-end products, which will likely drive broadband revenue growth.

Business Services

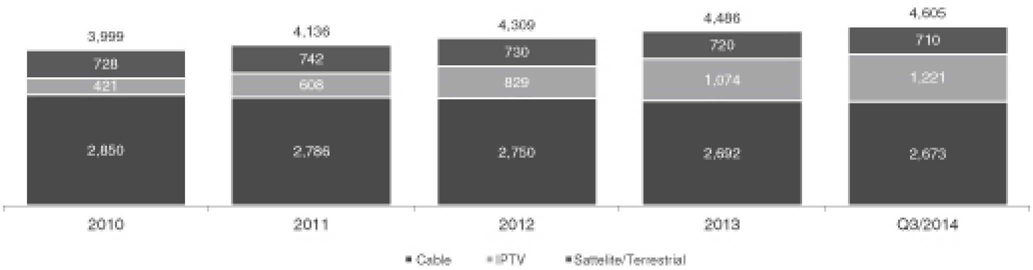
Selected landline operators like Sunrise and Swisscom also offer advanced business services, which are provided in addition to standard landline internet services. These services are typically provided to medium and large enterprises and SoHo/small enterprises on a retail basis.

The business services market can be thought of as two segments. In the first segment, Sunrise competes with other carriers including Swisscom, upc cablecom and Colt, to provide connectivity and applications services, including support and maintenance. The other segment comprises system integration services, including the resale of equipment and applications, one-time services (such as consulting, installation and engineering) and recurring services (such as operation and maintenance of local area networks). Companies operating in this segment include, among others, Swisscom, Sunrise (through the acquisition of NextiraOne Switzerland), Connectis and Dimension Data. Swisscom and Sunrise have significant operations across both segments, enabling both companies to provide end-to-end solutions, without the need to partner with other companies.

The Swiss Television Market

According to Analysys Mason the Swiss Pay TV market generated service revenues of CHF 1.0 billion in 2013. According to the figures reported by different operators (Swisscom, upc cablecom, Swisscable and Sunrise), the Swiss television market covered approximately 4.5 million households by the end of 2013, an increase of 3.9% (compound annual growth rate) from approximately 4.0 million households in 2010. The number of television households increased to approximately 4.6 million in the third quarter of 2014. Cable remains the most widely used multi-channel TV distribution platform, although its market share has declined in recent years. Such decline was mirrored by the growing success of the IPTV platform which has grown at a compounded annual rate of approximately 37% from 2010 to 2013. The remaining Swiss households were served by Satellite and DTT. The large legacy analog TV subscription base represents an opportunity for TV distributors in Switzerland as affordable next generation TV hardware, improved set-top box functionality, a greater depth of content offerings and product bundling drive an increase in digital TV adoption. As of the third quarter of 2014, market share by subscriptions of the various operators in the television market was as follows: 58.0% cable operators, 24.4% Swisscom, 15.4% Satellite / DTT operators and 2.1% Sunrise.

Swiss television subscription evolution in '000 (2010 – third quarter 2014)



Source: Annual and quarterly reports of Swisscom, upc cablecom, Sunrise and Swisscable press release

Cable

As of September 30, 2014, there were approximately 2.7 million cable TV subscriptions, according to Swisscable. upc cablecom is the largest CATV operator in Switzerland, with 1.4 million subscriptions, according to upc cablecom reporting. upc cablecom has announced that it will be switching off its analog network by 2015 and is making a push to migrate its analog customers to its digital platform (approximately 721,800 of upc cablecom's subscriptions are still on the analog platform as of the third quarter of 2014). The remainder of the CATV market is highly fragmented, with CityCable Lausanne and Naxoo (Télégenève) among the largest of the other players.

IPTV

As a result of technological improvements, broadband is increasingly being used for the distribution of IPTV and VoD services. IPTV services are predominantly delivered over Swisscom's VDSL infrastructure, although FTTH will increasingly be used as a delivery platform as it is more extensively rolled-out. As of September 30, 2014 there were approximately 1.2 million homes using IPTV services, according to the reported figures of Swisscom and Sunrise, with Swisscom accounting for approximately 1.1 million residential subscriptions.

Sunrise launched its own IPTV product in January 2012, thereby becoming the only full service alternative operator in Switzerland to offer mobile, landline, internet and IPTV from one source. As of December 31, 2014, the Sunrise TV subscription base increased to 107,000.

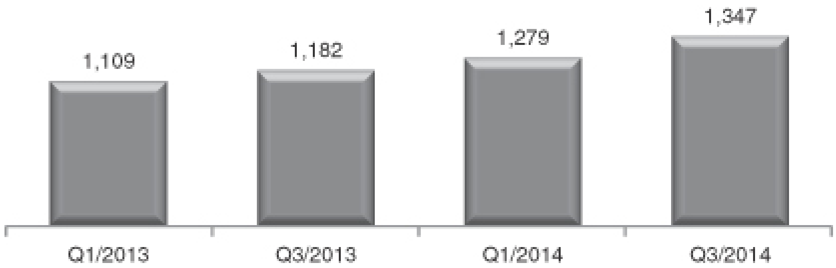
Satellite or DTH

DTH services are limited in Switzerland due to various legal restrictions, such as construction and zoning regulations, or rental agreements which prohibit or impede the installation of satellite dishes. Homes are currently served via free DTH or a paid subscription scheme (such as Teleclub and Canal+). DTH revenues as a percentage of the overall TV market are relatively small.

Convergence and Bundling in the Swiss market

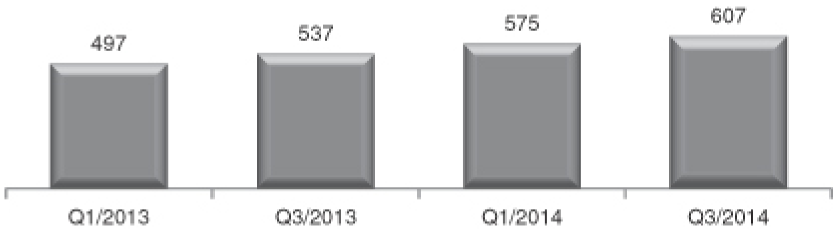
Swiss consumer trends are driving rapid growth in subscriptions of multiple telecommunication products from the same operator ("bundling"), and specifically the subscriptions of both fixed and mobile products from the same operator ("convergence"). In the mobile market segment, high penetration of smartphones in the Swiss market (approximately 74% penetration in 2013) has resulted in an exponential increase in mobile data traffic (84% growth *per annum* in Sunrise mobile traffic from the third quarter of 2012 to the third quarter of 2014 as compared to 65% *per annum* from the third quarter of 2010 to the third quarter 2012). In the fixed market segment, greater demand for high speed connectivity and strong growth in digital TV driven by IPTV (37% growth *per annum* from 2010 to 2013) have been key trends. These together with a desire to have a one-stop shop for telecommunication services, and operators rewarding fixed and mobile convergence through benefit incentives, has resulted in a high number of customers with bundles and convergent services in the Swiss market. As of September 30, 2014, Swisscom, Sunrise and upc cablecom had approximately 1.3 million customers with bundled products (15% increase *per annum* from the second quarter of 2012) and 607,000 customers who had subscribed to convergent services (14% increase *per annum* from the first quarter 2013). We have successfully captured these trends and have the greatest penetration of customers with convergent services in our landline base compared to our competitors. As of September 30, 2014, approximately 60% of our residential landline customers also subscribed mobile services from us, compared to 13% for Swisscom.

Evolution of residential customers with bundles in '000 (2013 – September 2014)



Source: Annual and quarterly reports of Swisscom and Sunrise management estimates (bundled customers refer to Swisscom and Sunrise customers with more than one product in a bundle)

Evolution of customers with convergent services in '000 (2013 – September 2014)



Source: Annual and quarterly reports of Swisscom and Sunrise management estimates (customers with convergent services refer to Swisscom and Sunrise customers with fixed and mobile bundles)

The trends of bundling and convergence enable telecom operators to capture additional value by maximizing the share of total customer telecoms wallet and by maximizing lifetime value and reducing costs through churn reduction.

Business

Overview

We are the second largest integrated telecommunications provider in Switzerland, based on revenues, which amounted to CHF 1,527.2 million for the nine-month period ended September 30, 2014. We market our services primarily through our *Sunrise* brand and address clearly defined market segments with a multi-brand strategy through the *MTV mobile* brand (Young & Youth), the *yallo*, *Ortel* and *Lebara* brands (Ethno) and *Business Sunrise* (Business Customers).

We are the leading fully-integrated challenger to Swisscom capable of delivering a full range of services across all market segments. We are the leading non-incumbent operator in both the mobile (prepaid and postpaid) and landline retail voice markets, with approximately 2.5 million mobile and 0.4 million landline customers, respectively, as of December 31, 2014. We are also the third-largest landline internet provider with approximately 0.3 million subscriptions and 0.1 million IPTV subscriptions as of December 31, 2014. As of September 30, 2014, we estimate that our market share by mobile and fixed broadband subscriptions as well as IPTV was 27%, 9% and 2%, respectively.

We believe that we are well positioned to achieve further growth through our commitment to deliver a best-in-class convergent experience while being fair, transparent and customer-oriented in all market segments. In cross-selling and up-selling mobile, broadband and IPTV services to our existing customers, we benefit from our 10,800 km nationwide state-of-the-art fiber network backbone, our integrated mobile and landline access networks, more than 600 points of presence in our fully-invested LLU network with a coverage of approximately 85% of households in Switzerland and full access to Swisscom's last mile at what we believe are cost-efficient and attractive terms, combined with our partnerships with Swisscom, SFN and local utilities for the most advanced next-generation fiber technologies, such as vectoring, FTTS, FTTB and FTTH. We provide our mobile services through our own mobile network based on GSM/GPRS/EDGE, UMTS/HSPA and LTE/4G technologies. As of December 31, 2014, our UMTS/HSPA coverage was approximately 99% while our LTE/4G coverage had reached approximately 85%, in each case as a percentage of the Swiss population. We provide our landline voice & other services through our national landline network.

We offer a broad range of services, including mobile voice and data, landline voice & other (retail voice, business services and wholesale voice) and landline internet & IPTV, to both residential and business customers as well as to other operators. With our recent innovations, including the launches of *Comeback TV*, Sunrise *Freedom* (mobile hardware de-coupling without fixed contract terms) and Sunrise *Home* (flexible new fixed portfolio) as well as the new Sunrise *Advantage* convergence offering further incentivizing fixed and mobile convergence, we are pursuing our commitment to deliver a best-in-class convergent experience. In addition, we recently launched Sunrise *Rewards*, our new customer loyalty and retention program aimed at increasing the loyalty and experience of our existing customers and consequently reducing churn.

For the financial year ended December 31, 2013, we generated total revenue of CHF 2,021.2 million and Adjusted EBITDA of CHF 620.3 million. During that period, our mobile, landline voice & other and landline internet & IPTV businesses comprised 62.6%, 27.6% and 9.8% of our total revenue, respectively. During the nine-month period ended September 30, 2014, our mobile, landline voice & other and landline internet & IPTV businesses comprised 64.9%, 25.1% and 10.0% of our total revenue, respectively. We are headquartered in Zurich, Switzerland, and had a total of 1,958 employees (full-time equivalents and including 106 apprentices) as of September 30, 2014.

Our History

Sunrise was formed in 2001 through the merger of two companies, each founded in 1996: landline and mobile operator diAx, which was founded by, among others, Switzerland's six largest electricity companies and SBC Communications, Inc., and landline operator NewTelco AG (Sunrise), which was formed by SBB, UBS and Migros, and whose founding owners were joined by British Telecom and Tele Danmark. Tele Danmark acquired a majority stake in both companies in 2000 and merged them in 2001. In July 2005, we acquired Ascom Business Switzerland, thereby creating the country's second-largest provider to business customers, which was subsequently renamed Sunrise Business Communications ("**SBC**"). In June 2008, we divested SBC following a strategy to re-position ourselves in the business segment. At the end of 2008, we acquired the landline and mobile customers previously served by the Swedish operator Tele2. The consolidation of our internet business with that of TelCommunication Services AG has helped us to become the single major alternative DSL provider to Swisscom in the Swiss market and gain additional benefits by leveraging our LLU platform.

In 2010, ComCo blocked a planned merger of Orange and Sunrise. At the time, upc cablecom was not active as a MVNO, and ComCo concluded that due to the lack of a strong third mobile competitor the further concentration would result in collective market dominance. As ComCo could not propose effective remedies to alleviate concerns on collusive behavior, the merger was not cleared. In October 2010, CVC Funds acquired Sunrise from Tele Danmark for CHF 3.308 billion, having received all necessary approvals.

In November 2011, we acquired NextiraOne Switzerland (which was renamed to Business Sunrise Enterprise Solutions GmbH and subsequently merged into Sunrise Communications AG in October 2012). The combination of our business customer segment with that of NextiraOne Switzerland was undertaken to create a full service provider for medium and large enterprises in all industries, enabling services, such as unified communications in combination with data center and security solutions. This merger resulted in the acquisition of a number of well-known customers.

In July 2013, we acquired Ortel and Lebara, two MVNOs with a strong position in the ethnic segment. Together with our *yallo* brand, we achieved a strong position in the Ethno segment by leveraging the individual strength of each brand for specific ethnic market segment. See "*Presentation of Financial and Other Information—Corporate Structure*".

Business Operations

Overview

We provide mobile voice and data, landline voice and landline internet & IPTV services across Switzerland through our integrated nationwide fixed and mobile network. We offer these services to residential customers, business customers and other carriers through dedicated units.

We place significant emphasis on marketing and branding, specifically addressed at distinct market segments. Our multi-brand strategy enables us to target the specific needs within the residential customer segment, for example, the Young & Youth segment with the *MTV mobile* brand, the mass market with the *Sunrise* brand and the Ethno segment with the *yallo*, *Ortel* and *Lebara* brands. We target the business customer segment with our *Business Sunrise* brand. In addition to our own brands, we address specific segments through MVNOs, such as *Finecom*, *Quickline*, *ok-Mobile*, *Talkeasy Mobile* and *TalkTalk*, and one FVNO (*TalkTalk ADSL*) and branded resellers for mobile services, such as *Aldi Suisse Mobile*.

We offer innovative services that address the preferences of Swiss consumers and provide our services on a seamless platform through our integrated network, giving customers the same high-quality experience across each of the products we offer. With the successful launch of Sunrise *Home* and Sunrise *Advantage*, we demonstrate our focus on providing customers with attractive fixed bundle and mobile and fixed convergent opportunities in order to convert single-product users into multi-play users. Based on our commitment to deliver a best-in-class convergent experience while being fair, transparent and customer-oriented in all segments, our recent product launches, and Sunrise *Freedom* in particular, demonstrate our ability to be at the forefront of these trends in order to attract additional customers.

We offer fixed and mobile convergent products combining landline voice or landline internet & IPTV with mobile services (Sunrise *Advantage*). Under our Sunrise *Advantage* offering, we generally provide a benefit if a customer combines one of our landline voice or landline internet & IPTV offerings with one of our mobile postpaid plans. In early 2008, we launched this convergent offering as the first operator in the Swiss market, in which we bundled mobile and free ADSL internet. Sunrise *Advantage* was successfully re-launched in June 2014 and allows our customers to combine any of our fixed Sunrise *Home* bundles with any Sunrise *Freedom* mobile package. With our Sunrise *Advantage* offering, we reinforce our objective to provide our customers with the best convergent experience, based on the high quality of our network infrastructure allowing us to deliver mobile data and broadband at highest speeds, as well as our existing digital TV platform. Offering a wide range of landline products that can be combined with different mobile plans at attractive rates is intended to encourage our customers to subscribe to all our services, increasing the number of subscriptions across all our market segments as well as ARPU. As of September 30, 2014, approximately 60% of our *Sunrise* landline customers were subscribing to our convergent offerings.

Given the high quality and service requirements in the Swiss market, we are creating a customer-centric organization and use the NPS concept to steer our business across all relevant touch points and services to provide a best-in-class customer experience. Our sales, distribution, customer service and customer retention teams are tailored to the needs of our residential and business customers.

In order to successfully and efficiently implement our strategy and provide a best-in-class convergent experience, we have built and operate a state-of-the art network. In April 2012, we entered into an agreement with Huawei, which is structured as a long-term partnership and serves as a showcase for Huawei to demonstrate its ability in Europe to provide high-quality products and services. Services under the agreement commenced in September 2012.

Mobile Offerings

Our mobile operations contributed 62.6% of our total revenue for the financial year ended December 31, 2013 and 65.2% for the nine-month period ended September 30, 2014. We had approximately 2,496 million mobile subscriptions as of September 30, 2014 and 2,491 million as of December 31, 2013, compared to 2,142 million as of December 31, 2012. Our mobile service offerings include mobile voice and data services and other value-added services, mobile TV and international roaming. We also offer mobile handsets, tablets, USB modems and other hardware devices.

In addition to our mobile offerings targeted at the residential segment, we also offer a variety of products and services targeting the specific needs of business customers, such as special roaming offers. We also have arrangements with MVNOs where we provide them access to our network.

We provide our mobile telecommunications services over our GSM/GPRS/EDGE, UMTS/HSPA and LTE/4G networks. We offer our mobile voice and data services on both a postpaid (or contract) and prepaid basis, through various flat-rate, volume-based and time-based tariff plans.

Postpaid subscriptions are invoiced periodically for services subscribed for. Prepaid customers pay in advance and may recharge their prepaid SIM cards with additional credit. As of September 30, 2014, approximately 47.8% of our mobile subscriptions were prepaid subscriptions and 52.2% were postpaid subscriptions, excluding subscriptions through our MVNO partners.

We offer our postpaid and prepaid mobile tariff portfolio under different brands to target the needs of different customer segments:

- Sunrise *Freedom*, a postpaid portfolio, and Sunrise *Free*, a prepaid portfolio, targeted at the mass market;
- *MTV Mobile Freedom*, a postpaid portfolio, and *MTV Mobile Pre*, a prepaid portfolio, targeted at the Young & Youth segment;
- *yallo*, *Ortel* and *Lebara*, all prepaid portfolios, focused on specific ethnic segments by offering voice and data service with attractive international rates;
- Sunrise *Mobile Dynamic,* a postpaid portfolio, targeted at medium and large enterprise customers as well as Sunrise *Mobile Now*, a postpaid portfolio targeted at SoHo and small enterprise customers;
- *Sunrise24*, a postpaid portfolio, targeted at price-sensitive customers with a preference for online service; and
- *Aldi*¸ a branded discount reseller for mobile prepaid voices services, targeted at the low-value segment.

Moreover, we offer a broad range of options, including data speed, roaming and international rates, to tailor price plans for specific requirements. In addition to our own brands and branded reseller arrangements, we host MVNOs, such as *Finecom*, *Quickline*, *ok-Mobile*, *Talkeasy Mobile* and *TalkTalk* on our network to leverage our existing infrastructure and to address specific market segments which may not be addressed by our own brands.

Postpaid Offerings

As of September 30, 2014 and December 31, 2013, 52.2% and 50.5%, respectively, of our subscriptions were postpaid subscriptions. As of September 30, 2014 and December 31, 2013, 84.7% and 84.3% of the postpaid subscriptions were primary subscriptions, whereas 15.3% and 15.7% were secondary subscriptions.

Our strategy in the postpaid mobile market is to grow our subscriptions base and ARPU by capitalizing on the strength of our respective brands targeting individual segments, our network capacity and quality and our ability to offer high-value and innovative products at attractive prices. We intend to monetize the increasing need for mobile data by increasing the demand for data services, marketing LTE/4G speeds and by providing our customers with the most current smartphones and tablets. We believe that data-centric products with flat-rates, tiered by volume and speed and therefore the most current smartphones and handset devices are critical elements in implementing this strategy. While the smartphone penetration in Switzerland in 2013 was at 74% (source: Analysys Mason), 92% of the handset devices in our postpaid tariffs were smartphones as of September 2014.

With the increasing use of multiple devices by customers, such as tablets, we are increasingly offering multiple SIM or data SIM cards to address convergence trends by customers requiring access to content in multiple forms and to optimize the monetization of data traffic. As such secondary SIM cards have usage profiles and ARPU levels differing from primary SIM cards while increasing revenue from an individual customer, we have recently introduced an additional split of our postpaid subscriptions by primary and secondary.

In 2009, we were the first operator in the Swiss market to launch flat-rate postpaid mobile offerings and have continuously expanded our flat-rate offerings to customers. Customers appreciate the benefits of unrestricted use and have shown a preference for such flat-rate plans. A significant number of our customers has migrated to postpaid flat-rate plans following the launch of our flat-rate offerings in 2009. Rate plans with at least one flat component accounted for more than 84% of our postpaid voice subscription base as of September 30, 2014 (including *MTV mobile* as described below). The predominance of our flat-rate plans reduces the risk of usage decline in a market where SMS and potentially also voice may decrease as a result of increased use of OTT applications, such as WhatsApp and Skype. Currently, a majority of our postpaid customers subscribe to flat-rate plans (including *MTV mobile next*).

Following the launch of the new speed-differentiated flat-rate postpaid mobile plans by Swisscom in the second quarter of 2012, we lowered our prices in order to remain competitive. As of September 30, 2014, 90% of our subscriptions were on rate plans which have been repriced following the introduction of the new speed-differentiated flat-rate postpaid mobile plans by Swisscom and the lower tariffs introduced by us as a response, limiting the risk of further ARPU decreases.

We believe that we have substantially restored our competitive position with the launch of our Sunrise *Freedom* portfolio in April 2014 as the first operator in the Swiss market to offer de-coupled service and mobile device plans without a fixed contract term.

We provide unlimited data volumes in all segments and offer LTE/4G speed in almost all of our rate plans. Our offering of unlimited data volumes is based on sufficient capacity in our mobile network and our competitors do not have comparable offerings.

Sunrise Freedom

Our Sunrise *Freedom* portfolio targets the mass market, which represents the highest value customers. With the launch of our Sunrise *Freedom* rate plans in April 2014, we introduced de-coupled service and mobile device plans without a fixed contract term. As a result, mobile postpaid subscriptions do not enter into a contract with a minimum term related to a service plan and may terminate their contract at any time, effective at the end of the following month. Customers may combine the service plan with a mobile device plan which is available with term of twenty-four months. However, mobile device plans are only available in combination with service plans. We believe that Sunrise *Freedom* is fully supporting our positioning in the Swiss market as "the smarter choice" as it provides transparency, fairness and flexibility. The plan offers transparency in the clear separation of the costs for service and the cost of the hardware plan, all shown in one bill. We believe that it is fair in that the availability of a hardware plan can be coupled with any rate plan and the choice of down-payment or a service contract with a term of twenty-four months, after which only the service plan requires payment. And the plan provides flexibility in that it permits customers to switch tariffs within the Sunrise *Freedom* range at any time without having any effect on the hardware plan and without a fee to change to Sunrise *Freedom* from an older SIM-only or other contracts after the initial contract term.

We were the first MNO to launch this concept in the Swiss market and have achieved strong initial results with approximately 37% of our postpaid subscription base having subscribed to a Sunrise *Freedom* offering as of December 31, 2014. Both as of September 30, 2014 and December 31, 2014, we experienced a higher NPS score of 8 points compared to the previous rate plan, which we believe reflects the strong customer perception of the concept.

The following table sets forth a summary of our current postpaid mobile product offerings:

Postpaid Mobile Offerings	Per month subscription fee *(without handset)*(1) *(in CHF)*	Calls to Sunrise mobile network	Calls to Swiss Landlines	Calls to other mobile operators	SMS/MMS within Switzerland	Mobile internet within Switzerland
Sunrise Freedom – Rate Plans						
Start	20	✓	30Rp/min	30Rp/min	✓	✓(2)
Classic	50	✓	✓	✓	✓	✓(3)
Relax	65	✓	✓	✓	✓	✓(4)
Max	100	✓	✓	✓(5)	✓(6)	✓(7)

(1) Additional fee accrues with handset amounts between CHF 0 and 31.50, depending on the amount of initial payment.

(2) 500 MB full speed, throttled speed thereafter.

(3) 1 GB full speed, throttled speed thereafter.

(4) 10 GB full speed, throttled speed thereafter.

(5) Includes unlimited minutes to all networks in 17 countries, unlimited roaming (incoming) and 200 minutes (outgoing) in 42 countries into Region 1.

(6) Includes unlimited SMS to all networks abroad and 200 SMS from abroad.

(7) 10 GB full speed, throttled speed thereafter; outside Switzerland (42 countries, into Region 1): 200 MB included.

We offer clear and simple flat-rate postpaid plans with a focus on highly attractive national and international voice, SMS/MMS and data flat-rates, where the subscription fee payable increases with the number of flat-rate components purchased by the customer. Sunrise *Freedom Start*, our lowest-cost flat-rate offering, allows unlimited voice calls to other *Sunrise* mobile customers, flat-rate SMS/MMS and flat-rate high-speed data (throttled speed after 500 MB). Sunrise *Freedom Classic*, our medium-range flat-rate offering, provides the same service as Sunrise *Freedom Start* but also includes unlimited calls to all networks in Switzerland and flat-rate high-speed data with throttled speed after 1 GB.

Sunrise *Freedom Relax* is an all-inclusive flat-rate offering plus unlimited high speed flat-rate data throttled after 10 GB. Sunrise *Freedom Max* offers customers all of the features of Sunrise *Relax* plus unlimited international calls to 17 countries, roaming abroad with 200 MB data, 200 minutes, 200 SMS and all incoming voice included in 42 countries into Region 1. In each plan, any volume outside the flat-rate components is charged to the customers on a usage basis, except for data for which speed is throttled after flat-rate has been used up. These four plans include the Sunrise speed extra option which, once the volume included in each rate plan is fully used, extends the use of data with full speed for CHF 1 per day (with a maximum of 1 GB per day).

Additional postpaid options. Postpaid plans can be tailored with a wide range of options, including roaming, international function and device insurance. Roaming options include Sunrise *Roaming* which provides reduced voice and SMS prices while roaming for CHF 10 per month and Sunrise *Travel Pack* which provides data buckets with a reduced data price while roaming (for Region 1 from CHF 4.90 to 49 CHF and for region 2 CHF 19.90). Sunrise *International* provides reduced prices for international calls (CHF 5 per month) and *My Country Flat* provides unlimited calls from Switzerland to all landline and mobile networks for one chosen country of the eight offered (Austria, France, Germany, Italy, Portugal, Spain, the United Kingdom and the United States) for CHF 15 per month. Sunrise *call protect* provides insurance for call misuse in case of theft (up to CHF 3,000) for CHF 1 per month and Sunrise *protect* offers handset insurance from 4.90 to CHF 14.90 per month. Furthermore, Sunrise *Multicard* allows for an additional SIM card (maximum four) to existing subscriptions using the same data volume simultaneously.

Postpaid mobile broadband offerings. We offer mobile broadband postpaid tariffs under our *Take away* product name, which provides unlimited mobile internet access on a monthly basis following the same principle as the *Freedom* offer of maximum flexibility because of the ability to switch subscriptions at any time, and no fixed contract term.

The current *Take away* portfolio is aligned with the Mobile Freedom portfolio: Take away Freedom Start, *Take away* Freedom Classic, *Take away* Freedom Relax and *Take away* Freedom Max. These offers provide unlimited access to the internet, as well as the hardware (*e.g*., iPads, Android tablets, USB and WiFi sticks) for an extra monthly charge. In addition, in *Take away* Freedom Classic, Relax and Max different volumes of roaming mobile internet are included for Region 1. These offerings have increased penetration in the mobile broadband market, which in turn has increased the overall profitability of our mobile operations. All mobile data offerings reduce bandwidth speed to 128kbit/s when users reach the data allowances for full LTE/4G surfing speed.

The following table sets forth a summary of our current postpaid mobile broadband product offerings:

	Unlimited Surfing in Switzerland	High Speed Internet Up To	Abroad Surfing	Price / Month
Take away Freedom Start	□	250 MB	CHF 1.0/MB	CHF 7.50 / Select Now
Take away Freedom Classic[(1)]	□	1 GB	25 MB inclusive	CHF 15.0 / Select Now
Take away Freedom Relax[(1)]	□	5 GB	50 MB inclusive	CHF 35.0 / Select Now
Take away Freedom Max[(1)]	□	10 GB	100 MB inclusive	CHF 49.0 / Select Now

(1) Region 1.

MTV mobile Freedom

In September 2010, we successfully launched the *MTV mobile* price plans based on a marketing agreement with MTV. *MTV mobile* provides relevant offers to the Young & Youth segment up to the qualifying age of 30 and is the only youth-specific telecommunication brand in the Swiss market, which helped to position *Sunrise* in the Young & Youth segment. We believe that our offer is attractively positioned in all postpaid youth segments and is supported by attractive benefits relevant for the age group, such as more favorable terms for the use of WhatsApp (where data traffic related to the use of WhatsApp is free) and our "*Halbtax*" SBB card cooperation).

MTV mobile Freedom follows the same principles as Sunrise *Freedom* launched in April 2014. *MTV mobile Freedom* provides transparency, fairness and flexibility, offering a clear distinction between the cost of services plan and the cost of the hardware plan and giving total "freedom" to change the price plan at any time independently from the hardware plan.

The following table sets forth a summary of our current postpaid mobile broadband product offerings:

	Start	Myfriends	Swiss	World

	Start	Myfriends	Swiss	World
Unlimited Calls				
to the Sunrise/*MTV mobile* network	□	□	□	□
to all networks in Switzerland..	CHF 0.45/min	3 desired numbers, additional CHF 0.45/min	□	□
to abroad..................................	from CHF 0.60/min	from CHF 0.60/min	from CHF 0.60/min	□(1)
Unlimited SMS/MMS				
to all networks in Switzerland..	□	□	□	□
SMS abroad.............................	CHF 0.22/SMS	CHF 0.22/SMS	□	□
WhatsApp Data				
in Switzerland..........................	□	□	□	□
abroad......................................	—	—	100 MB(2)	100MB(2)
Unlimited Surfing				
in Switzerland incl. high speed internet(3) up to	□ 500 MB	□ 1.5 GB	□ 5 GB	□ 10 GB
Option: *MTV mobile* extra speed(3)	Continue high speed surfing until month's end for CHF 0.80/day			
abroad (roaming)......................	—	—	—	100 MB(2)
No minimum term...........................	Maximum flexibility; Switch subscriptions anytime; may be terminated on a monthly basis Each handset device available in connection with each subscription from CHF 1			
Price/month.....................................	CHF 15	CHF 20	CHF 45	CHF 60

(1) To seventeen countries in international destinations.

(2) In Region 1.

(3) Available for surfing in Switzerland; bandwidth speed is reduced to 128 kbit/s when users reach the data allowances for full 4G/LT surfing speed or wen exceeding 1 GB per day.

MTV mobile Freedom offers a clear and simple flat-rate postpaid plan with a focus on attractive national and international voice, SMS/MMS and data flat-rates. The subscription fee payable increases with the number of flat-rate components purchased by the customer. As a portfolio focused on the Young & Youth segment, more favorable terms due to free WhatsApp in Switzerland (where data traffic related to the use of WhatsApp is free) and 100 MB free WhatsApp usage abroad and free calls to "community" groups are considered additional value services of the portfolio.

MTV mobile Freedom Start is the lowest-cost flat-rate offering that includes unlimited voice calls to other *MTV mobile* or *Sunrise* mobile customers, flat-rate SMS/MMS, flat-rate high speed data (throttled speed after 500 MB) and unlimited WhatsApp in Switzerland. *MTV mobile Freedom Myfriends* is the medium-range flat-rate offering that provides the same service as *MTV mobile Freedom Start* and additionally free calls to three chosen numbers and a flat-rate high speed data with throttling after 1.5 GB. *MTV Freedom* Swiss is an all-inclusive flat-rate offering unlimited calls in Switzerland, SMS to abroad, plus 100 MB of WhatsApp abroad (Region 1), and 5 GB of full speed. The highest value offer is *MTV mobile Freedom world* which includes the same services as *MTV mobile Freedom Swiss* plus, unlimited calls to 17 countries in international destinations, 100 MB of mobile data roaming (Region 1) and 10 GB of full speed data services. In each plan, any volume outside the flat-rate components is charged to the customers on a usage basis. These four *MTV* plans include the *MTV* extra speed option which, once the volume included in each rate plan is fully used, extends the use of data with full speed for 0.80 CHF per day (with a maximum of 1GB/day).

Sunrise24 and Others

In 2012, we launched our on-line postpaid offering, *Sunrise24.ch*, which is a "no frills" offering. It can only be purchased online and includes unlimited calls to all Swiss mobile and landline networks, unlimited SMS/MMS within Switzerland and unlimited data (speed limited to 7.2 Mbps) for CHF 49 per month. *Sunrise24.ch* does not include hardware and requires a minimum three-month contract. It has a non-recurring cost of CHF 40 for the welcome package that includes one SIM card. *Sunrise24.ch* is targeted at price-sensitive customers with a preference for on-line services. In order to reduce the adverse impact on the existing *Sunrise* customer base, strict migration rules apply.

Under our *yallo* brand, we also used to offer a postpaid plan until March 2012. Our customer base under that postpaid rate plan is relatively small and continues to decrease. The postpaid plan was offered with a monthly fee of CHF 25 and different prices per minute and per SMS depending on the destination while data was charged on a price per Kbit.

Business Customers

We also base our mobile offering for business customers on the flat-rate approach. A broad set of options allows customers to customize contracts to their specific needs. Our portfolio is based on segmented needs and continuously adapted to be competitive; for certain customers, we apply benefit schemes. The standard portfolio is mainly used for small and medium enterprise customers. The specific needs of large corporate customers are covered by our *Sunrise Mobile Dynamic* offering, which provides added flexibility in the related offerings. The dynamic portfolio allows for flexibility with multi-card offers and special roaming offers as well as our ability to address specific customers' requirements.

The following table summarizes our base postpaid mobile offerings to business customers:

	Business flat start	**Business flat company**	**Sunrise *NOW start***	**Sunrise *NOW classic***	**Sunrise *NOW relax***	**Sunrise *NOW max***	**Business flat Europe**
Basic rate with smartphone	—	CHF 10(1)	CHF 29	CHF 69	CHF 89	CHF 129	CHF 195
Basic rate without smartphone	CHF 0	CHF 10(1)	CHF 19	CHF 55	CHF 75	CHF 110	—
In Switzerland							
Calls within the company	CHF 0.35/min.	✓	✓	✓	✓	✓	✓
SMS/MMS	CHF 0.20/0.50	CHF 0.20/0.50	✓	✓	✓	✓	✓
Calls to all networks	CHF 0.3/min.	CHF 0.35/min.	50 min.(2)	✓(3)	✓(3)	✓(3)	✓
High-speed Internet	CHF 0.30/MB	CHF 0.30/MB	250 MB(4)	500 MB(4)	✓(5)	✓(5)	✓(5)
Calls to numbers **outside Switzerland** (Group 1)							
Calls to numbers outside Switzerland	from CHF 0.10/min.	from CHF 0.10/min.	from CHF 0.10/min.	from CHF 0.10/min.	from CHF 0.10/min.	✓(6)	✓(6)
SMS/MMS to other countries	CHF 0.22/1.00	CHF 0.22/1.00	CHF 0.22/1.00	CHF 0.22/1.00	CHF 0.22/1.00	SMS unlimited(3) MMS CHF 1.00	SMS unlimited(3) MMS CHF 1.00
Calls **from** a country **outside Switzerland** (Region 1 Business)							
Calls to all networks	CHF 0.50/min.(7)	CHF 0.50/min.(7)	CHF 0.50/min.(7)	CHF 0.50/min.(7)	CHF 0.50/min.(7)	100 min./month(8)	600 min./per month(8)
Mobile Internet	CHF 1.00/MB	CHF 1.00/MB	CHF 1.00/MB	CHF 1.00/MB	CHF 1.00/MB	100 MB/month(8)	200 MB/month(8)
SMS/MMS	CHF 0.40/1.00	CHF 0.40/1.00	CHF 0.40/1.00	CHF 0.40/1.00	CHF 0.40/1.00	100 SMS/month.(8) MMS/CHF 1.00	150 SMS/MMS/ month(8)
Incoming calls	CHF 0.50/min.	CHF 0.50/min.	CHF 0.50/min.	CHF 0.50/min.	CHF 0.50/min.	CHF 0.50/min.	✓(8)

(1) Available even without smartphone, without being tied to a contract and with a term of notice of eight weeks.

(2) Calls within and outside the minute package are charged on a per minute basis. CHF 0.30/min after reaching 50 minutes.

(3) Applies for normal use (calls in all networks until 3000 minutes/3000 SMS), charging at the standard price (CHF 0.30/min or CHF 0.22/SMS) thereafter.

(4) Thereafter 0.10/MB, maximum at CHF 15/day.

(5) Applies for normal use until 5 GB/min or 1 GB/day, throttled speed thereafter unless concluding or renewing a contract by December 31, 2013.

(6) Group 1 plus United States and Canada; calls abroad with Sunrise *NOW* max until a maximum of 3,000 minutes, charging at the standard price thereafter.

(7) Outgoing calls plus connection fee of CHF 1 per call.

(8) Region 1 Business. Regarding calls in other countries or in the event of exceeding the included services, our current roaming tariffs apply. We define the roaming partners.

In addition to these standard offerings, we also offer various large-scale mobile solutions, for example, our Business SMS Link product, which allows customers to send bulk text messages at attractive rates. Another example is our virtual PBX, which allows SoHo and small enterprise customers to avoid costly fixed to mobile calls. Our Machine-to-Machine ("**M2M**") portfolio provides enhancements that are increasingly in demand by national and international customers focusing on object tracking and data exchanges with remotely positioned machines.

Prepaid Offerings

As of December 31, 2013 and September 30, 2014, 49.5% and 47.8% of our subscriptions were prepaid subscriptions. Prepaid customers may choose from tariff plans in which their prepaid credit is deducted on a per-unit, per-day or per-month basis. We offer our prepaid voice and data services under a broad range of brands to appeal different market segments.

The following table sets forth a summary of our current prepaid mobile voice product offerings but does not include *Aldi* as a branded reseller:

	Sunrise	Sunrise	Sunrise	Sunrise	MTV mobile	MTV mobile
	Sunrise Free	***Sunrise Prepaid Flat start***	***Sunrise Prepaid Flat classic***	***Sunrise Prepaid Flat relax***	***MTV mobile pre***	***MTV mobile pre start***
Rate Plan	**Never pay more than 3 minutes per call up to 2 hours call**	**unlimited calls to *Sunrise* and *MTV mobile*, SMS/MMS**	**Unlimited calls to *Sunrise*, *MTV mobile* and landline SMS/MMS and surfing.**	**Unlimited calls to all networks, SMS/MMS and surfing.**	**Prepaid for Young & Youth segment (less than 30 years old)**	**Unlimited calls to *MTV mobile* and *Sunrise*, SMS/MMS and surfing.**
		19 CHF/Mt	34 CHF/Mt	64 CHF/Mt		15 CHF/Mt
International Calls CHF/min.....	From 0.60	From 0.60	From 0.60	From 0.60	From 0.60	From 0.60
CH-Landline (CHF/min)...........	0.30/min(2)	0.30/min(2)	Unlimited	Unlimited	0.69/hr	0.45/minute
On-Brand (CHF/min)...............	0.30/min(2)	Unlimited	Unlimited	Unlimited	0.69/hr	Unlimited
Sunrise Mobile (CHF/min)	0.30/min(2)	Unlimited	Unlimited	Unlimited	0.69/hr	Unlimited
Other CH mobiles (CHF/min) ..	0.30/min(2)	0.30/min(2)	0.30/min(2)	Unlimited	0.69/hr	0.45/minute
SMS/MMS (CHF/SMS/MMS) .	0.12/0.50/ SMS/MMS	Unlimited	Unlimited	Unlimited	Incl. 25 SMS(1)	Unlimited
Mobile Internet	CHF1/day(3)	CHF1/day(3)	500MB(4)	1 GB (4)	CHF 2.5/MBit	500MB(4)

(1) Additional SMS CHF 0.12 per SMS. Additional MMS CHF 0.50 per MMS.

(2) Three minutes maximum charge per call. After 120 minutes, the call will be automatically interrupted.

(3) Unlimited internet—speed up to 256 Kbps.

(4) Volume at full speed (7.2 Mbit/s); throttling afterwards.

Sunrise Free Mobile Voice Offerings. In 2012, we became the first operator to introduce a prepaid tariff with a "cost airbag" in Switzerland, under our *Sunrise free* brand, as a strategy to counter price decline driven by increasing competition from MVNOs. Our *Sunrise free* offer allows customers to call all Swiss networks from their mobile at an attractive per minute price and at the same time never pay more than CHF 0.90 per call thanks to the "cost airbag". Also, data costs are controlled with a daily tariff of only CHF 1 per day of use for unlimited surfing.

Sunrise Flat. *Sunrise Flat* was the first Prepaid Flat Portfolio launched in Switzerland with three different options. The *Flat Start* offering includes unlimited SMS and MMS in Switzerland, unlimited calls to Swiss landlines and unlimited calls to Sunrise mobile network for CHF 19 per month. The *Flat Classic* offering includes the same services as *Flat Start* but includes 500 MB of high-speed data volume (after which speed is reduced) for CHF 34 per month. The *Flat Relax* offering with unlimited calls to all Swiss networks and 1GB of high-speed data volume (after which speed is reduced) for 64 CHF. With these three options the *Sunrise Prepaid* proposition is aligned with the *Freedom* proposition combining the advantage of cost control from prepaid and the "flat" concept of postpaid. Additionally, these options recognize the loyalty of prepaid customers by offering a 20% reduction on the monthly fee after six consecutive months of activation (the option is automatically extended after one month if the credit balance is sufficient).

Sunrise Prepaid Options. Additionally, we also offer various options for our prepaid customers such as *Sunrise surf* (250 MB data volume for CHF 7.50 per month), *Sunrise surf XL* (1GB data volume for CHF 19 per month), *Sunrise sms* (100 SMS per month for CHF 6 per month) and *Sunrise International* (reduced rate of CHF 0.30 for international calls to 59 countries for CHF 3 per month).

Sunrise Take away Prepaid Mobile Broadband Offerings. Our prepaid mobile broadband offering *Take away* Prepaid a day-based data tariff without any volume limitations for CHF 5.00 per day. This offering is aimed at first-time users, tourists and anyone who occasionally requires mobile access to the internet on a no-contract basis. We also offer our customers the option to purchase the *Take away* Prepaid SIM card together with a USB modem.

MTV Mobile Prepaid

MTV Mobile Prepaid was launched in June 2011 to customers under 26 years old and offers a unique tariff per hour of CHF 0.69, with calls of less than four seconds costing only CHF 0.05, to all Swiss fixed and mobile networks; the age limit was subsequently increased to 30 years. There is no monthly fee or a minimum contract term. The offering includes 25 SMS and MMS (in Switzerland) and a price per MB of CHF 2.50.

In November 2013, we expanded our prepaid offer with the launch of *MTV mobile pre start* with an age limit of 30 years. This option includes unlimited calls to *MTV mobile* and Sunrise mobile lines and calls to other operators at a rate of CHF 0.45 per min, unlimited SMS and MMS in Switzerland and unlimited data, with a speed reduction after 500

MB, for CHF 15 per month. With this offer, *MTV mobile* combines the cost control of prepaid propositions with the distinct characteristics of a “flat-rate community”.

Aldi Mobile Prepaid

Aldi Prepaid was launched in 2007, and since then has developed into a number of plans from pay-as-you-go (“**PAYG**”) prepaid offers to prepaid buckets and options. The *Aldi 4Free* offering is the PAYG offer that includes free calls to other *Aldi* mobile (in Switzerland) and different prices per minute for different destinations from CHF 0.14. The prepaid offers based on volume are: *Smart 50,* which includes 50 minutes to Swiss mobile lines, 50 minutes to Swiss landline, 50 SMS and 500 MB for CHF 15.90 and *Smart* 100, which includes 100 minutes to Swiss mobile lines, 100 minutes to Swiss landlines, 100 SMS and 1 GB for CHF 27.90.

Aldi also offers different options, including *SMS 50*, which includes 50 SMS in Switzerland and abroad for CHF 2.90*, Eurocall* which allows 50 minutes of international calls to both mobile and landline in selected European countries for CHF 5.90 and *Surf options* which includes 500 MB for CHF 9.90 or 1 GB for CHF 14.90. *Aldi* also has a mobile broadband offering called *Surf2Go* consisting of a USB device that costs CHF 39 including CHF 20 credit and a unitary price per MB of CHF 0.09.

Yallo, Ortel and Lebara Prepaid

Our three Ethno brands *yallo*, *Ortel* and *Lebara* are aimed at particular groups of immigrants. *yallo* is focused on immigrants from the Balkans, Western and Eastern Europe, *Ortel* focuses on Africa and Turkey and *Lebara*’s primary target regions are Southern Europe, Latin America, Asia and the Middle East. The high level of immigration to Switzerland creates a liquid market to capture new customers. With our Ethno brands (*yallo*, *Ortel* and *Lebara*) focused on specific target groups, we enjoy a strong presence in all relevant and complementary customer segments as a result of offering competitive call rates to specific target regions. The implementation of our multi-brand strategy has been supported and accelerated by the acquisitions of Ortel and Lebara. We migrate these customers to the mass market segment once they become more settled and increase the domestic usage of their devices.

The distribution of our *yallo*, *Ortel* and *Lebara* brands is carried out through more than 1,500 points of sale, including our Sunrise stores, ethnic channels and selective retail.

The following table sets forth a summary of our current prepaid mobile voice product offerings:

	yallo FLAT	**yallo flex**	***yallo***	***Lebara*** **Simply/Classic**	***Ortel***
Monthly Fee (CHF)...........	39	19	—	—	—
National Fix	Unlimited	200 min	CHF 0.35*	CHF 0.25/0.35	CHF 0.29
National Mobile			CHF 0.35*	CHF 0.25/0.45	CHF 0.29
EU Fix.................................			CHF 0.22*	CHF 0.19/0.05	CHF 0.00
EU Mobile			CHF 0.22*	CHF 0.19/0.22	CHF 0.19
Balkan Fix...........................	CHF 0.15	CHF 0.15	CHF 0.15	CHF 0.19-0.49/0.01- 0.09	CHF 0.09-0.15
Balkan Mobile	CHF 0.25/0.40	CHF 0.25/0.40	CHF 0.25/0.40	CHF 0.19-0.49/0.29-0.49	CHF 0.39-0.49
Data (PAYG)	CHF 0.30/MB	CHF 0.30/MB	CHF 0.30/MB	CHF 0.25/MB	CHF 0.20/MB
Data Bundles.......................	1 GB****	100 MB****	150 MB CHF 5 500 MB CHF 10 1 GB CHF 15 2 GB CHF 25 5 GB CHF 45 10 GB CHF 80	120 MB CHF 4.9 1 GB CHF 14.9 3 GB CHF 29.9 5 GB CHF 44.9 10 GB CHF 79.9	1 GB CHF 13.90
SMS national	CHF 0.15*	CHF 0.15*	CHF 0.15*	CHF 0.15	CHF 0.15
SMS International...............	CHF 0.15*	CHF 0.15*	CHF 0.15*	CHF 0.15	CHF 0.15
				Call Setup: 0.0/0.29 Free Credit up to CHF 50 (100+50)***	Call Setup: 0.29 Free Credit up to CHF 150 (200+150)**

* Half price options (half price for calls and SMS to all Swiss networks with the option “Swiss 50” for CHF 5 per month).

** Roaming options available.

*** Classic.

**** Out-of-bucket options of *yallo* can be booked.

Some of these sub-brands run on one dedicated billing/CRM platform and are operated by an independent profit center within our Group. As a result of our flexible all-in-one billing and customer care platform, we have the ability to react more quickly to changes in the market without being dependent on or affecting our primary brand.

Mobile Device Offerings

We offer our customers a broad selection of handset devices and related accessories, which we source from a number of well-known suppliers and distributors, including Apple, Samsung, HTC, Huawei, Nokia, LG and Sony. We sell handset devices through direct and indirect channels. We are continuously looking to improve the quality and breadth of our handset device offerings to take advantage of new developments and new mobile handset features. Some of our best-selling hardware offerings include the iPhone, the iPad and Samsung products.

Our Sunrise *Freedom* offering is based on a de-coupling of services and hardware. If the customer enters into the services contract (*Freedom* rate plan), the customer may concurrently enter into a separate mobile device contract. Through those hardware contracts we are able to generate additional hardware margin. Our prepaid subscription acquisition costs (excluding Freedom) are generally much lower than our postpaid subscription acquisition costs, and typically include any agent commissions plus either the cost of the mobile SIM card or the cost of a low-cost handset bundled with a mobile SIM card. Furthermore, we offer payment flexibility so that customers have full control and may decide at any time when to pay off the current handset device.

Apple. We launched our iPhone 4 and iPhone 3GS offerings in July 2010, our iPhone 4S offerings in October 2011, our iPhone 5 offerings in September 2012, the iPhone 5s and 5c in October 2013 and the iPhone 6 followed in September 2014. We did, however, not introduce special iPhone tariffs. We currently offer the different iPhone models with the same postpaid tariffs that we offer with other handset devices, because we believe our existing postpaid tariffs already meet customer demands. To further enhance our mobile internet offering, we extended our hardware portfolio to include the iPad.

Samsung. We offer a broad range of best-selling Samsung hardware including prepaid phones, entry-level smartphones, high-end smartphones from the Samsung Galaxy and Note family, as well as new smartphones operating Windows Phone 8. In addition, we offer different models of the Samsung Galaxy Tab.

With the launch of iPhone 6, we launched our new *Buyback* program which is supported by a dedicated partner. Our *Buyback* program offers to new and existing customers the opportunity to sell their used mobile device to Sunrise to get a reduction by the amount of the bought back mobile device on their next invoice. The money paid by us may be used to make the upfront payment for the hardware contract in a Sunrise *Freedom* offering or may be credited to the customer's next invoice. We act as an intermediary between our customer and the dedicated partner who receives the mobile device and makes the payment. The prices offered for old mobile devices are transparent, fair and aligned with market offers.

Hardware forecasting, stock protection agreements, stock level and stock turn have been key targets for the last seven years. Better planning and successful negotiations with device supplier, combined with a set of clear key performance indicators, helped us to keep devaluation at around 1% of hardware revenue. Our average day supply for 2013 was fourteen days.

Landline Voice & Other and Landline Internet & IPTV Services

We provide landline voice & other and landline internet & IPTV services to both residential and business customers. Our landline voice & other include voice, business & integration and wholesale voice and data services, while our landline internet services comprise broadband internet and IPTV offerings.

We provide our landline voice & other and landline internet & IPTV services through our LLU infrastructure or indirectly through Swisscom's network for CPS, VDSL and fiber or through SFN and local utilities for fiber access.

With the availability of LLU in the Swiss market in 2007, we initially focused on migrating our customers from CPS to LLU. Until 2012, we experienced migration from wholesale access (ARB and ADSL) to our LLU network, which resulted in higher margins from savings on wholesale costs. Since 2012, the migration of customers from LLU to VDSL and fiber has been ongoing, which enables the delivery of greater speeds and feature-rich IPTV content. As a result of increasing speed requirements and our IPTV offering, higher bandwidth services based on VDSL and fiber became necessary, the BBCS offer of Swisscom did not provide high speed at competitive prices and fiber was not available in larger scale. While the number of landline subscriptions had been decreasing over the last years as a result of a lack of high-speed broadband offerings, now with full access to Swisscom's last mile at what we believe are cost-efficient and attractive terms, combined with our partnerships with Swisscom, SFN and local utilities for the most advanced fiber technologies, such as vectoring, FTTS, FTTB and FTTH, we provide a full product portfolio to address the demand for high-speed connectivity.

Historically, our profitability for landline voice & other and landline internet & IPTV services depended primarily on the method used by customers to connect to our network and the terms we had under long-term agreements with Swisscom or SFN and local utilities. Under our partnerships with Swisscom, SFN and local utilities for the most advanced next-generation fiber technologies, our profitability will be less dependent on the particular access technology used to connect a customer but rather on the product portfolio provided to an individual customer. As of the third quarter of 2014, we had a 1% fiber share of total lines. We believe to have an inherent advantage in this migration trend as a result of our existing LLU infrastructure as our LLU network enables us to be the only party operating on a nationwide scale to connect to various utilities' fiber networks. Most importantly, the higher speeds under our new partnerships with Swisscom, SFN and local utilities also benefit convergence trends by driving landline internet & IPTV that require higher speeds. With our Sunrise *Home* and Sunrise *Advantage* offerings introduced in June 2014, we believe that we are providing attractive bundle and convergent offerings with distinct advantages over hard bundling offers.

Access Technologies

Carrier Pre-Selection

Historically, our CPS customers selected us as their regular carrier for voice services without them having to enter an access code. The basis for CPS was LLU, which provided multiple telecommunications operators access to the connections from Swisscom's local exchanges to the customers' premises in 2007. Since then, we have made significant infrastructure investments and have equipped more than 600 of Swisscom's exchanges (points of presence) with our own infrastructure to support LLU access and the ability to connect customers directly to us. Because this method offers the least amount of control over the services provided and the lowest margins, we stopped actively marketing carrier pre-selection in January 2008. Nevertheless, we recognize the importance of these customers as it is not uncommon for customers to initially sign up only for our CPS services, perhaps to get better acquainted with our offerings, only to later become ULL, BBCS or fiber based broadband customers.

LLU

Starting with LLU in 2007, we began to focus on migrating BBCS customers to LLU. As a result of these efforts, we have established the largest geographic footprint of LLU coverage in Switzerland, which extends to approximately 85% of the households in Switzerland. Our fully-invested LLU infrastructure connects us to support our customers directly and was a basis for establishing ourselves as a strong landline operator in Switzerland. Direct access enabled us to offer a broader range of products and services, to cut off the billing relationship between the customer and Swisscom and to provide attractive landline bundled and fixed and mobile convergent offers. Our fully-invested LLU infrastructure continues to benefit us as it allows us to connect to fiber and VDSL networks and as connectivity to our mobile backhaul, our mobile access network connected to our state-of-the-art nationwide fiber backbone, at low cost.

VDSL

Recently, broadband has come under pressure due to demands from low speed LLU customers for higher speeds. With the increase of IPTV subscriptions, customers require an upgrade to either VDSL or fiber. VDSL offers speed up to 40 Mbit/s landline internet services and is offered by Swisscom based on BBCS. Under our recent partnerships with Swisscom, SFN and local utilities for the most advanced next-generation fiber technologies, we have also secured full and attractive access via new Swisscom last-mile VDSL.

Fiber

Fiber access is rolled out by Swisscom and local utilities and is offered to third parties by Swisscom, SFN (acting on behalf of several local utilities) and directly by local utilities as a wholesale service. With increased roll-out, fiber access has become commercially more relevant in both the residential and SoHo and small enterprise segments. Fiber coverage increased from 1% by year-end 2013 to 15% by September 2014.

Landline Offerings

Our landline voice & other operations contributed 27.6% and 25.3% of our total revenue for the financial year ended December 31, 2013 and for the nine-month period ended September 30, 2014, respectively. As of December 31, 2013, we had approximately 859.0 thousand landline subscriptions compared to approximately 882.1 thousand as of December 31, 2012. We offer our landline voice & other services through our own LLU platform, but also through CPS, BBCS and fiber, if sold in a bundle with internet or TV.

We also host one FVNO, *TalkTalk ADSL*, which provides landline retail voice and internet services over our network. As the only operator in Switzerland reselling access to our LLU network to partners, we offer all services that we provide to a typical customer except for the sales, activation and introductory customer support which the FVNO partner provides.

We provide landline voice & other services to both residential and business customers in three primary categories: retail voice, business services and wholesale voice. Our retail voice offerings provide landline telephony and related services either independently or in bundled offerings with landline internet ("2P landline bundle"), landline internet in combination with IPTV ("3P landline bundle"). Our business services include a variety of specialized services for large corporations as well as for the SoHo and small enterprises segment. Our wholesale activities include data offerings and voice offerings, such as selling international destinations to other telecommunications providers, known as "voice hubbing".

Retail Voice

The number of retail voice subscriptions as of September 30, 2014 was approximately 401.0 thousand, compared to approximately 436.7 thousand as of December 31, 2013 and 474.4 thousand as of December 31, 2012. We offer local, national, fixed-to-mobile, international and advanced voice services to residential and business customers throughout Switzerland at rates that vary depending on a number of factors, including the duration of the call, the distance between the points of origin and destination, the time of day and the day of the week the call is made and any benefit package selected by the customer. We provide PSTN access and ISDN access throughout Switzerland. Customers may also select from a broad range of additional services, such as caller ID, call forwarding and voicemail.

In line with the trend elsewhere in Europe, the retail voice subscriptions base in Switzerland has been contracting due to fixed-to-mobile substitution, although at a rate slower than that in many other countries in Europe. In response to this trend, we have focused our efforts on attracting customers to our retail voice services through sale of 2P or 3P offerings comprising retail voice, landline internet and IPTV services. We also focus on stimulation of traffic demand through the continued development of our benefit schemes. These efforts, in turn, attract a high usage profile and therefore tend to generate a more stable ARPU.

The following table presents our standard retail voice offering that we market under our *Sunrise call* brand.

	Landline voice only
Landline	**Call+**
Line rental/month	included
Calls to Swiss mobile	CHF 0.35/min(1)
Calls to Swiss landlines	CHF 0.06/min(1)
Monthly subscription fee (in CHF)	25
Monthly subscription fee for mobile subscription	Benefits are part of Sunrise *Advantage*

(1) In addition, a connection set-up fee of CHF 0.12/min is charge.

Our *Sunrise call+* plan is an LLU offering which offers domestic fixed-to-fixed network calls for a minimum monthly subscription fee of CHF 25. The calls are charged based on usage, at a billing rate per minute, with sliding-scale benefits depending on the amount of fees incurred to incentivize increased usage, and therefore higher ARPU.

In addition, we offer *Business Call*, *Business Select*, *Voice Direct* and *Business Numbers* plans, tailored to our medium-sized business and larger corporate customers, which in some instances comprise an offering of retail voice services through direct access to our fiber-optic network within Switzerland for domestic and international calls at more beneficial rates.

Business & Integration

Our landline voice & other services also include advanced corporate data services, which are provided in addition to our standard landline internet services discussed below. These services include direct internet access, security, messaging and other value added services available to our business customers on a retail basis. Data services specifically targeting SoHos and small-sized companies include our *Sunrise Business DSL light* product (available in different monthly subscription fee categories), which grants internet access over a fixed IP address and allows for fast downloads. Our medium- and large-sized clients can choose from our *Business DSL*, *Internet Direct* and *IP VPN* plans, some of which can be combined with our standard landline internet offering, or with bundled offerings. While our *Internet Direct* plan allows direct access to our backbone and broadband in a scope specifically tailored to the business of the respective customer, our internet protocol virtual private networks ("**IP VPN**") offering enables us to provide to our customers an integrated network, with high-speed data transmissions occurring on our MPLS-backbone (Multi Protocol Label Switching is a method used to speed up data communication over combined IP/ATM networks).

We provide various other business services to medium and large enterprise customers and SoHo and small enterprise customers, including data services, with our revenues in the financial year ended December 31, 2013 roughly equally split between SoHo/small enterprises and large and medium enterprises. Our main focus is on Layer 3 Services, *e.g.*, IP VPN but also offering layer 2 services as standard service according to customer needs or requests. Data services typically generate higher revenues and improve customer retention. Our strategy for SoHo/small enterprises is to offer "off the shelf" plans at simple and attractive fee rates that focus on enhanced invoice management and efficiency increases. The business solutions we provide to our larger corporate customers, on the other hand, are frequently individually tailored. Each customer may choose the bandwidth and level of service that is necessary for accurate response time in its own IT environment. We offer direct access to our high-capacity internet backbone, with unlimited data volumes, extended management services in terms of operation, maintenance and support and permanent access to IP VPN solutions and Ethernet Private Lines. Where economically favorable, we provide connectivity to our customers by investing in customer fiber projects. We estimate that as of September 30, 2014, our market share by revenue with SoHo/small enterprises and large and medium enterprises was approximately 9%.

With the acquisition of NextiraOne Switzerland, *Business Sunrise* was able to provide a full information and communications service portfolio to the business customer segment in Switzerland. With this step, *Business Sunrise* became the second largest full-service provider in Switzerland. The additional service portfolio includes unified communications services, network services (LAN/WAN), security services with firewalls and remote access offerings, contact center solutions and video conferencing systems. The service portfolios of *Business Sunrise* also include requirements analysis, design and consulting, integration, deployment and optimizing of the solution portfolio.

We provide the telecommunications services for CERN (*Conseil Européen pour la Recherche Nucléaire*) and transmission services for Swiss HDTV from all football and ice-hockey stadiums for *Schweizerische Radio- und Fernsehgesellschaft*. We have a dedicated 24-hour call center with level-two expertise for such large corporate contracts in order to facilitate around-the-clock access to all telecommunication services we offer for business customers. We are increasingly targeting medium and, selectively, large enterprises to capitalize on our previous experience.

In June 2014, we won a three-year contract with Swiss Post under our *Business Sunrise* brand, which will result in approximately 40,000 additional mobile contracts and has an aggregate value of approximately CHF 22.7 million. Our product portfolio for Swiss Post comprises machine-to-machine ("**M2M**") connectivity for postal service cars, mobile scanners, data connectivity for tablets and approximately 15,000 landline voice subscriptions. The key challenges that had to be achieved before winning this contract were to offer extensive M2M coverage, to match Swisscom's offering breadth and to meet rigid quality requirements. We believe that our customer tailored M2M solution, the similar service offerings at competitive pricing and our high quality service were key in winning the contract. The contractual relationship with Swiss Post creates high visibility for our *Business Sunrise* brand. Besides Swiss Post, *Business Sunrise* has numerous well-known large enterprise customers in Switzerland, including Tamedia, Kameha, Flughafen Zürich, CERN, SBB and SRG.

We offer our *Business Sunrise* customers primarily two types of voice offers: *Sunrise Business Voice* when the customers have their own PBXs and a virtual PBX solution based on a cloud platform if the customer does not have their own infrastructure. Additional business numbers are sold to customers for their number ranges. Thereby, we can offer *Business Sunrise* customers a complete portfolio of mobile, fixed voice, internet and data network products.

Wholesale

Our landline infrastructure allows us to provide mobile voice and data and internet services to other national and international carriers in addition to our regular customers. We are a listed provider for data services in Switzerland of T-Systems, AT&T, British Telecom, Colt, Global Crossing and Interoute.

We offer voice hubbing services on the basis of excess capacity of our proprietary landline network. To provide these services, we rely on a number of platforms including third-party access lines, transmission networks and voice infrastructure. We charge our customers on a per-minute basis, and the rates are closely linked to the termination rates we pay to other landline operators for calls terminating on their networks. In essence, voice hubbing services is an arbitrage business in which we trade minutes with other carriers and charge a "trading fee" per minute on top of the cost per minute. As such, voice hubbing margins are very low for calls terminating outside of Switzerland and still relatively low compared to our other services for calls terminating within Switzerland. Our customers in this area include well-known international telecommunications operators. Our contracts with customers for these services are based on monthly traded minute fees and are therefore under permanent renegotiation. We maintain a team of approximately 10 employees who are dedicated exclusively to wholesale voice services and whose duties relate to sales, pre- and post-sales activities and billing. In the financial year ended December 31, 2013 and the nine-month period ended September 30, 2014, our voice hubbing services generated 7.4% and 7.6% of our total revenue, respectively.

Landline Internet & IPTV Offerings

Our landline internet & IPTV operations contributed 9.8% and 10.0% of our total revenue for the financial year ended December 31, 2013 and the nine-month period ended September 30, 2014, respectively. The number of landline internet & IPTV customers as of September 30, 2014 was approximately 325.9 thousand, compared to approximately 348.0 thousand (including dial-up subscriptions which have been discontinued in the financial year ended December 31, 2013) as of December 31, 2013 and 369.3 thousand (including dial-up subscriptions which have been discontinued in the financial year ended December 31, 2013) as of December 31, 2012. Our internet services utilize our own LLU platform, VDSL products based on rebilling of Swisscom's VDSL products or fiber access provided by Swisscom or SFN and local utilities. We offer a wide array of landline internet & IPTV services to both residential and business customers.

Our landline internet & IPTV offering is tailored to meet demand for high speed connectivity and convenience. Our landline internet & IPTV service is positioned to satisfy demand for "peace of mind" by providing the convenience of a single invoice for multiple services and additional benefits. We aim to provide a competitive product offering in terms of ease of use, such as delivering plug & play solutions, and bundling options for retail voice, internet and IPTV services as well as with mobile products, such as *Sunrise Advantage*. We aim to grow our subscription base by incentivizing customers to subscribe to our fixed and mobile bundled offerings, comprising our mobile, voice, internet and IPTV offerings.

In 2012, we launched a new IPTV product in response to market trends in bundling and convergence. We are currently the leading telecommunications company besides Swisscom that offers mobile telephony, fixed landline, internet and TV services from one source and consider ourselves to be the best value 3P proposition for new customers. Our IPTV offering is sold to the mass market in a "triple play landline" bundle with retail voice and landline internet services. This enables our customers to take advantage of bundle benefits by purchasing retail voice, internet and IPTV services and serves what we believe to be a customer demand of one-stop shopping for all telecommunications services. We offer IPTV to our Young & Youth segment as dual play landline with landline internet services under the *MTV mobile* brand. Our *MTV mobile* customers benefit from reduced prices and we serve the need of the segment for fixed-mobile substitution. The *Sunrise TV* offering uses the VDSL technology provided by Swisscom or fiber technology provided by Swisscom or SFN and local utilities. As of September 30, 2014, we estimate that our market share for our IPTV offering was approximately 2%, while we estimate that our share of net additions during the three-month period ended September 30, 2014 was approximately 23%.

We offer highly competitive content. *Sunrise Start*, the basic package, includes 210 channels, including up to 40 HD channels. *Sunrise Comfort* includes 40 additional premium channels and 30 additional HD channels. With *Sunrise ComeBack TV*, customers can watch programs for up to 30 hours with Sunrise *Start* and up to seven days with Sunrise *Comfort* after the broadcast. *ComeBack TV* has a live pause function which enables the customer to start, stop, fast forward and rewind the program. We were the first to introduce nationwide comeback TV in Switzerland. Furthermore, both portfolios offer intuitive user interface, on-demand features, and new subscription video on-demand service. Additional features such as video on demand, recording, an electronic program guide and easy-to-program individual channel lists give customers the possibility to control the TV program according to their needs. Customers can also choose between four optional language packages from a variety of countries around the world. Our comprehensive content offering is focused on family and general entertainment. Through our partnership with teleclub, we offer sports, movie and entertainment content. Our partnership with canal+ allows us to offer a full competitive French language TV line-up with a strong competitive presence in French-speaking parts of Switzerland with eighteen new French channels added since July 2013 and a total of more than 65 French channels available (including Canal+). Our VoD offering includes movies on a transaction and subscription basis.

Our IPTV service is a hosted service operated by a third-party supplier and is delivered over our IP core and currently relies on a Swisscom-based VDSL BBCS product. The service itself is access technology independent, and we plan to make it available in the future on a large scale on FTTx and on our own LLU infrastructure. At customer premises, the TV signal is terminated on a modem to which the set-top box is connected. The modem also provides voice and internet access services to the customer.

Sunrise Home

We launched Sunrise *Home* in June 2014 as a new flexible fixed portfolio that allows for customers to choose the optimal combination of landline voice, landline internet and TV services in line with their needs. The structure of our Sunrise *Home* is simple: there are three internet speeds, two phone products and two TV products; customers may change the combination at any time at no cost. The portfolio has an easy-to-use structure and there are financial advantages to using it, as it is the same speed and quality of products at leading prices. The "Family", "TV Fans", and "Surfer" combinations are the most popular. The Sunrise *Home* portfolio was introduced to reinforce our strategy to further drive fixed and mobile convergence. We believe that the ability to tailor the configuration, allowing customers to pay only for the services they need, has a distinct advantage over hard bundling as offered by our competitors.

	Internet start CHF 40	internet comfort CHF 65	Internet max CHF 75
Internet	Up to 15 Mbit/s download, 1,5 Mbit/s upload (Fiber optic up to 15 Mbits/down and upload)	Up to 40 Mbit/s download, 4 Mbit/s upload (Fiber optic up to 40 Mbits/down and upload)	up to 100 Mbits/down and upload)
Telephony	**phone start CHF 0** At low per-minute rates free	**phone comfort CHF 15** Flat-rate to all Swiss networks	—
TV	**TV start CHF 20** 210+ channels, up to 40 in HD, ComeBack TV 30 hours	**TV comfort CHF 30** 250+ channels, up to 70 in HD, ComeBack TV 7 days, Live Pause, recording function	—

(1) 100 Mbit/s option added wherever fiber is already available.

MTV home

MTV home is a portfolio constructed to target the youth segment making their first home decisions. This portfolio offers two choices: *MTV home start* and *MTV home comfort*. Both of these options provide internet and TV. This differs from the Sunrise Home bundle in that it offers a higher broadband speed and a benefit of CHF 10. This portfolio is intended to attract new customers who can eventually be up- and cross-sold to Sunrise *Home*.

	MTV home start	MTV home comfort
Internet	Up to 20 Mbit/s download 2 Mbit/s upload	Up to 40 Mbit/s download 4 Mbit/s upload
TV	210+ channels, up to 40 in HD, ComeBack TV 30 hours	250+ channels, up to 70 in HD, ComeBack TV 7 days, Live Pause, recording function

Convergence Offerings

In 2014, we reinforced our position in the landline internet market by launching an offering tailored to meet the demand for high-speed connectivity and state-of-the-art IPTV services and to secure more attractive access conditions for the last mile with Swisscom, SFN and local utilities. With the launch of our Sunrise *Home* portfolio, we have re-established our positioning in the landline and landline internet market offering a full product portfolio to address customers with high-speed and state-of-the-art IPTV services requirements.

Sunrise *Home* offers medium, high and superfast broadband speeds and we believe that it provides the same speed and quality as competitors at competitive prices. Sunrise *Home* is a modular and flexible portfolio that allows customers to choose the combination of internet, landline and IPTV services. We believe that the Sunrise *Home* offering provides a distinct advantage over the standard hard bundling in that customers only have to pay for what they actually need. In addition, customers are free to change their combination at any time without additional cost.

Our re-positioning has been reaffirmed with strong early order momentum. Since the launch of Sunrise *Home*, there has been a significant increase in fixed orders and migrations. In the third quarter of 2014, there was a 45% increase in average weekly fixed orders and an 85% increase of fixed migrations as compared against the second quarter of 2014. We have also experienced an increase in the customer base NPS for internet customers of 8 percentage points by September 2014 following the launch of Sunrise *Home* in June 2014.

We recently renewed our last-mile access agreement with Swisscom at what we believe are cost-efficient and attractive terms. This new agreement is consistent with our last mile capex-light strategy and, together with our partnerships with Swisscom, SFN and local utilities, provides access to the most advanced fiber technologies, such as vectoring, FTTS, FTTB and FTTH. It ensures attractive monthly prices and gives us the ability to compete across all bandwidths and future technologies. We believe that these partnerships will stabilize our landline business and spur organic growth. As a result of the increased proportion of landline customers with bundle offerings, landline ARPU has been increasing.

Marketing and Branding

Our current marketing strategy mirrors our multi-brand strategy with each brand targeted at a different market segment and addressing the specific needs of that market segment. In line with this strategy, we market our services through our *Sunrise* (mass market), *MTV mobile* (Young & Youth segment), *yallo*, *Ortel* and *Lebara* (Ethno segment) brands and *Business Sunrise* (Business Customers). Most recently in 2013, we rebranded our product portfolio as part of our effort to reposition ourselves as providing the best convergent experience in the Swiss market. Our current marketing strategy, which we established in April 2014, aims at showcasing our *Sunrise* brand as "the smarter choice" to the mass market, based on the three pillars of our brand: fairness, transparency and customer orientation. Since then, our advertising claim has been "*Das macht Sinn*" ("that makes sense"). In line with our multi-brand strategy in the mobile market, we address the Young & Youth segment with the *MTV mobile* brand by providing suitable offers to this segment (up to an age of 30) and being the only youth-specific brand in the Swiss market. Additionally, we target the ethnic segment by offering simple and affordable mobile services under our *yallo*, *Ortel* and *Lebara* brands, also associated with attractive rates for international destinations. We entered into a reseller agreement with *Aldi Suisse* to market and sell our products under its brand. Our MVNO partners that provide their services through our network generally target specific customer segments, supporting our multi-brand-driven customer growth strategy.

We have been investing in marketing to support the brand positioning, which generated strong momentum for brand awareness and all brand drivers, especially among the convergent target group. According to the brand tracker (June 2014), *Sunrise* is the brand with the highest increase in each brand driver, *i.e.*, offer (plus seven percentage points), trust (plus three percentage points) and affection (plus five percentage points). With respect to brand awareness, we hold the second position after Swisscom for both mobile (77% compared to 88%) and landline and landline internet services (64% compared to 90%).

Our marketing team utilizes a variety of channels to advertise our products, including television, print advertising, Out-of-Home ("**OOH**"), internet and direct mail. Each year, we engage in approximately five large above-the-line advertising campaigns on a nationwide basis with an all-channels approach and a strong focus on OOH advertising in the largest cities. In order to reinforce our presence in specific regions, we also engage in regional marketing activities and campaigns. We enhance our campaigns with massive OOH displays covering heavily frequented areas, such as railway stations, bus stops or shopping centers in Switzerland's largest cities. The core messages of each campaign typically include below-the-line ("**BTL**") elements as well. These campaigns also frequently showcase mobile devices and other hardware and are often co-financed by vendors. We also participate in a number of smaller advertising efforts, including direct mailings, partner marketing, online marketing, a presence at all major Swiss fairs, and placement in catalogs of retailers, such as *Media Markt* and *Mobilezone*. We also include our existing customer base into our marketing activities in order to increase customer satisfaction, reduce churn and leverage our up-selling and cross-selling potential.

In the business market segment, our communications are generally focused on BTL, including online marketing and events. We advertise in segment-specific communication channels, such as trade journals or trade fairs. All communication activities to new and existing customers are based on segmentation, using targeted cross-selling and up-selling to existing customers on a one-to-one basis (*e.g.*, segment-specific direct marketing activities, such as bill inserts and direct mailings). For the corporate segments, our marketing efforts are typically customized for each buyer including dedicated account management, back office support, customer-specific presentations and local events. We also use innovative marketing approaches, such as door-opener campaigns, to target selected customer groups.

Sales and Distribution

We distribute our products and services through direct and indirect channels. Direct distribution occurs through our own branded company stores, our own branded mobile centers, online presence, direct mailing and telephone sales through our call centers (inbound and outbound calls). Our indirect channels comprise third-party distributors, including selected mass merchandisers, electronic chains and specialized telecommunications retailers throughout Switzerland. Both our store network and our indirect channels sell mobile and landline voice & other and landline internet & IPTV services. Our mobile offerings are sold primarily through our own-branded stores, online and third-party distributors, while we sell our landline voice & other services and landline internet & IPTV products primarily through our own branded stores, mobile centers and shop stalls, at retail outlets, via direct mailings, door-to-door sales and through call centers.

Our own-branded store network is organically grown and fully-integrated, with the same systems and same training programs for all of our employees. We have consistently grown our direct channel network in recent years, with an expansion from 37 stores as of January 1, 2008 to 93 stores as of September 30, 2014, supported by around ten mobile sales units and approximately three shop-in-shop stalls. This expansion led to an increase in the share of direct sales to approximately 65% during the same period. We plan to further optimize our store networks with a clear focus on quality of location during the next few years. In addition, we plan to further drive commercial traffic into our centers through local marketing campaigns. Our company wide NPS program provides immediate and direct customer feedback to all of our touch points which therefore allows a close steering of all direct and selected indirect POS towards further improved customer experience.

We use our mobile centers and shop-in-shop stalls as distribution tools to increase both awareness and sales with promotions in shop-in-shops, consumer trade fairs, malls and streets. In addition to the generated sales volume, we believe this concept supports our brand visibility and additional reach without diluting quality with approximately 30 trade fairs and 25 mall promotions annually.

In addition to our own branded shops we are focusing on further developing and expanding our online activities by upgrading our online store to an integrated digital platform. The platform is planned to collect customer data across all touch points, allowing personalized customer interaction with relevant offers based on online and offline behavior and by establishing a cross-channel sales process combining online as well as in- and outbound activities. We believe that this approach will result in a seamless customer experience across all direct channels, an easy and intuitive experience of our website and a further increase of share of online sales.

Our indirect channels range from nationwide chains, such as *Mobilezone*, the largest telecommunications specialist, *Media Markt*, *Interdiscount*, *Fust* and Swiss Post, to smaller, regional dealers and our door-to-door business. Altogether, our indirect channels provide approximately 2,500 points of sale throughout Switzerland. In most cases, we do not have exclusivity arrangements in place with our third-party distributors, except in very limited circumstances, for example franchisees. We pay commissions to our distributors, based on the service plan contract value as a stand-alone product and on the combination of service plan and device plan based on its contract value. Furthermore, we support our distributors' advertising activities by placing attractive Sunrise offers into their sales channels.

We offer a variety of methods for customers to top-up prepaid accounts, including online, at ATM machines, and via all other major refill channels such as Swiss Post, at Kiosks and SBB.

We have a broad and target segment-specific distribution network with approximately 1,500 points of sale for the Ethno segment, offering the services of *yallo*, *Ortel* and *Lebara*. This distribution network is operated with a clear focus to maximize customer proximity with the relevant ethnic segments and sub-segments. The high level of immigration in Switzerland creates a liquid market to capture new customers, which we capitalize on through the points of sale.

We also employ account management teams for our medium and large enterprise customers, while SoHo/small enterprise customers are mainly served by our sales partners (indirect channels) and our stores, depending on the services needed and the customer revenue potential. Across all segments, we place strong emphasis on up-selling and cross-selling in both mobile and landline platforms, with customers having the opportunity to receive benefits by signing up for bundled or convergent services.

Customer Experience

In 2013, we launched a company-wide, multi-year program dedicated to substantially improving the customer experience across multiple customer touch points, such as call centers and shops, essentially covering all services we offer. Using our NPS program, we are able to continuously track areas for improvement and ensure successful implementation of improved customer service. See "*—Our Strengths—Successful focus on quality and customer experience*". We believe that NPS is a powerful and simple metric to measure customer loyalty and advocacy. The NPS score is obtained through a simple customer survey which is supported through follow-up calls to customers to identify specific issues and causes for customer dissatisfaction. We use this feedback to steer investments and drive individual and structural improvements. We refer to the use of the NPS program in conjunction with the follow-up calls and related actions as our "closed-loop feedback" system. This system reflects insights gathered from approximately 150,000 feedbacks and 40,000 call-backs over the last six months. In addition, beginning in 2014, the NPS program was linked to the bonus and incentive scheme for our employees and our partners for outsourced services in order to further encourage action and a dedicated team has been established to ensure roll-out, monitoring and continuous improvement of customer experience turning Sunrise into a fully customer-centric organization.

Since the launch of the program, NPS has substantially improved, and continues to improve, for both touch points and services. NPS for shops increased by approximately 27 percentage points from the third quarter of 2013 to the third quarter of 2014. There was also an increase in NPS for new Sunrise customers.

NPS for new postpaid customers increased by 23 percentage points from February to September 2014, NPS for new 2P fixed customers increased by 22 percentage points from February to September 2014, and NPS for new 3P fixed customers increased by 8 percentage points from February to September 2014. We believe that these improvements to the customer experience, among other things, will help to substantially reduce churn, reduce cost of non-quality and increase gross additions of subscriptions by increasing recommendation rates from our existing customers.

Customer Service

Our customer service is focused on operational excellence and customer experience. Our customer service processes are generally managed through one central system known as *Clarify* and our contact center application *CIC*. We have integrated our support systems, such as a new knowledge management system and a process guidance tool, in order to improve quality. Our customer service efforts are coordinated through our customer care group, which aims to provide competent, solution-oriented advice to our customers. We offer support across all products and services including sales, administration, dealer support and technical support for both mobile and landline products. Furthermore, our customer care group maintains a focus on customer life-cycle management, including sales, retention, billing inquiries and technical support.

Our customer care group provides services through our dedicated call centers and by written correspondence. We have a centralized customer care unit, which has in-house capabilities, but also outsource certain customer services. Our call centers are spread across fifteen sites; two sites are internal and thirteen are external operated by a total of seven outsourcing partners. We use our in-house capabilities primarily where special knowledge and back-office function is necessary. We have two physical locations in Switzerland that support four languages: German, French, Italian and English. Our outsourced capacities are located in Switzerland, Germany, Austria, Turkey and Romania. We currently outsource approximately 85% of our customer service activities to third-party providers. We generally rely on "near-shoring" units that are able to reduce costs while providing better service than the less expensive, longer-distance outsourcing units. Technical support, billing inquiries and other information are available during opening hours that are in line with Swiss market standards.

We have invested in a comprehensive set of measures to ensure and further improve our quality in customer service while simultaneously increasing efficiency. We implemented a strict focus on quality through an improved hiring and personnel development approach to attract and retain talent, including revised introduction procedures ("Sunrise Academy") and improved training, including monthly coaching and performance review and cross product training. In addition, NPS helps to identify quality issues, provide solutions and structurally improve our operations. We have established NPS routines to improve skills based on customer feedback including weekly NPS check-ins and coaching, customer callbacks, and monthly experience sharing. We believe that our thorough approach to implement these measures improved the touch point NPS for our call centers. Furthermore our accessibility and solving rates have substantially improved. Our accessibility rate increased to 91% in the third quarter of 2014 from 85% in the third quarter of 2013 and the percentage of calls answered within 60 seconds increased to 71% in the third quarter of 2014, up from 60% in the third quarter of 2013, up from 52% in the second quarter of 2013. Since we are confident that our performance will further improve, as of February 2014, we have made available weekly updated call center performance indicators on our website. We are the first operator in the Swiss market to do so in such a specific and transparent way.

Customer Relationship Management

The customer care group manages all of our customer relationships. As of September 30, 2014, we employed 722 dedicated call center agents serving our residential and SoHo customers. The employees fulfill varying roles in order to provide customized and efficient service to our customers. We address the SoHo and small enterprise segment, which is focused on more standardized products, through sales hunters and customer relationship managers. New customers are attracted with special sales and, once committed, the acquisition customers are handed over to a customer relationship manager. For our medium and large enterprise segment we employ account management teams, while SoHo and small enterprise customers are served by our stores and our sales and solutions partners (*e.g.*, Mobilezone, Burkhalter and Etavis), depending on the services needed and the customer revenue potential. Across all segments, we place strong emphasis on up- and cross-selling in both mobile and landline platforms, with customers having the opportunity to receive benefits by signing up for bundled services or convergent offers.

We have a dedicated organization with 24/7 support in four languages to handle customer care for *Business Sunrise* customers with the entire customer support team being based solely in Switzerland. *Business Sunrise* customers typically have a first-level service desk themselves, and their requirements for business customer care are typically for complicated technical issues involving highly skilled technical resources. Accordingly, second-level engineers handle the complete portfolios of our *Business Sunrise* customers. We have implemented tighter partner performance reviews, based on productivity and quality, and our engineers follow clear processes for fault handling and turnover of technical problems to other organizations. This streamlined process allows for our business customers to be continuously informed about the status of their issue until it has been solved.

Within the customer service unit, we have a dedicated team in place to continuously improve our order, activation and fulfillment processes for all services and across all access technologies, including fiber and IPTV. In an effort to further improve our NPS, we recently engaged in a complete reorganization of our customer care department. We significantly improved the capacity of the department by optimizing and streamlining its organization. The changes we implemented immediately translated into a visible improvement of all customer care performance indicators and have substantially contributed to the improvement of the welcome NPS score for both internet and TV services with new customers.

Sales and Retention

In addition to answering questions related to administrative issues and providing technical support, our customer care group is also responsible for inbound telesales. We have been able to realize sales growth by emphasizing cross- and upselling during inbound calls regarding information and administration, billing and technical support.

Our customer management group analyzes customer data to identify candidates suitable for targeted, cross-selling promotions to stimulate usage and retention programs. This results in a broad range of cross-selling and up-selling marketing campaigns which use all direct marketing channels, including direct mailing, SMS, email, bill inserts and outbound telesales. We currently use an online tool that identifies up- and cross-selling opportunities in real time based on a customer's product portfolio and usage patterns. This tool gives targeted, personalized sales advice to our telephone customer care agents and our retail outlet employees. We also specifically target high-value customers in both the residential and business markets. These customers are targeted with specific programs based on recurring contact with the customer aimed at understanding the customers' needs and improving their knowledge of our services and offers.

We also focus on identifying customers who are at risk of disconnecting their services (using statistical models and NPS alerts) and act on these efforts with special offers using all direct marketing channels, including direct mailing, SMS, email, bill inserts, and telesales. Promotions offered through our customer care group are generally not made available to the public or our customer base at large. We allocate only experienced agents to the retention team and are in the process of insourcing this function to be in control of quality and performance.

In addition to the implementation of NPS, we have established a customer loyalty and retention program as part of our customer relationship management. Our Sunrise *Rewards* program rewards the existing customer base, rather than the usual model of rewarding new additions, and we believe it is the first of its kind. The program provides benefits to our customers based on their tenure. For example, after one year, a customer may have the option for a free roaming pack or an international option. Customers are also provided with exclusive advantages and third-party deals, only available to Sunrise customers. We believe that these rewards will decrease churn, attract new customers and reinsure existing customers. As of September 30, 2014, more than 5% of our customers had signed up for Sunrise *Rewards*.

Credit Management and Billing

Our postpaid mobile customers purchase SIM cards and mobile phones directly from us, or from retailers and dealers who then purchase them from us. We bill our postpaid mobile, landline voice & other and landline internet & IPTV customers directly. We send monthly or, less frequently, bi-monthly paper and electronic bills to our customers, and perform credit evaluations on our postpaid residential and business customers and send monthly, quarterly, semi-annual or annual invoices to our business customers. We perform credit evaluations on our postpaid residential and business customers and monitor customer collections and payments. We maintain a provision for estimated credit losses based on a number of factors, including, but not limited to, credit and payment history, credit rating, specific issues related to our offerings to a particular customer. An assessment of a particular customer's ability to pay, any significant financial difficulties or probability to enter into bankruptcy or financial reorganization and default or delinquency in payments are also considered as indicators that a provision is required. Although we offer direct debit, its use is generally unpopular in the Swiss market. Since the launch of our new Sunrise *Freedom* plan, the customers have the possibility to pay either the full price of the handset device upfront or to make payment in installments over a period of twenty-four months. The second option is subject to a credit check control.

Our prepaid mobile customers purchase SIM cards and mobile phones directly from us, or from retailers and dealers who then purchase them from us. We bill these retailers, dealers and distributors shortly after we deliver these products. These customers then have the ability to "top-up" their accounts through any one of a number of payment channels. Although we do not send regular bills to prepaid customers, the rest of the billing process is similar to the process for postpaid customers. We maintain all prepaid customer account information in our databases and have the ability to reach out to these customers for promotional or other purposes as we see fit.

For our voice hubbing business, we send weekly, bi-weekly or monthly invoices to our partners and perform credit evaluations on them. We maintain a provision for estimated credit losses based on the same criteria as described above. As most of these partners are also creditors, we net invoice amounts or initiate a collection process on a regular basis.

Network and Infrastructure

Overview

In the past three years, we have made significant investments into our network in order to implement our network strategy. Our network strategy aims at providing a high-speed network to ensure a best-in-class customer experience. Despite the cost involved with our increased capacity and 3G and LTE/4G roll-out, we are still realizing cost reductions as a result of improved network efficiency.

We operate a 10,800 km nationwide state-of-the-art fiber network backbone, integrated mobile and landline access networks with more than 600 points of presence in our fully-invested LLU network with a coverage of approximately 85% of households in Switzerland and have full access to Swisscom's last mile. We generally own the components of our mobile network and lease on a long-term basis the premises on which they are installed. Approximately 85% of our fiber-optic backbone is either owned by us or held in long-term capital leases typically with remaining terms between 33 and 35 years that grant us the right to sub-lease capacity and fiber. Our recent strategy with respect to mobile network infrastructure was to consistently improve our network by leveraging our favorable low frequency spectrum position for further enhanced customer experience. We have invested extensively in recent years to further expand our UMTS/HSPA and LTE/4G mobile network and also renew our infrastructure based on our strategic partnership with Huawei which we entered into in April 2012 with services commencing in September 2012.

Our strategy as applied to our landline network is to focus on partnerships that enable us to have a national landline footprint for high speed access while maintaining a last mile capex-light strategy. We maintain a fully-invested LLU infrastructure of our landline network with full access to Swisscom's last mile at what we believe are cost-efficient and attractive terms, combined with our partnerships with Swisscom, SFN and local utilities for the most advanced next-generation fiber technologies, such as, FTTS, FTTB and FTTH.

These network investments have translated into a significant improvement in network quality. Our considerable investments into the life cycle of our infrastructure position us with a well invested network that will require regular levels of investment going forward and enables us to offer high-quality service to our customers. With the release of the most recent Connect test results in December 2014, we experienced an 86 point increase from 356 (out of a maximum 500) in 2012 to 442 in 2014, the highest two-year improvement among all Swiss MNOs. The December 2014 results ranked Sunrise in first place for mobile telephony ahead of all mobile players in Switzerland, Germany and Austria and the overall rating of our network was upgraded from "good" in 2013 to "very good".

Mobile Network

We offer our mobile voice and data services through our 2G/3G/4G network which is based on a fully renewed MSR (multi-standard radio) network and fully renewed mobile core network. Our focus has been on increasing our mobile network quality and capacity over the last few years. We now operate 3,510 base stations nationwide.

Our GSM/EDGE coverage exceeds 99.9% of the Swiss population and our HSPA+ coverage is approximately 99%. We are still in the process of further upgrading sites using reframed 900 MHz frequencies in order to extend deep indoor coverage in urban and suburban areas and to further increase rural area coverage. In addition, we recently entered into a limited pilot network sharing agreement with Orange that may be expanded in the future, if the initial project proves to be successful.

Our LTE/4G reached approximately 80% as of September 30, 2014 and approximately 85% at the end of 2014, in each case as a percentage of the Swiss population. We currently operate an LTE-advanced pilot and testing project and intend to launch coverage in the short term. We have already configured existing sites in order to allow easy and rapid deployment of new technologies.

Huawei developed and provided the technology for network and the rapid configuration of existing sites. Our partnership with Huawei provides attractive support and maintenance fee terms and has allowed us to move from a multiple third-party vendor system to a single vendor strategy. This single vendor strategy with respect to radio and the mobile core network significantly reduces complexity in an environment where 2G, 3G and LTE/4G mobile standards for the network and the mobile terminal equipment need to work together seamlessly in order to provide high-quality services to our customers. Additionally, the reduced complexity also reduces the cost for planning, engineering and operating the network.

We have achieved a competitive mobile coverage and network quality despite difficult topographical circumstances and stringent environmental requirements. Moreover, we have secured a technically superior spectrum position which still has ample free spectrum, giving sufficient room for further subscription growth. Accordingly, we will continue to develop and expand our UMTS/HSPA and LTE/4G network with a focus on improving coverage and capacity.

Transmission Backbone Network and Landline Network

Our transmission backbone network consists primarily of a DWDM backbone. This fiber-optic network measures approximately 10,800 km and connects more than 3,650 sites, including all of Swisscom's interconnect points, various connections with international carriers and a number of direct customer connections. Our data network is built on IP/MPLS technology and delivers data services to residential and business customers. The majority of our fiber-optic backbone is either owned by us or held in long-term capital leases, the remaining portion is held under operating leases with typical terms of one to six years. We also developed a customized dedicated high speed network in 2008 for the

Swiss national television, which connects TV studios with football stadiums and ice hockey arenas throughout Switzerland.

Our primary landline investment focus in recent years has been the roll-out of our LLU coverage. In the wake of the Swiss government's decision in 2007 to force the unbundling of Swisscom's local loops, our LLU coverage has expanded from 0% in 2007 to approximately 85% of Swiss households. With increasing demand for higher bandwidth services and IPTV, we have entered into an agreement with Swisscom which provides access to Swisscom-based VDSL BBCS services and next generation fiber networks. Furthermore our partnership with SFN and local utilities provides us with access to their fiber network. Our partnerships with Swisscom, SFN and local utilities are consistent with our last mile capex-light strategy insofar as capital expenditures are not required for another roll-out as we can use existing backbone and LLU infrastructure to connect or migrate customers to VDSL and FTTH.

Construction, Maintenance and Development

We have made significant investments into our network over the last decade. Our legacy 2G/3G NSN and Ericsson RAN and core network equipment has been replaced by state-of-the-art MSR and core network equipment from Huawei, which has reduced complexity and cost and increased quality and capacity. By leveraging our technically superior spectrum position, we can efficiently provide deep indoor as well as rural U900 and LTE800 high speed data and high-quality voice services by primarily upgrading existing sites and therefore need fewer new sites, which are costly and difficult to build. U900 and LTE800 is being used to provide a solid coverage layer for HD voice and high speed data and LTE1800 and U2100 is used to add additional capacity. Additionally, LTE/4G 2600 MHz may be used for capacity hot posts and micro cells. MSR equipment is ready for LTE/4G enhanced, combining L800/L1800 or L1800/L2600 which was demonstrated in our live network already in February 2014. In the 800 MHz spectrum, LTE/4G 800 does not support voice services until Volte will be introduced. Once introduced, it typically requires a certain period of time until handset penetration is high enough to be leveraged by customers. As a result, LTE/4G 800 is widely perceived not to be a solution for deep indoor voice service. Where U900 is able to provide deep indoor and rural area coverage voice and HSPA+ data services, there is support by over 70% of existing handset types. Further, for operators using 1800 MHz antennas, it is more costly to use 800 MHz antenna and requires new permissions and static enforcements for the sites, whereas we already use 900 MHz antennas which are of the same size as 800 MHz antennas. On that basis, it will be easier for us to introduce 800 MHz LTE. The latest MSR network equipment allows cost-efficient improvement of 2G based legacy services concurrently with improving performance and quality for 3G-based services. We have made significant investments to provide additional area coverage for 3G in rural areas, and to improve our network coverage and capacity for indoor service. We are currently installing femto-cells in order to further improve indoor coverage. We are well advanced in the rollout of the LTE/4G technology to expand our current network capacity and will continue to invest until the rollout is complete. We also intend to continue to expand our UMTS network (to increase coverage) and our HSPA technology (to increase bandwidth) and to increase the capacity and transmission speed of our backbone and backhaul and access networks. Our future capital expenditures in our networks will comprise maintenance expenditures and discretionary expansion of our network. The network has already undergone such transformation, that future capital expenditure will maintain the simplified product portfolio and focus on efficiency, which we expect to lead to network cost stabilization and reduction.

In 2012, we entered into an extended supply and service agreement with Huawei. Huawei is our preferred equipment supplier and is responsible for the operation, maintenance and construction of our entire network, while planning, engineering and optimization of the network remain in our responsibility. We consider it to be strategically important to have the responsibility for the network design, engineering and quality control in-house in order to have a long term and vendor independent view on the technical infrastructure. The outsourcing of the network as defined by the scope of the outsourcing agreement with Huawei included the transfer of employees, tools and equipment from us and our former outsourcing partner Alcatel-Lucent to Huawei. Huawei is responsible for the operation and maintenance of the network infrastructure and the deployment and construction according to the network planning and engineering plans and rules by us. We are also responsible for the optimization of the network in close cooperation with our outsourcing partner. The focus of Huawei as our outsourcing partner is with respect to network quality, specifically detecting network outages and service degradations as quickly as possible and resolving them by field force intervention in cooperation with our engineering departments. The agreement with Huawei has a fixed term of five years, and we have an option to extend the contract twice for an additional two years. We believe that the contract with Huawei allows us to provide high-quality standardized services for the residential market as well as scalable customized services for business and wholesale customers. At the same time, customer service activities for business customers have been insourced to efficiently support the growth targets in the business segment. Our transition to Huawei has significantly improved our network quality and simplifies and makes more efficient the maintenance of our infrastructure.

Information Technology Systems

Our information technology systems are highly integrated into every aspect of our business, providing capabilities for a variety of purposes, such as online services, point-of-sales support, third-party integration of sales channels and resellers, service provisioning, billing, customer relationship management, data warehousing and enterprise resource management and workplace support. A stable and robust IT infrastructure is a key component of our convergence strategy. Our strategy is focused on developing a customer-centric system.

Our existing IT infrastructure is stable and reliable, but also constantly evolving in order to ensure that it continues to fulfill our business needs. We have continuously invested to further improve IT effectiveness and efficiency through increased standardization, consolidation and virtualization of IT systems. We use professionally selected software systems that increase our efficiency, including internally developed software, open-source software and third-party commercial software. Despite continuous cost optimization, mostly well-established suppliers for hardware and software have been chosen to prevent cost-intensive product and frequent design changes. In the last two years, we have made significant investments in the system stabilization by reconsidering the system architecture, reducing the number of vendors and standardizing our IT environment. We also aim to improve our efficiency through ongoing simplification, in particular with regard to our product portfolio. We reduced the complexity of our application landscape in order to optimize costs and reduce time to market. By streamlining our processes, we enable increased quality of our products and services. As a result, our simplification measures have enhanced efficiency and resulted in reduced transaction costs.

Our systems are mainly hosted in two mostly redundant and geographically distinct data centers in the Zurich region. The information technology services are delivered predominantly by in-house resources in close cooperation with selected outsourcing, nearshore and offshore partners, especially in the development, testing and operations areas. The implemented IT, sourcing strategy and scalable capacities allow us to react in a flexible and efficient way to changing market demands by rolling out new product developments in the most efficient way. Furthermore, we established a state-of-the-art billing system for convergent services. We intend to further optimize our cost base by continuous adjustments. For example, the increased scope of our outsourcing activities to India allows cost optimization and scalability.

In December 2014, we were the first and only telecommunications provider in Switzerland to receive the globally recognized ISO 27001 certification relating to our technology infrastructure and operating processes for all customer information and encompassing the entire company. ISO 27001 represents the only international standard to define the requirements for an Information Security Management System (ISMS) and provides a model for establishing, operating, reviewing and improving comprehensive information security measures. The ISO 27001 certification relates to data of our residential and business customers.

Licenses

We believe that we have acquired all necessary licenses to operate our business at the Swiss spectrum license auction in early 2012. See "*Industry Overview*" and "*Regulation*". We have acquired the new licenses for the provision of mobile telecommunications services based on the GSM/GPRS/EDGE, UMTS and LTE standards. These licenses will expire on December 31, 2028.

The entire license fee for these licenses acquired on July 6, 2012 is CHF 481.7 million. We opted for payments in installments as follows: 60%, or CHF 289.0 million, of the license fee was paid on August 6, 2012 and the remaining 40% must be paid in two installments of 20% each with 3% compounding interest for the period ended December 31, 2013, which are due on June 30, 2015 and December 31, 2016, respectively. We plan to fund the second and third spectrum payments with cash from operations. See "*Risk Factors—Risks Related to Our Market and Our Business—Our licenses and permits to provide mobile services have finite terms, and any inability to maintain or renew these licenses or permits upon termination, any withdrawal of these licenses when a third party obtains control over us, any inability to obtain new licenses and permits for new technologies or any excessive prices charged for renewing or obtaining licenses and permits could adversely affect our business*".

Certain Contracts Relating to the Operation of Our Business

The following is a summary of certain contracts relating to the operation of our business.

- *Wholesale Agreements with Swisscom.* Wholesale agreements between Swisscom and us serve to provide us with access to Swisscom's physical infrastructure that is necessary to deliver certain telecommunications services to our customers in Switzerland. These wholesale agreements concern, for example, BBCS, LLU and related colocation, ducts, leased line services for high-bandwidth connectivity of antenna sites and dark fiber connectivity to local exchanges. These agreements further detail the provision, installation, and maintenance of new infrastructure and equipment regarding these services. One of the most significant agreements with Swisscom is the recent amendment of June 2014 to certain existing agreements which allows us to supply fixed broadband connectivity and IPTV services to our customers technology independently and which includes a one-time co-investment by us of approximately CHF 74 million (thereof CHF 45 million was realized in 2014).
- *Wholesale Agreements with Alternative Access Providers.* Wholesale agreements with alternative/regional access providers (*e.g.*, utility companies) serve to provide us with access to the provider's physical infrastructure that is necessary to deliver certain telecommunications services to our

customers in Switzerland on alternative access lines beside Swisscom's physical infrastructure. These wholesale agreements concern, for example, FTTH or business dark fibers. These agreements also detail the provision, installation, and maintenance of new infrastructure and equipment regarding these services. Fiber lease agreements to connect to our customers have been concluded with municipal and private utility companies, such as, among others, Elektrizitätswerk der Stadt Zürich, Canton of Fribourg and, through Swiss Fibre Net AG with Services Industriels de Genève, Energie Wasser Luzern, Energie Wasser Bern, City of Winterthur, Sankt Galler Stadtwerke and IWB Net AG (Basle). These agreements generally have indefinite terms and may be terminated with a notice period between 12 and 24 months. We concluded a series of agreements for backbone connectivity with Nordostschweizerische Kraftwerke, S.A., L'Energie de l'Ouest-Suisse, Elektrizitäts-Gesellschaft Laufenburg AG, BKW FMB Energie AG, Centralschweizerische Kraftwerke and Aare-Tessin AG für Elektrizität Atel regarding the use of high voltage infrastructure for fiber cables. We entered into agreements with Schweizerische Bundesbahnen SBB regarding the granting of cable laying rights along the existing infrastructure of SBB and the lease of bandwidth and optical fibers as well as the purchase of optical fibers. Approximately 85% of our fiber-optic backbone is either owned by us or held under long-term capital leases typically with remaining terms between 33 and 35 years that grant us the right to sub-lease capacity and fiber.

- *Interconnection Agreements*. We have entered into several national and international interconnection agreements (including with Swisscom, Orange, Cablecom GmbH, Telecom Italia Sparkle S.p.A., Deutsche Telekom, France Telecom, Telefónica Germany GmbH & Co. oHG and Telia Sonera) that connect our networks to each of their respective networks. Under these agreements the parties grant each other connecting transit and termination services, allowing the conveyance of telecommunication services. This is accomplished by means of points of interconnection, bilateral networks, direct circuits between the parties, switched lines or by a combination therefrom. Generally, these agreements have an initial term of one year and then continue indefinitely until one of the parties gives written notice of termination. The time from when this notice must be given to when the termination may become effective varies from three to six months. Furthermore, the agreements typically may be terminated upon certain events of default, such as bankruptcy or insolvency.

- *Wireless Site Sharing Agreements.* We are party to framework agreements with Swisscom and Orange for colocation of antenna sites. In 2014, we entered into a limited pilot network sharing agreement with Orange.

- *Roaming Agreements*. We are party to a large number of roaming agreements with operators around the world (including Orange France, Telefónica Global Roaming GmbH, Deutsche Telekom AG, Vodafone Roaming Services S.à r.l. and Wind Telecommunicazioni S.p.A). These agreements allow our mobile subscribers to access other mobile networks by providing international roaming. Although the particular terms vary by country, the agreements generally regulate billing and accounting, settlement procedures, customer care, technical aspects of the roaming agreements, testing, security, information on signaling interconnection and connectivity. These agreements usually continue indefinitely or automatically renew until one of the parties gives written notice of termination. This notice is required to be issued anytime from two months to a year prior to termination. Further, the agreements typically may be terminated upon certain events of default, such as bankruptcy or insolvency.

- *Agreements with MVNOs and FVNOs.* We are a party to MVNO agreements (*e.g.*, with *TalkTalk* (a subsidiary of *Mobilezone*) and *Finecom Telecommunications*) that, for a fee, provide other Swiss mobile operators that do not possess own network infrastructure access to our network. These mobile providers then have the right to resell this network access to their own customers. In addition, we are a party to one FVNO agreement (with *TalkTalk*, a subsidiary of *Mobilezone*) that, for a fee, provides access to our fixed network infrastructure. These agreements generally address, among other things, required service levels, network coverage, payments, fraud prevention, intellectual property and marketing rights, sanctioned products, and data and consumer protection. The initial terms of these agreements vary from one to five years and thereafter usually continue indefinitely until terminated by one of the parties. Typically, a written notice of intent to terminate must be given between six and twelve months prior to termination. Additionally, the agreements normally contain exclusivity provisions with terms anywhere from one to five years.

- *Outsourcing Agreement with Huawei.* On April 26, 2012, we entered into an agreement with Huawei, pursuant to which Huawei provides services relating to operation, maintenance, design, planning, expansion, implementation, engineering, field services and operational support for our fixed and mobile network (the "**Huawei Outsourcing Agreement 2012**"). The transfer from Alcatel-Lucent, our previous network outsourcing partner, to Huawei was completed on September 1, 2012. The Huawei Outsourcing Agreement 2012 was replaced by a second version dated November 11, 2013 with the objective to amend the scope of Huawei's services and to adapt the agreement in other aspects. The amendments regarding the services included the back-sourcing of services to us in the areas of network planning, engineering and optimization for radio, core and transmission which led to a reduced base fee. In addition, a framework agreement was entered into pursuant to which Huawei undertakes to deliver and upgrade a number of mobile sites and modernize the core and upgrade the transmission of our network as required to meet our traffic forecast. In May 2014, we concluded a further amendment agreement with Huawei. Under the framework agreement, we are party to numerous work agreements with Huawei with respect to specific projects and services related to our network. The term of the agreement with Huawei is five years.

- *Network Agreements.* We maintain agreements with suppliers from which we source additional network equipment, including Dimension Data SA, Genband Ireland Ltd. and others, including for reselling purposes agreements with equipment suppliers, such as Cisco and Alcatel-Lucent Enterprise.

- *IT Agreements.* In order to operate our IT system, we rely on a wide variety of comprehensive agreements in different fields of IT with suppliers including Amdocs Software Systems Limited (customer relationship management software), Oracle Software (Schweiz) GmbH (hardware systems and software solutions), Seavus AB (billing services and operational support), Hewlett-Packard (Schweiz) GmbH (PC client hardware), Cisco Systems International BV (telecommunication products), SAP (Schweiz) AG (system enterprise software), Tech Mahindra Limited (development and testing) and others.

- *Sourcing Agreements.* We maintain agreements with each of the suppliers from whom we source our hardware (*e.g.*, Apple, Samsung, Sony and Nokia). These agreements govern the purchase and resale of mobile devices and allow us to import devices directly from these vendors. The terms vary, but frequently include provisions relating to stock protection conditions, minimum marketing contributions, support for testing, training and technical issues, after-sales support and, in some cases, logistics bonuses and cash discount policies.

- *Partnership Agreement with Telefóncia, S.A.* In 2011, we joined the Telefónica "partners program", through which Telefónica offers to selected mobile and fixed operators, directly or through affiliated companies, some of its most relevant and feasible business capabilities. Telefónica uses this program to create value by accessing selected areas, with particular emphasis on network, IT, devices purchasing, roaming, wholesale and tenders. By an amendment agreement dated October 10, 2013, the term of the partnership agreement was extended until September 19, 2015.

- *Call Center and Billing Agreements.* We entered into contracts with outsourcing partners abroad (*e.g.*, in Germany), providing our customers with call center services (including sales push activities) for technical support, administration and billing customer inquiries. We concluded call center service agreements with rbc Solutions AG, Invoco Holding GmbH, Tempobrain AG, Competence Call Center GmbH, and walter services GmbH. The call center services include, among others, answering questions related to the products mobile, landline and TV, product changes, technical and commercial complaints and related activities, contact center and back office services. In terms of billing, we agreed on a framework and service agreement with Swiss Post Solutions dated April 19, 2012 regarding the mailing of our customer invoices. These agreements have varying minimum terms and can be canceled thereafter on between six and eighteen months' notice.

- *Distribution Partners.* In addition to our direct channels, we offer our products through a variety of third-party distributors, including independent specialized telecommunications dealers, independent online dealers, branded stores of our hardware suppliers and door-to-door sales teams. For example, we entered into a non-exclusive retail distribution contract with Mobilzone AG pursuant to which Mobilzone AG undertakes to offer our services and products via the broad net of its sales points. Further distribution agreements have been concluded with Aldi Suisse AG and callExpert GmbH. These relationships and the terms on which these partners sell our products and services are generally governed by distribution partner agreements. Each of our partners signs certain standard Sunrise agreements, and we also typically negotiate and enter into other related agreements governing commissions, sales targets, bonuses and advertising support.

- *Factoring Agreements.* On January 12, 2015, Sunrise Communications entered into a factoring agreement with UBS AG under which it agreed to sell certain receivables from mobile devices relating to our Sunrise *Freedom* offering to UBS AG. See "*Description of Certain Financing Arrangements—Factoring Arrangements*".

- *Additional Contracts.* We are party to service and sales contracts with large enterprises and other carriers (wholesale) for which we provide carrier and integration services and products. We have numerous agreements in place for property leases, power supply, television content, hosted services (*e.g.*, Netstream and Microsoft Office365), advertising, logistics, handset insurance and collection, document management and consultancy services as well as endorsement agreements, such as with Roger Federer.

Real Property

As of September 30, 2014, we leased a total of fourteen properties and one data center (including parking sites with a total of 487 parking spots).

As of September 30, 2014, we leased properties for 93 retail stores. We do not own any real estate. The aggregate space held under leases is approximately 41,000 square meters with our headquarters at Zurich, Switzerland, being the largest rented site with approximately 19,860 square meters. We sublease a total of 2,972 square meters and sixteen parking sites at two locations.

As of September 30, 2014, we used 3,510 antenna sites for our mobile network. We lease all of the antenna sites (either wholly or a space on the site) under operating lease agreements.

We believe that our facilities meet our present needs and that our properties are generally well maintained and suitable for their intended use. We believe that we generally have sufficient space to satisfy the demand for our services in the foreseeable future, but maintain flexibility to move certain operations to alternative premises.

Legal Proceedings

We are subject to various legal proceedings in the ordinary course of our business. In addition, we are subject from time to time to audits and investigations, some of which may in the future result in proceedings being instituted against us. Other than the cases pending before local authorities, administrative and civil courts regarding the installation of antennas, we are involved in legal proceedings with a total amount in dispute of approximately CHF 3.5 million, thereof approximately CHF 0.6 million regarding proceedings in which we are the defendant.

We have been subject, and are subject, to a number of claims concerning building permits, installation and authorizations relating to antenna sites. Currently, approximately 160 cases are pending before local authorities, administrative and civil courts, in which Sunrise is a party, regarding the installation of antennas. Generally, suits related to antennas do not claim a specific monetary amount of damages, but rather seek the prohibition of the construction of a new antenna. See "*Risk Factors—Risks Relating to Our Business—We face legal and regulatory dispute risks that could have a material adverse effect on our business, financial condition and results of operations*".

In addition, we are also subject to various legal proceedings arising in the ordinary course of business such as claims by customers or suppliers, none of which in our belief, if adversely decided, are likely to have a material adverse effect on our business, financial condition or results of operations.

Environmental Matters

We are subject to a broad range of environmental and health control laws and regulations. These laws and regulations impose increasingly stringent environmental obligations regarding, among other things, radiation emissions, zoning, the protection of employee health and safety, noise, the clean-up of contaminated sites, historical and artistic preservation and energy savings and the reduction of greenhouse gas emissions. We could therefore be exposed to costs and liabilities, including liabilities associated with past activities, under such laws and regulations. Our operations are also subject to obligations to obtain environmental permits, licenses and authorizations, or to provide prior notification to the appropriate authorities.

Our objective is to comply in all material respects with applicable environmental and health control laws, and all related permit requirements. We believe that the principal environmental risks arising from our current operations relate to the potential for electromagnetic pollution and for damage to cultural and environmental assets. In extreme cases, the penalty for repeat violations of the applicable environmental laws in Switzerland could result in administrative sanction, suspension and even revocation of our license.

We use different network infrastructure strategies to achieve radiation emission ranges lower than the minimum levels necessary to comply with strict Swiss safety regulations. If the Swiss government or regulator were to set limits on electromagnetic emissions that are stricter than those currently in effect, we could be required to upgrade, move or make other changes to our mobile network infrastructure.

Employees and Pension Obligations

The table below sets forth the number of full-time employees we employed as of the dates indicated.

	As of December 31,			As of September 30,
	2011	2012(1)	2013	2014
Internal FTE	1,707	1,705	1,682	1,852
Apprentices	58	88	100	106
Total number of employees	**1,763**	**1,793**	**1,793**	**1,958**

(1) The number of full-time employees as of December 31, 2012 includes BSES employees (which was merged into Sunrise Communications in October 2012).

We have signed a collective labor agreement with Syndicom (*Gewerkschaft Medien und Kommunikation*) on July 2, 2012. The agreement came into force on January 1, 2013 and is applicable to approximately 70% of our staff.

We provide retirement benefits to our employees as required by Swiss law by means of a pension fund that is a separate legal entity. The pension fund operates a basic pension plan for all of our employees, and a supplemental plan for employees having an insured annual salary in excess of CHF 150,000. Both plans qualify as defined benefit plans under IAS 19. As of December 31, 2013, we reported an employee benefit obligation of CHF 57.4 million, a decrease by CHF 17.7 million from our employee benefit obligation of CHF 75.1 million as of December 31, 2012. The decrease is related to a lower number of employees and an increase in the assumed discount rate. However, under Swiss GAAP our pension fund as of December 31, 2013 was overfunded and covered 111.6% of our pension obligations under the basic and the supplemental pension plans. We believe that Swiss GAAP is the more appropriate way to determine the funded status of our basic and supplemental pension plans as we would typically not be required to make additional payments until the funding level drops below 90% as calculated in accordance with Swiss GAAP and we maintain flexibility to adjust benefit levels under the plans that would mitigate any cash liability. See "*Risk Factors—Risks Related to Our Market and Our Business—Our pension liability may reduce our cash flows, profitability, financial condition, net assets, distributable reserves and our ability to pay dividends*".

We believe that our employee relations are good, and we have not experienced any labor-related work stoppages since January 1, 2011.

Intellectual Property

We have registered our most important trademarks in Switzerland and, to the extent necessary, specific trademarks in other European countries, such as Germany and Liechtenstein. Our registration focus is on the registration of the "*Sunrise*" brand name and logo and other names of which "*Sunrise*" is a part (for example, "*Business Sunrise*" and "Sunrise *Freedom*"), "*yallo*" and "*Take away*". We own or have rights to use the "*Sunrise*" brand name and logo and other names of which "*Sunrise*" is a part (for example, "*Business Sunrise*" and "Sunrise *Freedom*"). The protection covers the relevant international classes, including the class, which we use in conjunction with the operation of our business. The "*Sunrise*" name rights include Swiss trademarks (both word marks and figurative marks, including applications and registrations), trademarks, service marks, trade names and domain names. Outside of Switzerland, the "*Sunrise*" name is also protected by way of a Community Trademark and an IR (U.S.) registration. We monitor our trademarks and enforce them if necessary. We do not own any registered patents or copyrights that we consider to be material to our business as a whole. We grant license agreements relating to our registered trademarks to various parties, including distributors in our indirect channels, content providers for the mobile market and our subsidiaries. A number of other Swiss companies use the word "*Sunrise*" in their names outside of our core business classes, but we do not consider these usages a risk of any material litigation related to our *Sunrise* brand. In accordance with a previous settlement between us and a company based in California, United States, we are not permitted to use our *Sunrise* brand on certain electronic telecommunications testing equipment. We hold licenses to certain other trademarks we use in our business. For example, we concluded license agreements with VIMN Germany GmbH and VIMN Switzerland AG (with respect to *MTV mobile*), with Lebara Group BV and Lebara LLC as well as with KPN and Ortel Mobile Holding B.V. In 2013, the license agreement with VIMN Germany GmbH and VIMN Switzerland AG was renewed for a term of five years.

We develop concepts and documentation as well as software that are protected by copyrights and capitalized in our statement of financial position.

Insurance

Our current insurance coverage is provided under company-owned insurance policies and in amounts that we believe are consistent with customary industry practices, including insurance for property damage and business interruption, professional indemnity (products and services liability), insurance against terrorism, directors' and officers' liability insurance, commercial crime insurance and certain mandatory property insurance.

Regulation

Overview

Our activities as a mobile and landline operator in Switzerland are subject to statutory regulation and supervision by various Swiss national authorities, in particular ComCom and OFCOM. ComCom is the independent licensing and market regulatory authority whereas OFCOM prepares the regulatory decisions of ComCom, makes the necessary applications and implements decisions of ComCom. ComCom has delegated some of its competences to OFCOM. In addition to ComCom and OFCOM, ComCo and the price supervisor are also involved in regulatory issues relating to the telecommunications sector. Further, the Post and Telecommunications Surveillance Service ("**PTSS**") is responsible for gathering data from telecommunications service providers if requested by law enforcement agencies and required for criminal investigations.

The relevant regulatory framework is set forth mainly in the Swiss Federal Telecommunications Act (*Fernmeldegesetz* or "**FMG**") and associated regulations (*e.g.*, the Swiss Federal Ordinance on Telecommunications Services (*Verordnung über Fernmeldedienste* or "**FDV**")), but also in the Swiss Cartel Act (*Bundesgesetz über Kartelle und andere Wettbewerbsbeschränkungen*), the Swiss Ordinance on Telecommunication Installations (*Verordnung über Fernmeldeanlagen* or "**FAV**"), the Swiss Federal Act ("**BUPF**") and Ordinance ("**VUPF**") on the Surveillance of Postal and Telecommunications Traffic, and the Swiss Federal Radio and Television Act ("**RTVG**") and a related ordinance.

Although Switzerland is not a member of the European Union or the European Economic Area and is, therefore, not subject to the EU telecommunications regulation, the liberalization of the Swiss telecommunications market has moved largely in parallel with the deregulation in the European Union, and it is likely to further develop in line with future developments in the European Union. However, there are some conceptual differences, the most important being (i) the *ex-post* regulation in Switzerland as opposed to the *ex-ante* regulation as applicable in the European Union, (ii) the technology-based LLU regime in Switzerland granting access at LRIC conditions only to the incumbent's copper infrastructure, and (iii) the lack of specific regulation on international and national roaming in Switzerland, it being understood that the general principles of the Swiss Cartel Act apply.

The Swiss telecommunications market was liberalized in 1998, when the FMG, in its original version, came into effect. Such liberalization was dominated by two main factors: on the one hand, there was, and has been since and continues to be, considerable pressure to foster competition in the market while, at the same time, to avoid inefficient investments in duplicative infrastructure. On the other hand, there was, and has been since and continues to be, the vision to guarantee the country-wide supply of technologically modern telecommunications services at reasonable prices to business and residential end-consumers. While considerable achievements were made under the 1998 liberalization regime, some deficiencies were identified, which lead to a partial, but important in scope, revision of the FMG in 2007.

Telecommunications Industry Regulation

Overview

The revised FMG was put into effect as of April 1, 2007. Presumably the most important amendment was the introduction of a substantially liberalized access regime providing for LLU. As opposed to the regime in the EU, however, such LLU is following an *ex-post* regulation approach, making it necessary for operators to first negotiate the conditions of access and only request an intervention by the regulator if such negotiations fail. As in the European Union, the dominant operator is required to grant full access and bitstream access to its local loop at non-discriminatory and LRIC conditions. However, shared-line access is not subject to mandatory LLU and bitstream access is mandatory for a trial period of four years from the launch by Swisscom of a country-wide bitstream access offering only, which was ended in the meantime. Most important, the LLU regime in Switzerland is, as opposed to the EU, limited to the legacy copper local loop, thus excluding new technologies such as FTTH. The Swiss Federal Council (*Bundesrat*) announced that it would commission the administration to prepare a draft revision of the FMG before the end of the current legislative period (2011-2015). In its latest report of late November 2014, the Swiss Federal Council proposed to introduce a technology neutral access regime only in a second phase. Only urgent changes should be part of the first phase of the revision, such as youth and consumer protection requirements, transparency requirements regarding network neutrality as well as the introduction of an *ex officio* regime giving ComCom the possibility to intervene even without a complaint of a market participant. In addition, sharing of mobile networks should be facilitated by frequency pooling.

The FMG sets forth the general framework for the transmission of information by means of landline and mobile telecommunication. This framework includes all landline and mobile voice transmission, narrow and broadband data transmission, and the transmission of television and radio programs, irrespective of the infrastructure these use. That said, television and radio programs are also regulated by the RTVG. The FMG provides a considerable degree of freedom in which to operate, while also protecting the end-consumers. As a matter of principle, providers of telecommunications services organized and incorporated under Swiss law are not subject to any authorization or licensing requirements; instead, telecommunications providers must simply notify OFCOM of their intent to provide such services. OFCOM maintains a list of registered telecommunications providers, which is both publicly accessible and updated on a regular basis. If a foreign provider wants to offer telecommunications services in Switzerland, it may also do so upon notifying OFCOM. However, subject to bi- or multilateral conventions, ComCom may issue an order of prohibition if the foreign provider's country of origin does not grant the same operational freedom to Swiss incorporated providers offering services in that particular country of origin. According to the FMG, all providers must possess the technical skills and capabilities necessary to offer telecommunications services, comply with applicable laws and regulations, obey the labor laws and particular labor conditions in the industry, and offer a reasonable number of apprenticeships.

The FMG also sets forth general rules on: (i) resources, including rules regarding landline and mobile numbers; (ii) telecommunications equipment, such as devices, installations, that only regulates technical compliance, where the market has been fully liberalized; (iii) universal services, including financing (in practice, Swisscom is the only licensed provider of universal services), confidentiality of the contents of communications, and data protection; (iv) notification requirements and licenses; (v) granting of access by dominant providers; and (vi) particular obligations of telecommunications providers to protect vital national interests in certain extraordinary circumstances. Chapter 9 of the FMG (Articles 49 to 55) provides certain penalties for abuses, such as manipulation and prohibited use of information and interference with telecommunications and for other violations of the law. Any manipulation or abuse of communicated information or interference with telecommunications may be punished by imprisonment and fines. Less serious breaches, including, but not limited to, breaching notification and registration duties, are subject to fines that range from CHF 5,000 to CHF 100,000, depending on the specific facts of the case. While ComCom and OFCOM are the governing bodies that supervise the telecommunications market in Switzerland and enforce the regulatory framework, the FMG provides the due process regime.

Access Regime

Article 11 of the FMG, as specified in more detail in chapter 7 (which includes Articles 51 to 74) of the FDV, is the core provision on the access regime in Switzerland. We cannot exclude that the access regime will be further extended in the future, and our own landline and mobile infrastructure may become obligated to grant access at regulated prices. Pursuant to Article 11 of the FMG, any dominant provider of telecommunications services must grant all other listed providers, upon request, the following minimum access to its infrastructure and services on a non-discriminatory and transparent basis and at cost-based (including LRIC) prices:

- unbundled access to the local loop;
- bitstream access to offer broadband services during four years after the launch of the access service;
- direct billing (*i.e.*, re-billing for fixed network local loops) in connection with carrier preselection;
- fully Interconnection services, including, at a minimum, (i) origination, transit and termination of calls, (ii) number identification and suppression, (iii) access to value-added services (08xx, 09xx), and (iv) third-party physical interconnection for connection of services;
- leased lines; and
- access to cable ducts with sufficient capacities.

The mandatory LLU in Switzerland (as discussed in the first two bullet points above) is limited to incumbent Swisscom's legacy infrastructure (twisted copper pair local loops) and notably excludes cable, fiber and mobile infrastructures. This exclusion has been criticized by ComCom in 2010 and the Swiss Federal Council in its latest supplementary evaluation of the Swiss telecommunications market in March 2012. In its latest report of late November 2014, the Swiss Federal Council emphasized the need for extending cost-based access regulation from copper to fiber. In addition, bitstream access should be granted where access lines cannot be operated by individual operators, *e.g.*, for FTTB technologies. As announced in March 2012, the administration will prepare a draft revision of the FMG before the end of the current legislative period (2011-2015). However, the Swiss Federal Council proposes to introduce such amendments only in a second Phase In order not to disturb current investments in the roll-out of fiber access. An important consequence for us would be that access to modern infrastructures, such as FTTH will be available for the foreseeable future only in accordance with market conditions. However, Swisscom, upc cablecom and local utility operators are, in view of the threat of new regulation, under pressure to provide access to FTTH at non-discriminatory and competitive conditions. In addition, Swisscom entered into an agreement with us for the access to Swisscom's copper lines, including VDSL and G-Fast technologies where deployed, and FTTH lines which includes a one-time co-investment of CHF 74 million, of which CHF 45 million was realized in 2014.

Procedures and Disputes on Access

Each dominant provider must publish the technical and commercial conditions of its mandatory access services. If a dominant provider chooses to offer additional access services at non-regulated conditions, it may be required to publish these conditions as well. Non-dominant providers may also offer a variety of access services at transparent, though unregulated, conditions. These offerings are also normally published.

Access must be granted at cost-based prices. The provisions regarding the calculation of cost-based prices in the FDV were revised recently and the amendments became effective on July 1, 2014. The calculation is based on the LRIC, an added constant premium based on a proportional share of the relevant joint and common costs and a return on the capital used for investments as well as the replacement costs of modern equivalent assets (current cost accounting). According to the revised FDV, ducts are assessed based on infrastructure renewal accounting. Since January 1, 2014 costs are based on a modern fiber and IP-infrastructure (next generation network and access).

Upon request, access is granted in each case by entering into a written agreement. Any agreement, whether or not a dominant provider is involved, must be disclosed to OFCOM and OFCOM provides any interested party, upon request, access to any agreement, unless justified private or public interests prevent such disclosure.

The mandatory access regime for dominant providers is an *ex-post* regulation scheme. This means that the regulator, in this case, ComCom, fixes the conditions and prices of access services of dominant providers only upon request and only if negotiations during a three-month negotiation period have failed. The subject of an access dispute may concern (i) whether the defending provider is dominant, (ii) the scope of mandatory access obligation (or whether the defending provider, if deemed dominant, must offer the technical access service as particularly requested by the claiming provider), and (iii) the price at which the requested access should be granted. In sum, ComCom will only issue an order setting the scope of the access and the price conditions if the defending provider is held dominant, the requested access is considered mandatory, and the parties disagree on the price.

Accordingly, our company is subject to the remote risk of being sued by competitors seeking access to our infrastructure, particularly mobile, at regulated prices. That said, there are discussions from time to time with our competitors, notably Swisscom, to settle the terms at which we are granted access to the infrastructure and services of such competitors. Some of these discussions may result in litigation before ComCom. Currently, several access proceedings that separately involve interconnection, LLU and the prices for interconnection and ULL, collocation, access to ducts and access rebilling for 2012 to 2014 are pending before ComCom or the Federal Administrative Court (*Bundesverwaltungsgericht*). An overview of pending procedures and disputes is set forth above under "*Business—Legal Proceedings*".

With the proposed changes to the FMG, ComCom would be granted the authority to intervene *ex-officio* in case it detects material non-compliance with access regulations without a complaint of a market participant. Under such amended law, the risk increases that we would need to grant access to our infrastructure at unfavorable terms.

Universal Services

Another piece of regulation is the regime on universal services to be offered throughout Switzerland to the entire population (even in remote regions). The provision of universal services requires ComCom to grant a license (*Grundversorgungskonzession*) for a limited time based on specified conditions. The Swiss Federal Council (*Bundesrat*) resolved to double the required speed for uploads and downloads effective as of January 1, 2015. Theoretically, any telecommunications provider may apply for a universal services license, which are auctioned and allocated, theoretically, to those providers that best satisfy the quality requirements. As a matter of practice though, Swisscom is the only owner of a universal services license in Switzerland and is thus obligated to supply a certain range of high-quality voice telephony, data transmission and additional services at *ex ante* regulated prices, while complying with the technical specifications issued by OFCOM. In turn, Swisscom would receive government compensation for uncovered costs incurred in providing universal services. This compensation would be funded by fees obtained from all registered telecommunications service providers in Switzerland, including us, on the basis of each provider's gross receipts. To date, Swisscom has not received government compensation for providing universal services, and we believe that it is unlikely to occur in the foreseeable future but the risk remains that Swisscom may require compensation given the increased bandwidth requirements as of January 1, 2015. Swisscom might not apply for another universal service license in 2017. If no telecommunications service provider applies for a universal service license, ComCom could probably force a telecommunications service provider to do so.

Landline Regulatory Environment

Landline telecommunications services are considerably liberalized in Switzerland. In fact, any registered telecommunications provider may offer voice and data transmission services. It may base its services either on its own landline network infrastructure or, by means of the above mentioned agreements, on the infrastructure of other providers. The access regime, as discussed above, may be invoked to use other providers' infrastructure to offer a wide range of telecommunications services. The infrastructure of dominant providers may be used even at regulated conditions and prices. All in all, the liberal environment is intended to foster competition on the landline service provision level in Switzerland.

Pursuant to the regulatory framework and subject to antitrust standards, all telecommunications providers are free under certain circumstances to set their wholesale and retail prices for landline telecommunications services, with the only exceptions being (i) dominant providers, that must offer certain access services at *ex post* regulated prices and (ii) the provider(s) of universal services, that is (are) subjected to an *ex ante* regulation of universal services (as set out above in more detail). We might theoretically be held dominant in certain wholesale markets. Whether this would lead to an obligation to grant access to competitors at regulated conditions would depend on the specific markets in which we were held dominant. While we do not see any risk in being forced to grant access on the local loop layer of our network, there might be a remote risk of being subjected to grant access obligations in other areas.

Our provision of landline telecommunications services is, on the other hand, based on a combination of agreements with Swisscom and, to a lesser extent, other landline infrastructure operators. In part, namely where we maintain access to Swisscom's infrastructure, such agreements provide for price conditions that have either been set by the regulator or agreed to in view of the access regulation discussed above. Thus, our access to our competitor's landline infrastructure, particularly to Swisscom's copper local loop, is granted at agreed or regulated prices, as applicable. Should Swisscom successfully challenge its dominance on certain access markets, we might be faced with considerable price increases in areas where we are, and may continue to be, factually dependent on Swisscom's infrastructure. Further, being dependent on the infrastructure of any competitor, whether dominant or otherwise, also means facing the risk of non-compliance by such competitors with the terms of the agreements regulating that particular access. As a result, the potential failure of our access partners to comply with the current agreements could create interruptions or quality problems with our landline telecommunications services. Lastly, we also face the risk of agreements, including our recent agreement with Swisscom for access to Swisscom's copper lines, including VDSL and G-Fast technologies where deployed, and FTTH lines being canceled, not being extended or being extended at less favorable conditions.

Mobile Regulatory Environment

Licenses to Use Radio Frequencies

In order to provide mobile telecommunications services in Switzerland, an operator must obtain, among other things, a license from ComCom for the use of the radio spectrum. The auction format was designed so that both the number of licenses and the available bandwidth were not predetermined by ComCom but were generally open. We currently hold all licenses to operate our network and provide mobile telecommunications services. Our most important license was issued on June 5, 2012 and is comparable to the licenses granted to other operators and includes, *inter alia*, the following provisions:

- The license entered into force on July 6, 2012 and will expire on December 31, 2028;
- subject matter of the license is the right to use the radio spectrum for the offer of telecommunications services by way of a national digital cellular mobile network in Switzerland based on the GSM standard, the UMTS standard and other standards proofed of compliance and recommended for use by the CEPT/ECC for 800 and 900 MHz and 1.8, 2.1 and 2.6 GHz Frequency Division Duplex frequency bands;
- the license may be transferred in part or as a whole to a third party only with the consent of ComCom (while consent from OFCOM is required for the transfer of certain other licenses); this also applies to the economic transfer of the license, *i.e.*, when a third party obtains control over the licensee; consent may be withheld if such third party does not comply with statutory provisions or does not have the necessary technical capacities or if the foreign country in which such third party is incorporated does not grant reciprocal rights. Ultimately, a withdrawal of the license may occur in case the license is transferred or an economic transfer of the license occurs even though consent of ComCom (or OFCOM) has not been granted;
- a withdrawal of the license may also occur when a third party obtains control over us without requesting consent and ComCom (or OFCOM for certain other licenses) concludes that such third party does not comply with statutory provisions or does not have the necessary technical capacities or if the foreign country in which such third party is incorporated does not grant reciprocal rights;
- amendments or revocation of the license are possible due to changes in factual or legal conditions, if necessary to safeguard important public interests in return for compensation or upon request by the licensee, provided that no public interest precludes this and the license conditions are fulfilled without reimbursement;
- a withdrawal of the license is possible in the event of a breach of international communication laws, the FMG, the implementing provisions or the license conditions or if essential conditions for granting the license cease to be fulfilled; reimbursement or compensation of license fees is excluded. According to the terms of the license, we must offer mobile services to 50% of the Swiss population until

December 31, 2018. Otherwise, a revocation of the license without reimbursement is possible; such revocation of the license may also occur if ComCom or OFCOM were to withhold its consent when a third party obtains control over us, which is determined relative to other shareholders and not by a specific threshold; and

- furthermore, the terms of the license include reforming obligations, the obligation to offer mobile services to 50% of the Swiss population until December 31, 2018 based on own infrastructure and the obligation to provide OFCOM with the information required to implement the FMG.

The price for the license amounted to CHF 481,720,000 (plus an administrative fee determined and charged on an annual basis). While the first tranche amounting to 60% of the license price has already been paid, two tranches each in the amount of 20% of the license price (plus 3% compounding interest) are due in June 2015 and December 2016.

The 800 MHz frequency can be used since January 1, 2013 (with certain restrictions regarding individual blocks in alpine regions which could not be used before the end of 2013). As a result of the reorganization of frequencies, the 900 and 1800 MHz as well as the 2.1 GHz frequencies were to be used in the future by a different operator and exchanges were required (so-called “refarming”). We, Orange and Swisscom therefore jointly structured the process together with OFCOM and ComCom. The reorganization of frequencies in the 900 and 1800 MHz bands was successfully carried out between July 21 and August 16, 2014. As the 2.1 GHz frequencies will only be available as of January 1, 2017, the necessary reorganization will take place in summer 2016. Until then, we may use the 2.1 GHz frequencies based on a previous license which will expire on December 31, 2016. The 2.6 GHz frequencies have been available for use since July 6, 2012.

At the beginning of 2012, ComCom reallocated all existing and additional mobile radio frequencies for the provision of mobile telecommunications services. In addition to the frequencies already employed using GSM and UMTS technology, additional frequencies were awarded in the 800 MHz and 2600 MHz ranges (so-called “digital dividend”). Thus, as a result of the auction significantly more spectrum is available to us. ComCom envisions to allocate additional spectrum in the 700 MHz band as further digital dividend in the future, although no concrete plans or timing considerations exist.

Besides the provisions excluding any reimbursement or compensation if the license is withdrawn or returned, our licenses contain provisions that exclude compensation in case of an extension of the access regime.

In addition to the licenses regarding mobile radio frequencies, we own three licenses to use the radio spectrum with regard to radio relay (expiration on December 31, 2016 with option for renewal upon our request).

In 2014, we started to implement a pilot for network sharing with Orange for a limited scope and without frequency sharing. Frequency-sharing would require the approval of ComCom. No mobile operator has requested such approval so far. With the proposed amendments to the FMG, sharing of mobile networks would be facilitated by frequency pooling.

Telecommunications Installations

In Switzerland, a permit by the cantonal and municipal authorities is generally required to construct telecommunications installations. Antennas are the most important telecommunications installations. The radio spectrum licenses do not grant the right to obtain such permit.

Depending on whether an antenna is planned within or outside of a building zone, different requirements by different authorities apply, *i.e.*, the provisions regarding antennas within a building zone are defined by the cantons and towns whereas the provisions regarding antennas outside of a building zone (for which permits are only granted in exceptional cases) are defined at the national level. In addition, apart from the provisions regarding spatial planning, the provisions regarding nature and landscape protection, the protection for built landscapes, the protection from radio emissions, the protection from non-ionizing radiation with lower limit values for specific installations (*e.g.*, 6 v/m for UMTS) (compared to similar general exposure limit values of, *e.g.*, 61 v/m for UMTS) than in the European Union, as well as the provisions of the FAV regulating technical compliance need to be taken into account. In order to secure consistency in the application of various requirements, the federal authorities have issued guidelines regarding the construction of antennas. These guidelines, *inter alia*, set forth principles for the responsible authorities when deciding on the permit to construct an antenna. Furthermore, our license explicitly sets forth that we are obliged to respect, *inter alia*, the statutory provisions regarding spatial planning, protection from radio emissions, nature and landscape protection as well as the protection of built landscapes and the respective guidelines of the responsible federal authorities as well as the ordinance on the protection from non-ionizing radiation.

Accordingly, there is a risk that the further deployment of our mobile network could encounter problems and delays due to disputes and discussions regarding the positioning of particular antennas. All telecommunications service providers, including us, face certain disputes and particular negotiation situations in relation to the construction of antennas, see "*Risk Factors—Risks Related to Our Market and Our Business—Our business may be adversely affected by actual or perceived health risks and other environmental requirements relating to mobile telecommunications transmission equipment and devices, including the location of antennas.*"

The locations of antennas in Switzerland are publicly visible in an overview map provided by OFCOM.

ComCo Investigations

As to pricing, mobile telecommunications providers are free, subject to antitrust standards applicable in general and interconnection obligations as set forth in the access regime discussed above, and may set wholesale (such as roaming or MTR) and retail prices at market conditions. In its latest report on the Swiss telecommunication market, the Swiss Federal Council (*Bundesrat*) acknowledged that the reduction of MTR resulted in lower retail prices and did not identify any need for regulatory intervention. In addition, with markets moving to flat rates and bundles, the importance of metered tariffs for consumers has significantly decreased.

However, the FMG would allow ComCom, based on a request from another operator, to regulate MTR (or other types of interconnection/access) on a LRIC basis if the operator is held to be dominant in the relevant market. Since the ComCo has already found that the nationwide mobile network of each operator (including ours) is to be seen as a distinct product market where every operator has a market share of 100%, we may not exclude that ComCom (and, following an appeal, the courts) will oblige us to interconnect at regulated (LRIC) prices. However, no final decision regulating MTR on a LRIC basis has been taken by the authorities so far. We can, thus, not exclude that, by invoking interconnection, our competitors might force us to lower our MTR or, if the proposed *ex officio* regime will be introduced with the amendments to the FMG, that ComCom will regulate MTR. Further, there is constant political pressure to lower mobile retail rates. As has been reported, Swiss mobile operators, including us, have been under investigation by ComCo for alleged abuse of dominant market positions for the termination of mobile voice traffic in their respective networks. In 2007, ComCo determined that, in the period ended on May 31, 2005, Swisscom (but not Sunrise) was to be considered as dominant in the market and as abusing its position by demanding unreasonably high termination rates from other mobile operators (including us). ComCo issued a fine of CHF 333.0 million against Swisscom, which Swisscom successfully challenged before the Federal Administrative Court, which has suspended the fine in the meantime. The Swiss Federal Supreme Court confirmed the decision of the Federal Administrative Court, and the courts did not recognize an abuse of dominant position. Hence, ComCo ceased a second investigation on mobile termination rates covering the time period from June 1, 2005. In the meantime, termination rates have been substantially lowered by all mobile operators in Switzerland, and we may not exclude that retail rates will come under additional pressure in the future as well. Depending on the development of market shares, the profitability of our mobile operations may be adversely affected.

Further, ComCo investigated an alleged margin squeeze with regard to Swisscom's prices for ADSL services and prices for wholesale access and concluded in 2009 that Swisscom had abused its dominant position and imposed a fine on Swisscom. Swisscom's appeal against that decision is currently pending before the Federal Administrative Court. If the decision is upheld, we could have claims under civil law. ComCo has initiated a market observation regarding value-added services which might result in an investigation and potentially in a fine.

In addition, ComCo would be involved if negotiations regarding the mandatory access regime should fail and the question of dominance is to be assessed. In such cases, OFCOM would be required to consult with ComCo.

Other Regulatory Environment

Overview

As has been said, telecommunications service providers are subject not only to the regulatory framework set forth in the FMG and associated ordinances but also to a number of other laws, regulations and governmental activities that may affect their business. This includes antitrust laws in particular, ComCo being willing to intervene on the Swiss telecommunications market whenever there is alleged abusive conduct of dominant telecommunication service providers or alleged restraining contracting among telecommunication service providers or between them and their suppliers or large customers. Further, the law against unfair competition and general price regulation law play a role, the latter, however, only in case of excessive pricing by dominant providers. Lastly, a range of other laws must be complied with, including those on environment and public health, property and intellectual property, employment law as well as on public and private construction.

Regulation on Transmission of TV and Radio Programs

Since we are offering quadruple services, including the distribution of TV and radio programs over our landline networks, we are subject to regulations pertaining to the Swiss TV and radio market. The applicable body of law is, apart from the FMG and its application to the transmission of TV and radio programs, the RTVG. As a matter of principle, the transmission of TV and radio programs is considered a telecommunications service and is subject to the regulations set forth in the FMG. Thus, transmissions over landlines do not require licenses, while transmissions over mobile networks, which are services provided through radio frequencies, require mobile services licenses. The RTVG provides for some additional regulatory requirements. Most important, a network operator that transmits TV and radio programs needs to offer distribution to all broadcasters on a non-discriminatory basis. The RTVG further regulates the permitted contents of TV and radio, and network operators must comply with orders of the regulator (the OFCOM in this case) not to distribute prohibited content. Finally, the RTVG sets forth “must carry” obligations for landline network operators (in particular regional, national and international programs and special services linked to the program, such as teletext or additional voice channels).

International Roaming

Currently, Switzerland does not provide for any regulation on roaming. In 2011, the Swiss National Council approved the motion calling for “an end to exorbitant mobile charges abroad”. A similar motion was passed in spring 2013. The motion calls for fixed and binding maximum tariffs to be adopted by all telecommunication providers for inbound and outbound calls, SMS messages and data transfers abroad. The Swiss Council of States decided in March 2013 to suspend the motions until the end of 2014 and to commission the Swiss Federal Council (*Bundesrat*) to deliver a report to parliament by the end of 2014 on the trend in roaming prices, which was published in late November 2014.The Swiss Federal Council recommended not to regulate roaming tariffs, but to include specific instruments in the revision of the FMG, such as local break-out and specific charging obligations. However, a committee of the Council of States (*Ständerat*) in January 2015 recommended to follow a parliamentary motion to enact maximum roaming tariffs.

Network Neutrality

In June 2014, the Swiss National Council approved the motion calling for the legal enforcement of network neutrality, although the Swiss Federal Council (*Bundesrat*) recommended to reject the motion. OFCOM established a voluntary network neutrality working group with the task to publish a report by the fall of 2014 without proposing new regulations. In its report of a late November 2014, the Swiss Federal Council limits its proposals to the introduction of transparency requirements for differentiated services and subsequent monitoring of market developments to evaluate future regulation if necessary. In January 2015, a committee of the Council of States (*Ständerat*) followed the Swiss Federal Council and made a recommendation against the introduction of regulatory interventions going beyond transparency requirements. The debate is expected to continue in the Swiss parliament and the Swiss Council of States will ultimately need to decide as the second chamber of parliament. In case such new regulations were introduced, we would face the risk of an enforcement of network neutrality which could lead to additional restrictions in providing internet-based services.

The largest Swiss ICT companies (Swisscom, Sunrise, Orange, upc cablecom and Swisscable) recently agreed on a code of conduct regarding network neutrality in order to ensure open internet access in Switzerland. Under the code of conduct, the providers undertake not to lock services and applications and not to limit the freedom of speech and information. The code of conduct aims for all users to have access to the full range of content, services, applications, hardware and software. Internet providers are required to inform their customers upon request on whether and to what extent the capacity of the customer’s internet connection is shared with services other than internet services. Users may call upon a conciliation body in the event of a provider’s alleged breach of obligations under the code of conduct. The conciliation body will continuously evaluate the code of conduct and its impact on the openness of the internet and will report on this subject matter on an annual basis. The code of conduct was criticized by proponents of network neutrality demanding to introduce far-reaching legislation limiting our ability to offer differentiated internet services to customers and content providers.

Surveillance of Telecommunications Services

Pursuant to the BUPF, a telecommunications service provider is, upon request of the PTSS, obliged to gather data required for criminal investigations. Telecommunications service providers are therefore required to maintain own infrastructure appropriate for such surveillance and to be capable of running surveillance operations at any time. Further, telecommunications service providers are bound to provide the PTSS with the names of particular internal contact persons. The revision of the BUPF is currently the subject of parliamentary deliberation. The draft amendment proposes mainly an extension of the surveillance obligations. We face the risk of extended surveillance obligations which could result in additional capital expenditures and increased operational costs and lower compensation for individual surveillance operations. The contemplated amendments to the BUPF provide for a fine up to a maximum of CHF 100,000.

Operational Data of Sunrise Communications Holdings S.A.

The table below sets forth the unaudited Operational Data of Sunrise Communications Holdings S.A.:

	As of and for the financial year ended December 31,			As of and for the nine-month period ended September 30,	
	2011	2012	2013 (consolidated, unaudited)	2013	2014
Mobile[1]					
Market share[2]	24.5%	24.3%	27.7%	27.7%	27.3%
Total number of subscriptions (in thousands)[3]	2,116.0	2,141.5	2,491.0	2,494.2	2,496.3
Prepaid subscriptions (in thousands)[3][4]	1,011.3	960.4	1,233.0	1,261.3	1,192.8
Postpaid subscriptions (in thousands)[3]	1,104.7	1,181.1	1,258.0	1,232.9	1,303.5
Primary (in thousands)[5]	961.4	1,033.3	1,067.2	1,052.7	1,104.2
Secondary (in thousands)[5]	143.3	147.8	190.8	180.2	199.4
Net additions during period (in thousands)	100.8	25.4	349.5	352.8	5.4
Prepaid subscriptions (in thousands)[3][4]	(8.6)	(50.9)	272.6	300.9	(40.2)
Postpaid subscriptions (in thousands)[3]	109.4	76.3	76.9	51.8	45.5
ARPU (voice, data, mobile termination rates) (in CHF)[6]	44.5	44.5	39.6	40.8	35.8
Prepaid (in CHF)[3][4]	21.2	19.2	17.3	17.5	16.3
Postpaid (in CHF)[3]	66.8	66.0	59.7	60.9	54.1

	As of and for the financial year ended December 31,			As of and for the nine-month period ended September 30,	
	2011	2012	2013	2013	2014
Landline Voice[7]					
Retail voice subscriptions (in thousands)	514.4	474.4	436.7	447.2	401.0
ARPU (in CHF)	44.2	43.8	41.6	41.7	40.1
Landline Internet & IPTV[8]					
Landline internet subscriptions (in thousands)	370.4	369.3	348.0	354.3	325.9
IPTV subscriptions (in thousands)	0.0	38.4	74.3	65.6	96.8
Landline Internet & IPTV ARPU (in CHF)	34.9	36.5	41.4	40.7	46.3
Bundled Landline and Landline-Mobile Convergent					
Non-convergent Mobile (1P Mobile) (in thousands)[9]	—	501.3	515.5	507.8	545.9
Non-Convergent Landline (in thousands)[9]	—	160.6	146.2	151.3	133.3
Mobile and Landline Convergent (in thousands)[10]	—	217.1	210.7	212.2	201.2
Billed Customers (in thousands)[11]	—	879.0	872.4	871.3	880.4

(1) Market share for our mobile business is calculated as described in "*Industry, Market and Subscription Data*". Subscriptions and ARPU for the mobile business is calculated as described in "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Drivers of Our Mobile Revenue and Profitability—Current Trends and Financial Implications—Mobile ARPU*".

(2) Excluding MVNO, including *yallo* and reseller subscriptions and applying the "12-month rule" to permit comparability with Swisscom and Orange. Under the "12-month rule", prepaid subscriptions are counted if there was at least one incoming or outgoing call via the network over the previous twelve-month period. See "*Industry Overview—Swiss Mobile Market*".

(3) Excludes MVNO subscriptions and machine-to-machine (M2M)SIM cards but includes reseller-originated and *yallo* subscriptions; postpaid mobile subscriptions are counted in our subscription base as long as they have an active contract.

(4) Prepaid mobile subscriptions are counted in our subscription base if they have had an activity event, such as a usage or refill, within the last 91 days. The increase in the number of prepaid mobile subscriptions during the financial year ended December 31, 2013 is mostly attributable to our acquisitions of Ortel and Lebara in July 2013; as a result of these acquisitions, the number of prepaid mobile subscriptions increased by 341.8 thousand.

(5) Primary postpaid subscriptions are rate plans customers are using as the main subscription, whereas secondary postpaid subscriptions are rate plans used by customers in addition to their main subscription (*e.g.*, multi-SIM or data-SIM used for tablet mobile data usage).

(6) For purposes of comparability with ARPU reported by our competitors, we include the installments paid by customers subscribed to a mobile device plan in addition to a service plan (Sunrise *Freedom* offering) effective as of April 2014.

(7) Subscriptions and ARPU for the retail voice business are calculated as described in "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Drivers of Our Landline Revenue and Profitability—Current Trends and Financial Implications—Landline Subscription Base*" and "*—Landline ARPU*".

(8) Subscriptions and ARPU for the landline internet business are calculated as described in "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Drivers of Our Landline Revenue and Profitability—Current Trends and Financial Implications—Landline Subscription Base*" and "*—Landline ARPU*"**.**

(9) Non-convergent customers refer to customers that either use only mobile products (non-convergent mobile, ***i.e.***, 1P mobile) or only landline products (non-convergent landline, ***i.e.***, 1P landline, 2P landline, 3P landline).

(10) Mobile and Landline Convergent is the total of the number of (i) 2P convergent customers (*i.e.*, customers with a mobile postpaid subscription combined with a landline voice subscription (in rare cases, landline internet instead of landline voice)), (ii) 3P convergent customers (*i.e.*, customers with a mobile postpaid subscription with landline voice and internet (in rare cases, landline internet/IPTV instead of landline voice) and (iii) 4P convergent customers (*i.e.*, customers with a mobile postpaid subscription combined with landline voice, internet and IPTV).

(11) Billed customers refers to the total of Non-convergent Mobile (1P Mobile), Non-Convergent Landline and Mobile and Landline Convergent.

Description of Certain Financing Arrangements

Post IPO Credit Facilities Agreement

Overview

MCIG, Sunrise Holdings, Sunrise International (for purposes of this section the "**Parent**") and certain of its subsidiaries (including Sunrise Communications) have entered into a senior facilities agreement dated January 13, 2015 (the "**Post IPO Credit Facilities Agreement**" with, among others, BNP Paribas as agent, Deutsche Bank AG, London Branch as security agent and DNB Markets, a part of DNB Bank ASA, UniCredit Bank AG, BNP Paribas Fortis S.A./N.V., Deutsche Bank AG, London Branch, Morgan Stanley Bank International Limited and UBS Limited as mandated lead arrangers and bookrunners. The Post IPO Credit Facilities Agreement provides for an initial CHF 800 million senior secured term loan B facility (the "**Term Loan B Facility**") and an initial CHF 200 million senior secured multi-currency revolving credit facility (the "**Revolving Credit Facility**" and together with the Term Loan B Facility and the Incremental Facilities (as defined below), the "**Post IPO Credit Facilities**"). Subject to market conditions, among other things, the Post IPO Credit Facilities Agreement may be amended and/or restated prior to the consummation of the planned SIX listing announced previously on January 14, 2015 and/or Incremental Facilities may be raised to increase the aggregate amount of senior secured term loan facilities available under the Post IPO Credit Facilities, with the net proceeds being applied towards, among other things, the redemption of the Existing Notes in full on or around February 17, 2015.

In addition, the Post IPO Credit Facilities Agreement includes the ability to add one or more incremental term and/or revolving credit facilities (the "**Incremental Facilities**") subject to certain conditions. Sunrise Holdings and the lenders in respect of such Incremental Facilities may agree to certain terms in relation to the commitments thereunder, including the margin, the termination date and the availability period (each subject to parameters as set out in the Post IPO Credit Facilities Agreement).

The Term Loan B Facility may be initially utilized by Sunrise Communications on the consummation of the planned SIX listing and must apply all amounts initially borrowed thereunder towards refinancing any or all amounts and/or commitments outstanding under the Revolving Credit Facility Agreement (as defined below) and any of the existing senior secured notes outstanding on the consummation of the planned SIX listing and financing the payment of breakage costs, redemption premiums and other fees, costs and expenses payable in connection with such refinancing and financing the payment of certain transaction costs.

The Revolving Credit Facility may be utilized by the drawing of cash advances, the issue of letters of credit and ancillary facilities by Sunrise Communications and certain other members of the Group (which for the purpose of this section will initially be Sunrise Holdings and its subsidiaries from time to time) which accede as additional borrower in CHF, Euro, USD or with the consent the lenders under the facility concerned (each acting reasonably), any other currency readily available in the amount required and freely convertible into CHF in the relevant interbank market on the quotation day and the utilization date for that utilization. The Revolving Credit Facility may be used for the Group's general corporate purposes.

Additional borrowings under the Post IPO Credit Facilities may also be potentially utilized in relation to the redemption of the Existing Notes in full on or around February 17, 2015.

Availability

The Term Loan B Facility will be available up to the end of its availability period. Any amount not drawn by the end of such period will be cancelled. The Revolving Credit Facility may be utilized from and including the first utilization of the Term Loan B Facility until the date which is one month prior to the maturity date of the Revolving Credit Facility.

The commitments under the Post IPO Credit Facilities Agreement will be automatically cancelled to the extent the planned SIX listing does not close 90 days after the date of the Post IPO Credit Facilities Agreement (or such later date as agreed by the lenders thereunder (acting reasonably) and Sunrise Holdings).

Interest and Fees

Loans under the Post IPO Credit Facilities Agreement bear interest at rates *per annum* equal to LIBOR or, for loans denominated in euro, EURIBOR and the following applicable initial margins:

- 2.50% *per annum* in respect of loans under the Term Loan B Facility (which may subsequently vary depending on the leverage ratio of the group); and
- 2.00% *per annum* in respect of loans under the Revolving Credit Facility (which may subsequently vary depending on the leverage ratio of the group).

A commitment fee will be payable on the aggregate undrawn and uncancelled amount of the Revolving Credit Facility from the date of the first utilization of the Term Loan B Facility to the end of the availability period applicable to the Revolving Credit Facility. Commitment fees will be payable quarterly in arrear and on the date the Revolving Credit Facility is cancelled in full or on the date on which the relevant lender cancels its commitment.

Default interest will be calculated as an additional 1% on the applicable rate had an amount not been overdue.

We are also required to pay certain customary fees related to the issuance of ancillary facilities, letters of credit, and certain fees to the agent under the Post IPO Credit Facilities Agreement and the security agent in connection with the security granted thereunder.

Repayments and Prepayments

The Term Loan B Facility will be repaid in full on its termination date, being the date falling six years after the initial utilization of the Term Loan B Facility.

In respect of the Revolving Credit Facility, each advance will be repaid on the last day of the interest period relating thereto, subject to a netting mechanism against amounts to be drawn on such date. All outstanding amounts under the Revolving Credit Facility will be repaid on the date falling five years after the after the initial utilization of the Term Loan B Facility. Amounts repaid by the borrowers on loans made under the Revolving Credit Facility may be reborrowed, subject to certain conditions.

The termination date of any Incremental Facilities and/or any additional borrowings under the Post IPO Credit Facilities will depend on the date which such facilities are utilized, provided that, they cannot mature prior to the termination date of the Term Loan B Facility.

Subject to certain conditions, the Post IPO Credit Facilities may be voluntarily prepaid or permanently cancelled in whole or part of the applicable available commitments by giving three business days' (or such shorter period as may be agreed by the majority lenders) prior notice to the agent.

In addition, the Post IPO Credit Facilities Agreement requires mandatory prepayment (or, as the case may be, an offer to do so) in full or in part in certain circumstances, and if applicable, cancelation, including:

- with respect to any lender, if it becomes unlawful for such lender to perform any of its obligations under the Post IPO Credit Facilities Agreement; and
- unless the super majority lenders thereunder agree, the Post IPO Credit Facilities will be cancelled and all amounts outstanding will become immediately due and payable, following the occurrence of a "Change of Control" (as defined in the Post IPO Credit Facilities Agreement) or if TopCo ceases to be listed or its shares traded on any recognized investment exchange (as that terms is used in the UK Financial Services and Markets Act 2000) or in or on any other recognized investment exchange or market in any jurisdiction or country.

Guarantees and Security

The Parent, Sunrise Holdings, Skylight, Sunrise Communications and TelCommunication AG each provide a senior secured guarantee of all amounts payable to the finance parties under the Post IPO Credit Facilities Agreement. Each subsidiary of Sunrise Holdings that becomes a "Material Subsidiary" (as defined in the Post IPO Credit Facilities Agreement) is also required to accede to the Post IPO Credit Facilities Agreement and provide a senior secured guarantee in accordance with the terms of the Post IPO Credit Facilities Agreement. In addition, it is expected that MCIG will also accede to the Post IPO Credit Facilities Agreement as a guarantor if Sunrise Holdings incurs borrowings in the form of senior secured liabilities.

The Post IPO Credit Facilities are initially secured, *inter alia*, by first-ranking security interests granted on an equal and rateable first-priority basis over (i) the shares of the Parent, Skylight, Sunrise Communications and TelCommunication AG, (ii) receivables of the Parent, Sunrise Holdings and Skylight, (iii) claims with respect to bank accounts, trade receivables, intercompany receivables and certain insurance of Sunrise Communications and TelCommunication AG, (iv) the bank accounts of the Parent and Skylight, (v) the PECs of the Parent and Skylight, (vi) certain material intellectual property rights of Sunrise Communications, (vii) the rights of Sunrise Communications to receive payments under any hedging agreements and (viii) certain rights under the transaction documents for the acquisition of Sunrise Communications granted by the Parent and Skylight.

Representations and Warranties

The Post IPO Credit Facilities Agreement contains customary and deal-specific representations and warranties (subject to certain agreed qualifications and thresholds and with certain ones being repeated), including but not limited to, representations and warranties relating to:

- status and incorporation, binding obligations, non-conflict with constitutional documents, laws or other obligations, power and authority, validity and admissibility in evidence, governing law and enforcement and pari passu ranking;
- filing and stamp taxes and tax liabilities;
- no default;
- financial statements;
- litigation;
- consents, filings and laws applicable to operations;
- Swiss non-bank rules;
- intellectual property; and
- anti-corruption laws, OFAC and sanctions.

Covenants

The Post IPO Credit Facilities Agreement contains customary and deal specific operating (affirmative and negative), information and financial covenants, subject to certain agreed exceptions and permissions, qualifications and thresholds, including but not limited to, affirmative and negative covenants relating to:

- maintaining authorizations and consents, insurance and intellectual property;
- complying with laws and Swiss non-bank rules;
- restrictions on changing the nature of the Group's business, making disposals, creating security, mergers, acquisitions and incurring additional senior secured and unsecured debt and incurrence of debt by non-obligors.

In addition, TopCo, MCIG, Sunrise Holdings, the Parent and Skylight are subject to certain limitations on their ability to trade, carry on business, owns assets or incur liabilities.

The Post IPO Credit Facilities Agreement requires the group to comply with a financial covenant consisting of a maximum ratio of consolidated total net debt to consolidated pro forma EBITDA.

With respect to the restriction on the payment of dividends in connection with the Post IPO Credit Facilities Agreement:

(i) no obligor will, and each obligor is required to procure that none of its subsidiaries will declare or pay, directly or indirectly, any dividends or make any other distribution whether in cash or otherwise, on or in respect of its share capital or any class of its share capital or set apart any sum for any such purpose or make any other payment in respect, or on account, of any Shareholder Loan (as defined in the Post IPO Credit Facilities Agreement) or certain other subordinated financial indebtedness (together a "**Dividend**"), in each case, to any person that is not Sunrise Holdings or its subsidiaries:

(a) if an event of default has occurred and is continuing under the Post IPO Credit Facilities Agreement or would result from the payment of such Dividend; or

(b) if (adjusted pro forma for the payment of such Dividend and all other Dividends paid during the period since the end of the most recently ended relevant period) the leverage ratio exceeds a certain specified amount,

except (subject to the terms of the Intercreditor Agreement (as defined below)) any amount due to enable it to pay any scheduled payment of interest and/or principal due, under certain high yield notes that have been issued by Sunrise Communications Holdings S.A. as of the date of the Post IPO Credit Facilities Agreement; and

(ii) until an event of default has occurred and which is continuing and notice of acceleration in connection therewith has been given by the agent in accordance with the Post Facilities Agreement, the documents constituting share security permit the payment of dividends upstream on pledged shares to the extent permitted under the Post IPO Credit Facilities finance documents.

Events of Default

The Post IPO Credit Facilities Agreement contains certain events of default, the occurrence of which would allow the majority lenders therein to accelerate all outstanding loans and terminate their commitments including, but not limited to (subject in certain cases to agreed grace periods, financial thresholds and other qualifications):

- non-payment of amounts due under the Post IPO Credit Facilities finance documents;
- breach of the financial covenant;
- non-compliance with other obligations under the Post IPO Credit Facilities finance documents;
- incorrect or misleading representations or statements when made;
- invalidity and unlawfulness;
- cross default;
- certain insolvency events;
- cessation of business;
- certain changes of ownership relating to TopCo's subsidiaries; and
- material adverse change.

Governing Law

The Post IPO Credit Facilities Agreement is governed by and construed and enforced in accordance with English law.

Factoring Arrangements

On January 12, 2015, Sunrise Communications entered into a factoring agreement with UBS AG under which it agreed to sell certain receivables from mobile devices relating to our Sunrise *Freedom* offering to UBS AG (the "**Factoring Agreement**"). The purchase price for these receivables is divided into an advance payment and a haircut which serves as security against impairment risk of the receivables. Both the amount of the receivables sold and the haircut are variable based on certain conditions. Subject to the satisfaction of such conditions, a maximum in the amount of CHF 100 million in advance payments will be available to Sunrise Communications under the Factoring Agreement. An initial CHF 10 million in advance payments is available under the Factoring Agreement. The Factoring Agreement contains customary representations and warranties, covenants and events of default. An event of default would allow UBS AG to immediately terminate the Factoring Agreement, assume the receivables management and enforce the securities. All purchased receivables are insured against payment default under a credit insurance policy which provides cover in respect of receivables which cannot be collected.

Finance Leases

As of December 31, 2013, we had CHF 35.4 million of indebtedness under finance leases. The assets subject to these finance leases largely consist of fiber networks and sea cables. These leases are mainly on a fixed repayment basis with fixed interest rates.

Glossary of Technical Terms

The following technical terms and abbreviations when used in this report have the definitions ascribed to them opposite below, except where otherwise indicated.

Abbreviation	Definitions
"*2G*"	Second Generation Mobile System of which GSM represents one universal standard.
"*3G*"	Third Generation Mobile System of which UMTS represents one universal standard.
"*4G*"	Fourth Generation Mobile System of which LTE represents one universal standard.
"*above-the-line*"	Advertising technique using media that are broadcast and published to mass audiences, such as television, cinema, radio, print and out-of-home.
"*accessibility rate*"	CRM ratio measuring the accessibility of call centers by the percentage of callers attended by an agent.
"*access rebilling*" or "*ARB*"	Landline voice service in which the landline connection fee is offered on a wholesale basis rather than being charged by the incumbent to the customer.
"*Asymmetric Digital Subscriber Line*" or "*ADSL*"	A technology that converts existing twisted-pair telephone lines into access paths providing for data communications at higher transmission rates than dial-up internet, see also "*DSL*".
"*average revenue per user*" or "*ARPU*"	Average revenue per user is a telecom industry metric generally calculated by dividing total revenue for a product group by the average number of subscriptions during a period, see "*Industry, Market and Subscription Data*" for an explanation of Sunrise's calculation methodology for mobile ARPU, retail voice ARPU and landline internet ARPU.
"*backbone*"	A high speed line, or a series of connections forming a major communication pathway within a network.
"*backhaul*"	Portion of the network that comprises the intermediate links between the core network, or backbone network, and the small sub-networks at the "edge" of the entire hierarchical network.
"*base station*" or "*sites*"	Location where the antenna and the associated transmission equipment is installed.
"*BBCS*"	Broadband connectivity services.
"*below-the-line*" or "*BTL*"	Advertising technique using media that are niche-focused, such as direct mail, sales promotions, flyers, point-of-sale, telemarketing and printed media.
"*bit*"	The smallest unit of binary information.
"*bitstream*"	A service consisting of the supply by Swisscom to the alternative operator of the transmissions capacity between the final customer's workstation and the interconnection point of an alternative operator which wants to offer broadband services to its end-customer.
"*bps*"	Bits per second.
"*business dark fibers*"	Leasing fiber optic cables from a network service provider or, generally, to the fiber installations not owned or controlled by traditional carriers.
"*byte*"	A sequence of usually eight bits (enough to represent one character of

	alphanumeric data) processed by a computer as a single unit of information.
"*capacity*"	The amount of bandwidth or throughput that can be handled by a network element.
"*carrier preselect*" or "*CPS*"	Method of routing calls for least-cost routing (LCR) without the need for programming of PBX telephone system.
"*churn*"	A telecommunication industry measure of the number or proportion of subscriptions that disconnected from a telecommunications provider's service over a period of time, see "*Industry, Market and Subscription Data*" for an explanation of our calculation methodology for mobile prepaid and postpaid subscription churn.
"*ComCo*"	The Swiss Competition Commission (*Wettbewerbskommission*) established by the Federal Act on Cartels and other Restraints of Competition of October 6, 1995 and also known as "*WEKO*".
"*ComCom*"	The Federal Communications Commission of Switzerland (*Die Eidgenössische Kommunikationskommission*) established by the Swiss Federal Telecommunications Act (*Fernmeldegesetz*).
"*COS*"	Class of services is a parameter used in data and voice protocols to differentiate the types of payloads contained in the packet being transmitted. The objective of such differentiation is generally associated with assigning priorities to the data payload or access levels to the telephone call.
"*CRM*"	Customer Relationship Management.
"*customer lifetime value*"	The present value of future cash flows attributed to the customer relationship.
"*digital terrestrial television*" or "*DTT*"	Digital terrestrial television, which is digital broadcasting of television signals over terrestrial antennas and other earthbound circuits without any use of satellites.
"*direct-to-home*" or "*DTH*"	Direct-to-home, which refers to satellite television broadcasts intended for home reception.
"*DSL*"	Digital Subscriber Line, a technology enabling a local loop copper pair to transport high-speed data between a central office and the customers' premises.
"*EDGE*"	Enhanced Data rates for GSM Evolution; a stage in the evolution of the GSM standard, EDGE uses a modulation scheme to enable theoretical data speeds of up to 384 Kbps within the existing GSM spectrum.
"*fiber-optic cable*"	A transmission medium comprised of extremely pure and uniform glass; digital signals are transmitted across fiber-optic cable as pulses of light; while signals transmitted over fiber-optic cable travel at the same speed as those transmitted over traditional copper cable, fiber- optic cable benefits from greater transmission capacity and lower distortion of signals transmitted.
"*fixed-mobile bundle*"	Bundle of retail voice and/or landline internet & IPTV services with mobile services, see "*Industry, Market and Subscription Data*" for an explanation of our calculation methodology for fixed and mobile bundled subscriptions.
"*frequency*"	The rate at which an electrical current alternates, usually measured in Hertz (Hz); also the way to note a description of a general location on the radio frequency spectrum, such as 800 MHz, 900 MHz, 1,800 MHz or

	2,100 MHz.
"*FTTH*"	Fiber-to-the-home, the fiber-optic technology linking residential customers directly to the fiber network.
"*FTTS*"	Fiber-to-the-street, the fiber-optic technology linking end user's street directly to the fiber network.
"*FTTx"*	Fiber-to-the-x, a generic term that encompasses all forms of fiber- optic communication delivery, including FTTH.
"*FVNO*"	Fixed-line virtual network operators. A fixed-line operator does not have its own network infrastructure; instead, FVNOs have business arrangements with fixed-line operators to provide mobile services for sale to their own customers.
"*General Packet Radio Services*" or "*GPRS*"	A packet-based mobile telecommunications technology designed to send and receive data at transmission rates up to 114 Kbps; GPRS is an evolution of the GSM technology.
"*Global System for Mobile Communications*" or "*GSM*"	A second generation (or 2G) mobile technology.
"*Group 1*"	Austria, Belgium, Denmark, Finland, France, Germany, Italy, Liechtenstein, the Netherlands, Norway, Portugal, Sweden, Spain, United Kingdom and Vatican City.
"*HDTV*"	High definition television.
"*Hertz*"	A unit of frequency of one cycle per second.
"*HSPA*"	High-Speed Packet Access; a 3G mobile telephone protocol that allows networks based on Universal Mobile Telecommunication System (UMTS) to have higher data transfer speeds and capacity.
"*HSPA+*"	Evolved High-Speed Packet Access; a 3G mobile telephone protocol based on HSPA but allowing for higher data transfer speeds and capacity.
"*ICT*"	Information and communications technology.
"*interconnection*"	The way in which networks are connected to each other and the charges payable by one network operator for accepting traffic from or delivering traffic to another, see "*Business—Certain Contracts Relating to the Operation of Our Business*" for a description of our interconnection agreements with other network operators.
"*Internet Protocol*" or "*IP*"	A standard procedure whereby internet-user data is divided into packets to be sent onto the correct network pathway; in addition, IP gives each packet an assigned number so that the message completion can be verified; before packets are delivered to their destination, the protocol carries out unifying procedures so that they are delivered in their original form.
"*IPTV*"	Internet Protocol Television; IPTV delivers scheduled television programs and video-on-demand (VoD) via the IP protocol and digital streaming techniques used to watch video on the internet.
"*IP VPN*"	Internet protocol (IP) virtual private networks (VPNs) are a collection of technologies that ensure the privacy of data over a shared IP network infrastructure.
"*ISDN*"	Integrated Services Digital Network (ISDN) is a set of communications standards for simultaneous digital transmission of voice, video, data, and other network services over the traditional circuits of the public switched telephone network (PSTN).

"*LAN*"	A Local Area Network is a network that interconnects devices in a limited area, such as a home or an office building using network media.
"*landline*"	A physical line connecting the customer to the telephone exchange; in addition, landline includes fixed wireless systems, in which the users are in fixed locations using a wireless connection (*e.g.*, cordless telephones) to the telephone exchange.
"*landline broadband*"	A connection to exchange data at higher transmission rates than through narrowband dial-up analog lines; broadband is typically delivered via cable, DSL, optical fiber or local wireless networks.
"*leased line*"	Voice or data circuits leased to connect two or more locations for the exclusive use of the customer.
"*local loop unbundling*" or "*LLU*"	Local loop unbundling, is where the incumbent (in Switzerland, Swisscom) grants access to third-party operators of the part of the communications circuit between the customer's equipment and the equipment of the local exchange (known as the local loop); where such access is granted by the incumbent, the incumbent may charge the third-party operator a regulated fee for the interconnection service.
"*Long-Run Incremental Cost*" or "*LRIC*"	LRIC is the method used for calculating regulated prices and is stipulated in the Swiss Telecommunications Services Ordinance (FDV).
"*LTE*"	3GPP Long Term Evolution, a fourth generation (or 4G) mobile technology.
"*machine-to-machine*" or "*M2M*"	Machine-to-machine technologies allow both mobile and wired systems to communicate with other devices of the same ability; M2M uses a device, such as a sensor or meter, to capture an event, such as temperature or inventory level, which is relayed through a network (wireless, wired or hybrid) to an application (software program), that translates the captured event into meaningful information (for example, items that need to be restocked).
"*Metropolitan Area Network*" or "*MAN*"	A metropolitan network that uses optical fiber cables to collect local traffic and distribute information backbone flows, connecting single computers or local networks.
"*MHz*"	Megahertz; a unit of frequency equal to 1 million Hertz.
"*MMS*"	Multimedia Messaging Service; an evolution of SMS that enables users to send multimedia content including images, audio and video clips to other users.
"*MSR*"	Multi-Standard Radio; radio base stations which support GSM, HSPA and LTE/4G in a single package.
"*mobile broadband*"	Mobile data transmission services, typically provided using 3G standards.
"*mobile network operator*" or "*MNO*"	A company that has frequency allocations and all the required infrastructure to run an independent mobile network, as opposed to an MVNO.
"*mobile virtual network operator*" or "*MVNO*"	A mobile operator that does not own its own spectrum and usually does not have its own network infrastructure; instead, MVNOs have business arrangements with MNOs to buy minutes of use for sale to their own customers.
"*MPLS*"	Multi Protocol Label Switching, is a method used to speed up data communication over combined IP/ATM networks.

"*narrowband*"	Telecommunications that carry traffic in a narrow band of frequency, also referred to as "dial-up".
"*net promoter score*" or "*NPS*"	Net Promoter Score (NPS) is a management tool that can be used to gauge the loyalty of a firm's customer relationships; it serves as an alternative to traditional customer satisfaction research.
"*network*"	An interconnected collection of telecom components consisting of switches connected to each other and to customer equipment by real or virtual transmission links; transmission links may be based on fiber- optic or metallic cable or point-to-point radio connections.
"*number portability*"	A facility provided by telecommunications operators that enables customers to keep their telephone numbers when they change operators.
"*OFCOM*"	The Swiss Federal Office of Communications, also referred to as "BAKOM".
"*off-network*"	Telephone calls that are not on-network (as described below).
"*on-network*"	Telephone calls that stay on one network, travelling from beginning to end without interconnecting with another network. In our case, this refers to calls made between Sunrise customers.
"*operator*"	A term for any company engaged in the business of building and running its own network facilities.
"*PBX*"	A Private Branch Exchange is a telephone exchange that serves a particular business or office, as opposed to one that a common carrier or telephone company operates for many businesses or for the general public.
"*penetration*"	A measurement, usually as a percentage, of the take-up of telecommunications services. Penetration is typically calculated by dividing the number of subscriptions or lines by either the number of households or the population to which the service is available. See "*Industry, Market and Subscription Data*" for an explanation of our calculation of mobile and landline penetration rates.
"*postpaid*"	Mobile subscriptions paid for on a recurring basis and requiring customers to remain customers for a specified duration.
"*prepaid*"	Mobile subscriptions requiring customers to pay for usage credit in advance without any durational commitment.
"*public switched telephone network*" or "*PSTN*"	Telecommunications network based on copper lines carrying analog voice data (traditional landline services).
"*quadruple-play*"	Bundling of fixed and mobile (retail voice, landline internet & IPTV and mobile services) with TV services.
"*Region 1*"	Andorra, Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Faeroe Islands, Finland, France, Germany, Gibraltar, Greece, Greenland, Guernsey, Hungary, Iceland, Ireland, Isle of Man, Italy, Jersey, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Monaco, the Netherlands, Norway, Poland, Portugal, Romania, San Marino, Slovakia, Slovenia, Spain, Sweden, Turkey, United Kingdom and Vatican City.
"*Region 2*"	Albania, Algeria, Australia, Bahrain, Bosnia-Hercegovina, Canada, Egypt, Israel, Jordan, Kosovo, Lebanon, Libya, Macedonia, Montenegro, Morocco, Palestine, Oman, Qatar, Saudi Arabia, Serbia, Tunisia, United Arab Emirates, United States and Yemen.

"*Region 3*"	All countries not included in Region 1 or in Region 2.
"*Region 1 Business*"	Austria, Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxemburg, the Netherlands, Norway, Poland, Portugal, Romania, Sweden, Slovakia, Spain, Turkey and United Kingdom.
"*roaming*"	The ability for a cellular customer to automatically make and receive voice calls, send and receive data, or access other services, including home data services, when travelling outside the geographical coverage area of the home network, by means of using a visited network.
"*reseller*"	A company that partners with us to resell or market our mobile services in connection with its brand, resulting in direct contracts between the customers and us.
"*SMS*"	Short Message Service; a text message service which enables users to send short messages (160 characters or less) to other users.
"*solving rate*"	CRM ratio measuring the quality of service by the percentage of issues resolved by the first point of contact.
"*spectrum*"	A continuous range of frequencies, usually wide in extent, within which radio waves have some certain common characteristics.
"*Subscriber Identity Module cards*" or "*SIM cards*"	Cards that contain a smart chip with memory that allows for data storage and software applications.
"*subscription*"	A person or entity who is party to a contract with the provider of telecommunications services for the supply of such services. See "*Industry, Market and Subscription Data*" for an explanation of our calculation of our mobile, retail voice and internet subscription bases.
"*Swiss Telecommunications Act*"	The Swiss Federal Telecommunications Act of April 30, 1997.
"*termination rate*"	The tariff chargeable by operators for terminating calls on their networks. See "*Regulation*".
"*Universal Mobile Telecommunications System*" or "*UMTS*"	A third generation (or 3G) mobile technology.
"*Value Added Services*" or "*VAS*"	All non-core services provided by an operator that are beyond standard voice calls and transmissions such as email, music downloads, communal gaming and interactive advertising.
"*VDSL*"	Very-high-bitrate digital subscriber line, a particular DSL implementation that provides for higher bitrates than most ADSL variants.
"*Voice Hubbing*"	The portion of our wholesale voice business in which we carry voice traffic on our landline network for calls originating and/or terminating outside Switzerland.
"*VoIP*"	A telephone service via internet, or via transmission control/internet Protocol, which can be accessed using a computer, a sound card, adequate software and a modem.
"*WAN*"	A Wide Area Network is a telecommunications network that covers a broad area (any network that links across metropolitan, regional or national boundaries).
"*WLAN*" or "*Wi-Fi*"	Wireless Local Area Network, a type of local-area network in which devices communicate wirelessly.

"*xDSL*"	A family of technologies, including ADSL and VDSL, that provides digital data transmission over copper wires.