H1 2017

Interim Financial Report

Six-month period as of June 30, 2017

Sunrise

Content

Operational and Financial Review

Financial KPIs

CHF million	**H1 2017**	H1 2016	Change (%)	**Q2 2017**	Q2 2016	Change (%)
Revenue						
Mobile services	582	608	(4.4)	303	311	(2.8)
Thereof mobile postpaid	*373*	*375*	*(0.6)*	*192*	*190*	*0.9*
Thereof mobile prepaid	*63*	*84*	*(25.4)*	*32*	*42*	*(24.0)*
Thereof mobile hardware	*107*	*112*	*(4.4)*	*60*	*60*	*(0.3)*
Landline services (incl. voice)	186	205	(9.4)	91	108	(15.8)
Thereof landline voice	*71*	*77*	*(7.9)*	*35*	*38*	*(8.4)*
Thereof hubbing	*60*	*61*	*(0.6)*	*30*	*35*	*(15.9)*
Landline internet and TV	117	104	12.1	60	52	13.7
Total revenue	**884**	**917**	**(3.6)**	**453**	**472**	**(3.9)**
Service revenue excl. hubbing & mobile hardware	717	745	(3.8)	364	377	(3.4)
Gross profit	**584**	**586**	**(0.3)**	**298**	**295**	**1.0**
% margin	66.0%	63.8%		65.7%	62.5%	
% margin (excl. hubbing & hardware revenue)	81.5%	78.6%		81.8%	78.2%	
EBITDA	**290**	**287**	**1.0**	**149**	**148**	**0.7**
EBITDA adjusted	**295**	**290**	**1.9**	**153**	**150**	**1.7**
% margin	33.4%	31.6%		33.7%	31.8%	
% margin (excl. hubbing & hardware revenue)	41.2%	38.9%		41.9%	39.8%	
Net income	**40**	**17**	**134.1**	**27**	**10**	**164.0**
Cash flow						
Reported EBITDA	290	287	1.0	149	148	0.7
Change in NWC (incl. factoring)	18	(21)	(185.6)	32	43	(26.7)
Net interest	(22)	(25)	(14.3)	(8)	(10)	(22.9)
Tax	(11)	(16)	(27.1)	(5)	(2)	95.3
CAPEX	(147)	(131)	11.7	(86)	(62)	38.9
Oher financing activities	(17)	(1)	1,345.9	(0)	(0)	115.9
Equity free cash flow	**111**	**93**	**19.0**	**82**	**117**	**(29.7)**
Other	(154)	(145)	6.0	(153)	(139)	9.7
Total cash flow	**(43)**	**(52)**	**(17.3)**	**(71)**	**(22)**	**213.9**
Net debt	**1,700**	**1,686**	**0.9**	**1,700**	**1,686**	**0.9**
Net debt/adj. EBITDA (LTM)	2.8×	2.7×		2.8×	2.7×	

Operational KPIs

	H1 2017	H1 2016	Change (%)	**Q2 2017**	Q2 2016	Change (%)
ARPU (CHF)						
Mobile blended[1]	**31.2**	**32.7**	**(4.6)**	**32.0**	**33.1**	**(3.3)**
Postpaid	41.1	44.2	(6.9)	41.9	44.4	(5.6)
Thereof origination	*37.8*	*38.7*	*(2.5)*	*38.6*	*38.9*	*(0.8)*
Thereof termination	*3.4*	*5.5*	*(38.5)*	*3.3*	*5.5*	*(40.0)*
Prepaid[1]	12.8	15.2	(15.8)	13.2	15.4	(14.3)
Landline blended	**68.0**	**69.8**	**(2.6)**	**67.6**	**68.9**	**(1.9)**
Retail Voice	27.7	31.8	(13.0)	26.8	31.1	(13.8)
Internet	35.2	35.8	(1.7)	35.1	35.3	(0.6)
Internet and IPTV	46.9	45.7	2.7	47.0	45.3	3.8
Subscription base (in '000)						
Mobile						
Postpaid	1,536.5	1,439.2	6.8			
– Primary	1,272.5	1,209.7	5.2			
– Secondary	264.0	229.4	15.1			
Prepaid (3-month rule)[1]	805.1	898.5	(10.4)			
Prepaid (12-month rule)[1]	1,360.2	1,495.9	(9.1)			
Landline						
Retail voice	428.8	402.5	6.5			
Internet	398.1	357.5	11.4			
Thereof coupled to IPTV	*187.6*	*147.2*	*27.4*			
Thereof without IPTV	*210.5*	*210.2*	*0.1*			
LTM Churn (%)						
Postpaid	13.6	14.0	(2.9)			
Landline	13.7	12.8	7.0			
Employees						
FTEs	1,643	1,682	(2.3)			
Apprentices	106	104	1.9			

[1] For restatement of prior year periods refer to Mobile Services in chapter Financial Review on page 6f.

Financial Review

In H1 2017 moderating revenue declines continued to be driven mainly by lower mobile termination rates (MTR). The continued focus on cost efficiency resulted in slightly higher EBITDA.

MTR are transmission fees collected by a mobile communication provider when it accepts calls from another provider's landline or mobile network and passes them on to customers on its own network. Reductions in mobile termination rates have no direct impact on customer tariffs, since both the revenue and costs of mobile operators are reduced. Therefore, the effect of the decrease in mobile termination rates is largely offset at the gross profit level. On the revenue level, the reduced mobile termination rates lead to a decrease compared to the same period in prior year.

Revenue

The Sunrise Group financial results for the six-month period ended June 30, 2017, showed a decrease in total revenue of 3.6% mainly driven by reduced MTR as of January 1, 2017. Adjusted for the MTR effect, revenue decreased by 1.0% mainly driven by lower mobile prepaid and landline services revenue.

Mobile Services

Revenue from mobile services declined by 4.4% to CHF 582 million, thereof 3.5% are related to the reduction in MTR for the six-month period ended June 30, 2017.

While the postpaid subscription base increased by 6.8% year-over-year, postpaid revenue decreased in H1 2017 due to lower average revenue per user (ARPU).

The year-over-year postpaid ARPU reduction of CHF 3.1 was mainly driven by lower MTR (CHF −2.0 ARPU impact) as well as secondary SIM dilution. The postpaid subscription base totaled 1,537 thousand subscribers as of June 30, 2017 (June 30, 2016: 1,439 thousand). The subscription base increase was driven by improved network quality and customer service, prepaid to postpaid migration, as well as competitive mobile data plans. The latter includes the converged tariff Sunrise ONE, which was launched in March 2017. The continuous growth of mobile data traffic is reflected in the increase of secondary subscriptions (such as secondary SIM-cards used for data) used by customers in addition to their primary subscriptions.

Mobile prepaid revenue declined year-over-year due to a decreasing subscription base and lower ARPU.

In order to reflect value generating prepaid customers, Sunrise has changed the definition of its prepaid subscriber base. To address the increase in 'spam' calls by call centers to non-active prepaid customers, the new definition excludes SIMs where only incoming calls or SMS but no outgoing usage have been recognized over the last 3 and 12 months, respectively. The restatement of ARPUs (up) and subscribers (down) – with no impact on prepaid revenue – are presented in the following table:

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	**Q2 2017**
ARPU (CHF)						
Prepaid (3-month rule)						
old definition	*13.9*	*14.4*	*14.2*	*13.1*	*11.3*	*11.8*
new definition	*14.9*	*15.4*	*15.1*	*14.0*	*12.3*	*13.2*
Mobile blended						
old definition	*31.4*	*32.2*	*33.4*	*31.8*	*29.4*	*30.7*
new definition	*32.4*	*33.1*	*34.3*	*32.7*	*30.3*	*32.0*
Subscription base (in '000)						
Prepaid (3-month rule)						
old definition	*980.6*	*974.1*	*947.2*	*909.8*	*890.1*	*918.2*
new definition	*914.4*	*898.5*	*899.1*	*841.7*	*811.4*	*805.1*
Prepaid (12-month rule)						
old definition	*1,611.2*	*1,566.8*	*1,517.5*	*1,482.2*	*1,448.6*	*1,414.9*
new definition	*1,540.5*	*1,495.9*	*1,469.6*	*1,431.1*	*1,397.0*	*1,360.2*

The year-over-year ARPU reduction of CHF 2.4 in H1 2017 was partly driven by lower MTR (CHF −1.0 ARPU impact). The prepaid subscription base shrank year-over-year by 10.4% to 805 thousand subscribers as of June 30, 2017. High value prepaid customers migrating to postpaid and competitive pressure, and less international prepaid calls related to more attractive postpaid offers and increased OTT usage contributed to the change.

Hardware revenue (low margin) decreased year-over-year by 4.4% to CHF 107 million for the six-month period ended June 30, 2017. Hardware revenue depends on handset innovation/launches and volatile sales to retailers.

Landline Services

Landline services revenue decreased by 9.4% to CHF 186 million for the six-month period ended June 30, 2017, partly driven by lower MTR (CHF −3 million). Adjusted for the MTR effect, landline services revenue decreased by 8.1% mainly driven by lower retail voice and integration revenue.

Retail voice revenue decreased as a result of 13.0% lower ARPU caused by fixed-to-mobile substitution, voice flat rates and increased use of OTT services. The decrease of lower margin integration revenue is mainly related to a product transition phase. Hubbing revenue was roughly stable.

Landline Internet and TV

Internet and TV revenue increased by 12.1% to CHF 117 million for the six-month period ended June 30, 2017.

The total Internet subscription base increased by 11.4% year-over-year to 398 thousand subscriptions. The revenue increase was also supported by a stabilization of Internet and IPTV ARPU. Sunrise is attracting new customers with its strong, attractively priced Internet and IPTV products. The IPTV product that can be purchased alongside Internet service increased its customer base by 27.4% year-over-year to 188 thousand subscribers.

Transmission Costs and Cost of Goods Sold

Transmission costs and cost of goods sold totaled CHF 300 million for the six-month period ended June 30, 2017; down 9.5% year-over-year, more than the 3.6% revenue decline. Gross profit decreased by just 0.3% to CHF 584 million for the six-month period ended June 30, 2017.

Adjusted EBITDA

Adjusted EBITDA as of June 30, 2017, amounted to CHF 295 million and was CHF 5 million higher than the reported EBITDA. This represents an increase of CHF 5 million compared to adjusted EBITDA for the same period in 2016. The table below shows one-time adjustments from reported EBITDA to adjusted EBITDA for the first six months in 2017 and 2016.

in CHFk	**H1 2017**	H1 2016
Reported EBITDA	**290,310**	**287,305**
Prior-year-related events	(2,133)	(753)
Non-recurring and/or non-operating events	6,826	2,803
Costs relatd to share-based payment	397	540
Adjusted EBITDA	**295,400**	**289,895**

Reported EBITDA

The Group generated an EBITDA of CHF 290 million for the six-month period ended June 30, 2017, a year-over-year increase of CHF 3 million, or 1.0%, from CHF 287 million for the same period in 2016. Despite lower revenue, EBITDA developed positively year-over-year due to ongoing strong cost focus and the decline in transmission costs and cost of goods sold.

Other Operating Expenses

In H1 2017 other operating expenses decreased by CHF 2 million, or 0.8%, from CHF 194 million to CHF 192 million year-over-year, primarily attributable to various cost efficiency measures.

Wages, Salaries and Pension Costs

Wages, salaries and pension costs totaled CHF 105 million for the six-month period ended June 30, 2017. This represents a 2.7% year-over-year reduction partly driven by the streamlining of mid-level management, announced with the Q3 2016 results.

Although the pension fund of Sunrise Communications AG is overfunded by 20% as of December 31, 2016, according to Swiss GAAP FER 26, the Group reports a net pension liability of CHF 95 million in its condensed consolidated interim financial statements as of June 30, 2017. The different results are driven by differences in valuation methods; Swiss GAAP FER 26 prescribes a static valuation method whereas IFRS (IAS 19) requires the use of a dynamic valuation method. Therefore, the IFRS pension liability should not be considered a current cash liability based on current facts and circumstances.

Other Income and Expenses, Net

Other expenses were CHF 0.5 million lower for the six-month period ended in June 30, 2017, compared to the same period in the prior year. Lower other expenses were partially offset by a CHF 0.3 million decline in other income, related to lower early termination fees.

Net Income

The Group reported a net income of CHF 40 million for the six-month period ended June 30, 2017, a year-over-year improvement of CHF 23 million from a net income of CHF 17 million for the prior-year period. Lower financial expenses following the repricing of Senior Facilities Agreement at the end of December 2016, decreased depreciation and amortization as well as a stronger EBITDA, led to an increase in 2017.

Amortization and Depreciation and impairment losses

Depreciation and amortization are CHF 19 million lower than in prior year. For the six-month period as of June 30, 2017, depreciation and amortization totaled CHF 213 million, of which CHF 64 million related to the amortization of purchased intangibles (CHF 64 million in H1 2016). Those intangibles, created in 2010 in the amount of CHF 1,477 million and amortized over a maximum of 10 years, are related to the acquisition of Sunrise by MCG in October 2010.

Net Financial Items

Net financial items decreased by CHF 6 million to CHF 24 million for the six-month period as of June 30, 2017, and mainly consist of interest expenses. With the 2016 repricing transaction, the weighted average cost of debt was further be reduced to 2.0% per annum.

Income Taxes

For H1 2017 the net income tax expense of CHF 14 million (H1 2016: net income tax expense of CHF 8 million) consists of a CHF 26 million (H1 2016: CHF 19 million) tax expense related to current income taxes and a tax benefit of CHF 12 million (H1 2016: CHF 10 million) related to the change in deferred taxes. The higher current income tax expense is mainly related to a higher taxable profit in H1 2017.

Net Working Capital

Net working capital represents short-term assets reduced by short-term liabilities.

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

The positive change in net working capital of CHF 18 million for H1 2017 is primarily attributable to positive changes in trade and other receivables and changes in trade and other payables of CHF 55 million. Payments of prepaid expenses and bonus (included in change in other items) as well as in an increase in inventory partially offset the positive change in net working capital for H1 2017. Compared to the same period in 2016, the change in net working capital for H1 2017 showed an improvement of CHF 38 million driven by two trends: A change in payments terms in H1 2016 led to a significant negative impact (CHF 46 million) in trade and other payables. During the same period, the use of the factoring facility positively impacted the change in trade and other receivables with a net cash effect of CHF 21 million. In December 2016, the Group decided to discontinue the use of the factoring facility for strategic and operational reasons and the remaining balances were settled, reducing the effect compared to H1 2017.

Cash Flow

Cash and cash equivalents totaled CHF 172 million as of June 30, 2017 (thereof CHF 12 million classified as held for sale), a decrease of CHF 43 million compared to the cash position held as of December 31, 2016. The decrease is mainly driven by the dividend payment of CHF 150 million.

Cash Flow from Operating Activities

The year-over-year increase of CHF 56 million in H1 2017, is primarily attributable to an inflow from net working capital. The payment terms changed in H1 2016 which led to a significant impact (CHF 45.0 million) in trade and other payables in 2016. Lower paid corporate income and withholding taxes and interests further increased the cash flow from operating activities in 2017.

Cash Flow Used in Investing Activities

Purchase of tangible and intangible assets for the six-month period ended June 30, 2017, amounted to CHF 147 million. This represents an increase of CHF 15 million compared to the prior-year period and is mainly impacted by the timing of payments.

Cash Flow Used in Financing Activities

Cash flow used in financing activities increased by CHF 32 million in H1 2017 compared to the same period in prior year. The increase is mainly due to the payment of the second installment related to the investment into broadband connectivity services from Swisscom of CHF 15 million as well as a CHF 15 million higher dividend payment compared to prior year.

Net Debt

The Group's consolidated debt position – consisting of a term loan B facility, senior secured notes and capital leases – amounted to CHF 1,843 million (nominal value: CHF 1,860 million), of which CHF 7 million is expected to be paid within 12 months. Net debt at nominal value totaled CHF 1,700 million as of June 30, 2017, resulting in a net debt to EBITDA leverage ratio of 2.8× (December 31, 2016: 2.7×).

Dividend Proposal and Distribution Policy

At the Annual General Meeting on April 11, 2017, the payment of an ordinary dividend from statutory reserves from capital contributions in the total amount of CHF 150 million (CHF 3.33 per share) in respect of the 2016 financial year was approved. The dividend payment was made on April 19, 2017.

On May 24, 2017, Sunrise revised its dividend policy to pay out at least 65% of equity free cash flow, and targeting 85% once the Company's reported net debt/adjusted EBITDA leverage is below 2.0×.

Risks

Overview

Sunrise operates a centralized risk management system that distinguishes between strategic and operating risks. Competition, impairment of supply relationships and interruptions to network performance are the main risks and uncertainties the Group is facing. All identified risks are quantified (according to their realization probability and impact) and tracked on a risk schedule. This risk schedule is subject to an annually recurring detailed discussion process among the Sunrise group's Board of Directors, the last of which was performed on November 8, 2016. The key risks identified are as follows:

Market Competition

Price erosion and a further move by customers toward bundle plans that tend to offer more value for the same price could lead to a reduction in revenue. Additionally, aggressive promotional campaigns by Salt and other low-priced national flat rates as well as competition in roaming prices put pressure on mobile postpaid segment prices while over-the-top services are cannibalizing international call as well as roaming voice revenue and are impacting the IPTV growth potential which could also result from a potential entry of Salt into the Internet market. Sunrise actively monitors market developments and offers attractive bundles with flat rate components to cover customers' needs comprehensively.

Supplier Relationships

The fact that EU regulations do not apply to Swiss operators has led certain operators in the EU to increase the termination rates charged to Swiss operators for voice traffic originating in Switzerland, leading to a higher cost of goods sold for Sunrise. Pricing with EU operators is the subject of ongoing negotiations with providers of fiber- and copper-based access technologies for landline services of Sunrise that are undertaken to ensure continued cost-effective access.

Business Continuity and Information Security

Telecom services are becoming more and more complex and are thereby heavily dependent on highly sophisticated technological infrastructures. Software or hardware failure, human error, viruses or hacking can decrease service quality or, in the worst-case scenario, lead to system outages. The certification of the Sunrise Information Security Management System in accordance with the ISO 27001 standard, along with the Sunrise business continuity management plan, ensures that Sunrise services meet the standards that customers demand.

Financial Risks

The Group is exposed to a variety of financial risks, namely market risk, credit risk and liquidity risk. A detailed description of the financial risks is given in Note 26 to the 2016 Consolidated Financial Statements of the Group.

Additional Disclosures

Material Affiliate Transactions

Change in the Executive Leadership Team (ELT)
On June 2, 2017, Robert Wigger has been appointed as the new Chief Business Officer, effective September 1, 2017. He will follow Massimiliano Nunziata who resigned in May 2017. On June 12, 2017, Bruno Duarte started his position as Chief Consumer Officer. He replaced Timm Degenhardt who left the company at the end of February 2017.

Dividend Payment
At the Annual General Meeting on April 11, 2017, the payment of an ordinary dividend from statutory reserves from capital contributions in the total amount of CHF 150 million (CHF 3.33 per share) in respect of the 2016 financial year was approved. The dividend payment was made on April 19, 2017.

Material Contractual Arrangements

On April 10, 2017, Sunrise expanded its fiber-to-the-home partnership with EWZ (the city of Zurich's electricity company) and will take over operation of 30,000 minimum fiber optic connections on ewz.zürinet by 2025. Under the new framework agreement, Sunrise is making an advance investment in the EWZ infrastructure (Layer 1) and will receive a long-term, irrevocable right of use (IRU) for ewz.zürinet.

On May 24, 2017, Sunrise entered into an agreement with a consortium led by Cellnex Telecom S.A. regarding the sale of Swiss Towers AG. Completion of the transaction is subject to merger control clearance and the conclusion of transitional service agreements which was finalized on August 3, 2017 (refer to Material development after the balance sheet date).

Certain Other Contractual Commitments

Total contractual and purchase commitments as of June 30, 2017, amounted to CHF 111 million, consisting of future investments in property, plant and equipment and intangible assets.

Credit Ratings

As of June 30, 2017, the corporate family rating for Sunrise Communications Holding S.A., 100% indirectly owned by Sunrise Communications Group AG, by the credit rating agencies Fitch, Moody's and Standard & Poor's (S&P) remains unchanged at BB+, Ba2 and BB+, respectively. On June 2, 2017, S&P Global Ratings revised its outlook from stable to positive for Sunrise Communications Holdings S.A. The notes and term loan facilities are still rated BBB- by S&P as well as Fitch and Ba2 by Moody's.

Acquisitions, Disposals and Recapitalization

No material acquisitions, disposals or recapitalization occurred in Q2 2017.

Material development after the balance sheet date

On August 3, 2017, Sunrise successfully closed the sale of Swiss Towers AG to a consortium led by Cellnex Telecom S.A. for CHF 500 million. Accordingly all assets and liabilities related to Swiss Towers AG will be deconsolidated. On August 4, 2017, Sunrise used a portion of the received consideration to repay and cancel CHF 450 million of the existing term loans under the senior facilities agreement originally dated January 13, 2015. Furthermore both counter-parties signed a Service Level Agreement and a Transitional Services Agreement. Based on these agreements, Sunrise will provide certain (transitional) services to Swiss Towers AG. Additionally Sunrise is subcontracted to build new telecom towers according to a built-to-suit agreement.

Research and Development

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

Outlook

2017 Guidance

Sunrise increases its adjusted EBITDA guidance for 2017.

Revenue is expected to range from CHF 1,820 million to CHF 1,860 million. Sunrise increases its adjusted EBITDA guidance from a range of CHF 577 million to CHF 592 million to a range of CHF 592 million to CHF 602 million. Capex for 2017 is expected to be within a range of CHF 255 million to CHF 295 million, with normalized Capex excluding the one-off increase in 2017 between CHF 225 million and CHF 265 million. Upon meeting its 2017 guidance, Sunrise expects to propose a dividend to the Annual General Meeting for 2017 in the range of CHF 3.90 to CHF 4.10 per share to be paid from capital contribution reserves in 2018.

Condensed Consolidated Interim Financial Statements (unaudited)

Sunrise Communications Group AG

Condensed Consolidated Interim Statements of Income

CHFk	Note	H1 2017	H1 2016	Q2 2017	Q2 2016
		Unaudited	Unaudited	Unaudited	Unaudited
Revenue	**6,7**	**884,246**	**917,482**	**453,278**	**471,894**
Transmission costs and cost of goods sold		(300,239)	(331,883)	(155,526)	(177,143)
Other operating expenses		(192,013)	(193,563)	(96,332)	(93,362)
Wages, salaries and pension costs		(104,781)	(107,722)	(53,793)	(54,543)
Other income	8	3,077	3,426	1,529	1,639
Other expenses		20	(435)	–	(428)
Income before depreciation and amortization, net financial items and income taxes		**290,310**	**287,305**	**149,156**	**148,057**
Amortization		(125,538)	(124,905)	(62,372)	(62,825)
Depreciation and impairment losses		(87,013)	(106,610)	(39,731)	(54,877)
Operating income		**77,759**	**55,790**	**47,053**	**30,355**
Foreign currency gains/(losses), net		1,131	355	695	(43)
Financial income		80	–	77	–
Financial expenses		(25,459)	(30,743)	(12,700)	(15,541)
Net financial items	**9**	**(24,248)**	**(30,388)**	**(11,928)**	**(15,584)**
Income before income taxes		**53,511**	**25,402**	**35,125**	**14,771**
Income taxes		(13,916)	(8,488)	(8,400)	(4,646)
Net income		**39,595**	**16,914**	**26,725**	**10,125**
Net income attributable to equity holders of the parent company		**39,595**	**16,914**	**26,725**	**10,125**
Basic and diluted earnings per share (in CHF)	**10**	**0.88**	**0.38**	**0.59**	**0.22**

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

Condensed Consolidated Interim Statements of Comprehensive Income

CHFk	H1 2017	H1 2016	Q2 2017	Q2 2016
	Unaudited	Unaudited	Unaudited	Unaudited
Net income	**39,595**	**16,914**	**26,725**	**10,125**
Actuarial gain/(losses) related to defined benefit pension plans	8,556	(38,215)	5,723	(7,738)
Income tax effect	(1,745)	8,026	(1,167)	1,627
Net other comprehensive income/(loss) not to be reclassified to profit and loss in subsequent periods	**6,811**	**(30,189)**	**4,556**	**(6,111)**
Other comprehensive income/(loss), net of tax	**6,811**	**(30,189)**	**4,556**	**(6,111)**
Total comprehensive income/(loss)	**46,406**	**(13,275)**	**31,281**	**4,014**
Comprehensive income/(loss) attributable to equity holders of the parent company	**46,406**	**(13,275)**	**31,281**	**4,014**

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

Condensed Consolidated Interim Statements of Financial Position

Assets

CHFk	Note	June 30, 2017	December 31, 2016
		Unaudited	Audited
Non-current assets			
Intangible assets		2,283,657	2,348,900
Property, plant and equipment	16	760,084	883,792
Non-current portion of trade and other receivables		46,602	55,830
Non-current portion of prepaid expenses		338	583
Deferred tax assets		433	433
Total non-current assets		**3,091,114**	**3,289,538**
Current assets			
Inventories		40,334	28,741
Current portion of trade and other receivables		370,292	393,856
Current portion of prepaid expenses	16	21,411	7,916
Cash and cash equivalents		159,606	214,175
		591,643	**644,688**
Assets held for sale	15	129,314	-
Total current assets		**720,957**	**644,688**
Total assets		**3,812,071**	**3,934,226**

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

Equity and liabilities

CHFk	Note	June 30, 2017	December 31, 2016
		Unaudited	Audited
Equity			
Common shares		45,000	45,000
Share premium		2,340,480	2,489,962
Other reserves		(776,143)	(776,143)
Accumulated deficit		(576,125)	(622,531)
Total equity	**11**	**1,033,212**	**1,136,288**
Non-current liabilities			
Non-current portion of loans and notes	12	1,831,344	1,828,327
Non-current portion of financial leases	12	4,791	9,236
Non-current portion of trade and other payables	16	5,488	16,043
Deferred tax liabilities		174,249	184,881
Non-current portion of provisions		68,901	118,222
Employee benefit obligations		94,868	102,234
Non-current portion of deferred income		10,796	10,409
Total non-current liabilities		**2,190,437**	**2,269,352**
Current liabilities			
Current portion of financial leases	12	7,249	7,597
Current portion of trade and other payables		476,141	476,271
Income tax payable		14,826	3,873
Current portion of provisions		5,018	6,146
Current portion of deferred income		28,826	33,710
Other current liabilities		1,132	989
		533,192	**528,586**
Liabilities directly associated with the assets held for sale	15	55,230	–
Total current liabilities		**588,422**	**528,586**
Total liabilities		**2,778,859**	**2,797,938**
Total equity and liabilities		**3,812,071**	**3,934,226**

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

Condensed Consolidated Interim Statements of Cash Flow

CHFk	Note	H1 2017	H1 2016 Restated[1]	Q2 2017	Q2 2016 Restated[1]
		Unaudited	Unaudited	Unaudited	Unaudited
Income before income taxes		**53,511**	**25,402**	**35,125**	**14,771**
Amortization		125,538	124,905	62,372	62,825
Depreciation and impairment losses		87,013	106,610	39,731	54,877
Gain on disposal of property, plant and equipment		(18)	(28)	–	(28)
Movement in pension		1,772	2,105	769	1,133
Movement in provisions		(1,234)	(7,876)	(1,052)	(3,237)
Change in net working capital	14	17,618	(20,593)	31,734	43,315
Cash flow from operating activities before net financial items and tax		**284,200**	**230,525**	**168,679**	**173,656**
Financial income	9	(80)	–	(77)	–
Financial expense	9	25,459	30,743	12,700	15,541
Foreign currency gains, net		(288)	(355)	(28)	(224)
Interest received		80	–	77	–
Interest paid		(21,671)	(25,178)	(7,934)	(9,902)
Corporate income and withholding tax paid		(11,470)	(15,741)	(4,524)	(2,317)
Total cash flow from operating activities		**276,230**	**219,994**	**168,893**	**176,754**
Purchase of property, plant and equipment	16	(85,334)	(83,539)	(46,122)	(42,196)
Purchase of intangible assets		(61,518)	(47,960)	(40,235)	(19,998)
Sale of property, plant and equipment		18	28	–	28
Total cash flow used in investing activities		**(146,834)**	**(131,471)**	**(86,357)**	**(62,166)**
Proceeds from long-term loans and notes		(321)	(240)	–	–
Repayments of capital leases	12	(4,793)	(4,197)	(3,108)	(1,922)
Dividend payment		(149,850)	(135,000)	(149,850)	(135,000)
Other financing activities		(17,278)	(1,195)	(95)	(44)
Total cash flow used in financing activities		**(172,242)**	**(140,632)**	**(153,053)**	**(136,966)**
Total cash flow		**(42,846)**	**(52,109)**	**(70,517)**	**(22,378)**
Cash and cash equivalents as of January 1		214,175	244,388	–	–
Cash and cash equivalents as of April 1		–	–	242,106	214,810
Foreign currency impact on cash	9	288	358	28	205
Cash and cash equivalents as of June 30[2]		**171,617**	**192,637**	**171,617**	**192,637**

[1] see Note 3
[2] thereof CHF 12.0 million is classified as asset held for sale (see Note 15)

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

Condensed Consolidated Interim Statements of Changes in Equity

CHFk	Common shares	Share premium	Other reserves	Valuation reserve	Accumulated deficit	Total
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Equity as of January 1, 2016	**45,000**	**2,623,723**	**(776,143)**	**(23)**	**(724,021)**	**1,168,536**
Net income for the period	–	–	–	–	16,914	16,914
Other comprehensive loss	–	–	–	–	(30,189)	(30,189)
Total comprehensive loss	**-**	**-**	**-**	**-**	**(13,275)**	**(13,275)**
Share-based payment	–	25	–	–	–	25
Dividend paymet	–	(135,000)	–	–	–	(135,000)
Other	–	–	–	23	–	23
Equity as of June 30, 2016	**45,000**	**2,488,748**	**(776,143)**	**-**	**(737,296)**	**1,020,309**
Net income for the period	–	–	–	–	70,179	70,179
Other comprehensive income	–	–	–	–	44,586	44,586
Total other comprehensive income	**-**	**-**	**-**	**-**	**114,765**	**114,765**
Share based payment	–	1,214	–	–	–	1,214
Equity as of December 31, 2016	**45,000**	**2,489,962**	**(776,143)**	**-**	**(622,531)**	**1,136,288**
Equity as of January 1, 2017	**45,000**	**2,489,962**	**(776,143)**	**-**	**(622,531)**	**1,136,288**
Net income for the period	–	–	–	–	39,595	39,595
Other comprehensive income	–	–	–	–	6,811	6,811
Total comprehensive income	**-**	**-**	**-**	**-**	**46,406**	**46,406**
Share-based payment	–	368	–	–	–	368
Dividend payment	–	(149,850)	–	–	–	(149,850)
Equity as of June 30, 2017	**45,000**	**2,340,480**	**(776,143)**	**-**	**(576,125)**	**1,033,212**

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

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

NOTE

NOTE 1

General information

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

The condensed consolidated interim financial statements for the six-month period ended June 30, 2017, comprise SCG and its subsidiaries (together referred to as the Group or Sunrise). The Group's principal operating company, Sunrise Communications AG, is the second-largest full-range telecommunications provider in Switzerland and offers mobile voice and data, landline services (retail and wholesale voice, business and integration services) and landline Internet including Internet Protocol Television (IPTV) services to both Residential and Business customers as well as to other operators. Sunrise has its own national backbone landline and IP network as well as its own mobile network based on GSM/EDGE, UMTS/HSDPA and 4G technologies. In connection with the services it provides, Sunrise also resells handsets manufactured by third party suppliers.

These condensed consolidated interim financial statements were authorized for issue by the Group's Board of Directors on August 22, 2017.

NOTE 2

Basis of preparation

The condensed consolidated interim financial statements of the Group as of and for the six-month period ended June 30, 2017, have been prepared in compliance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board.

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

The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as of December 31, 2016.

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

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

Foreign currency translation

The financial statements are presented in Swiss francs, which is the functional currency of the parent company and each of its subsidiaries. The functional currency is the currency applied in the primary economic environment of each enterprise's operations. Transactions in currencies other than the functional currency are transactions in foreign currencies. Such transactions are translated at the transaction-date exchange rates. Foreign exchange gains and losses arising from differences between transaction-date and settlement-date rates are recognized as net financial items in the condensed consolidated interim statement of income. Cash, loans and other amounts receivable or payable in foreign currencies (monetary assets and liabilities), if any, are translated into the functional currency at the official exchange rates as quoted at the reporting date.

The following table summarizes the principal exchange rates used by the Group (shown against CHF):

CURRENCY	BALANCE SHEET		INCOME STATEMENT AND CASH FLOW	
CHF	**June 30, 2017**	December 31, 2016	**January 1 – June 30, 2017**	January 1 – June 30, 2016
Euro	1.0950	1.0721	1.0851	1.1051
US Dollar	0.9579	1.0190	1.0149	0.9972

NOTE 3

Changes in presentation

In prior years Sunrise was not able to split Capex into paid and unpaid invoices. All investments in Capex were shown as cash additions to the cash flow used in investing activities in the statements of cash flow. A system upgrade in 2016 made it possible for Sunrise to identify unpaid Capex invoices and accruals. The impact on the condensed consolidated interim statements of cash flow as well as on the change in net working capital for the six-month period as of June 30, 2016 is shown in the table below:

CHFk	**Reported**	Adjustment	**Restated**
Impact on figures for the six-month period as of June 30, 2016			
Cash flow used in investing activities	*(136,695)*	*5,224*	*(131,471)*
Thereof purchase of property, plant and equipment	*(54,627)*	*(28,912)*	*(83,539)*
Thereof purchase of intangible assets	*(29,755)*	*(18,205)*	*(47,960)*
Thereof sale of property, plant and equipment	*28*	*–*	*28*
Change in net working capital	(67,710)	47,117	(20,593)

NOTE 4

Significant accounting policies

The preparation of the condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Those estimates affect mainly provisions, goodwill impairment tests, employee benefit obligations, allowance for doubtful receivables and direct taxes. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidate financial statements for the financial year ended December 31, 2016.

NOTE 5

New accounting standards

None of the amendments to existing International Financial Reporting Standards (IFRSs) and Interpretations effective as of January 1, 2017, is relevant to the Group. The amendments will not have any impact on the Group's result or financial position.

NOTE 6

Segment reporting

Operating segments have been determined based on management reports reviewed by the Board of Directors. The Group's organizational structure reflects the different customer groups to which the Group provides its telecommunications products and services: Residential, Business, Wholesale and a reportable Head Office segment which includes the finance, IT and technology functions of the Group.

Residential provides fixed line and mobile services to residential end customers as well as sales of handsets. Through its investments in local loop unbundling and IPTV as well as its contractual arrangements with Swiss Fibre Net AG, a joint venture of local energy providers in Switzerland, and Swisscom, Sunrise focuses on selling its products in the Swiss telecommunications market by marketing bundled offers in Fixnet/Internet, mobile and IPTV.

Business provides a full range of products and services, from fixed-line and mobile communications to Internet and data services as well as integration services to different business areas: Small Office and Home Office, Small and Medium Enterprises and large corporate clients.

The Wholesale product portfolio covers voice, data, Internet and infrastructure services such as carrier and roaming services, which are marketed to national and international telecom service providers as well as mobile virtual network operators.

Head Office activities comprise support units such as Network, IT and Operations (customer care) as well as staff functions like Finance, Human Resources and Strategy. Furthermore, certain fees and sundry revenue and payments of reminder fees are allocated to this operating segment.

Performance is measured based on EBITDA as included in the internal financial reports reviewed by the Board of Directors. EBITDA is defined as operating income before depreciation and amortization, net financial result items and income tax expenses. The EBITDA earned by each segment is considered an adequate measure of the operating performance of the segments reported to the Board of Directors for the purposes of resource allocation and performance assessment. Assets and liabilities are not allocated to operating segments in the management reports reviewed by the Board of Directors, as the review focuses on changes in net working capital on a Group level.

NOTE 6

Segment reporting

Activities

CHFk January 1 – June 30	RESIDENTIAL 2017	2016	BUSINESS 2017	2016	WHOLESALE[1] 2017	2016	HEAD OFFICE ACTIVITIES 2017	2016	TOTAL 2017	2016
Revenue										
External customers	626,868	648,249	129,448	141,198	108,952	109,771	18,978	18,264	884,246	917,482
Inter-segment revenue[2]	–	–	–	–	912	21,331	–	–	912	21,331
Total	**626,868**	**648,249**	**129,448**	**141,198**	**109,864**	**131,102**	**18,978**	**18,264**	**885,158**	**938,813**
Transmission costs and costs of goods sold										
External customers	(187,200)	(200,191)	(39,567)	(45,518)	(73,472)	(86,173)	–	(1)	(300,239)	(331,883)
Inter-segment costs[2]	(912)	(21,331)	–	–	–	–	–	–	(912)	(21,331)
Total	**(188,112)**	**(221,522)**	**(39,567)**	**(45,518)**	**(73,472)**	**(86,173)**	**-**	**(1)**	**(301,151)**	**(353,214)**
Other operating expenses	(68,272)	(69,278)	(9,311)	(7,071)	(2,372)	(2,131)	(112,058)	(115,083)	(192,013)	(193,563)
Wages, salaries and pension costs	(30,034)	(29,759)	(18,072)	(16,278)	(2,133)	(2,041)	(54,542)	(59,644)	(104,781)	(107,722)
Other income	12	79	–	69	–	–	3,065	3,278	3,077	3,426
Other expenses	–	–	–	–	–	–	20	(435)	20	(435)
EBITDA[2]	**340,462**	**327,769**	**62,498**	**72,400**	**31,887**	**40,757**	**(144,537)**	**(153,621)**	**290,310**	**287,305**

[1] Including hubbing revenue of CHFk 60,444 generated in the six-month period ended as of June 30, 2017, and CHFk 60,817 generated in the six-month period ended as of June 30, 2016.

[2] Most of the inter-segment revenue and costs are related to YOL Communicactions GmbH which merged into Sunrise Communications AG retrospectively as of January 1, 2017. Accordingly the inter-segment revenue and costs decreased because of the merger in current year.

NOTE 6

Segment reporting

Activities

CHFk April 1 – June 30	RESIDENTIAL 2017	2016	BUSINESS 2017	2016	WHOLESALE[1] 2017	2016	HEAD OFFICE ACTIVITIES 2017	2016	TOTAL 2017	2016
Revenue										
External customers	323,708	329,769	65,944	71,632	54,151	60,609	9,475	9,884	453,278	471,894
Inter-segment revenue[2]	–	–	–	–	394	10,569	–	–	394	10,569
Total	**323,708**	**329,769**	**65,944**	**71,632**	**54,545**	**71,178**	**9,475**	**9,884**	**453,672**	**482,463**
Transmission costs and costs of goods sold										
External customers	(102,070)	(104,624)	(20,812)	(23,842)	(32,644)	(48,676)	–	(1)	(155,526)	(177,143)
Inter-segment costs[2]	(394)	(10,569)	–	–	–	–	–	–	(394)	(10,569)
Total	**(102,464)**	**(115,193)**	**(20,812)**	**(23,842)**	**(32,644)**	**(48,676)**	**-**	**(1)**	**(155,920)**	**(187,712)**
Other operating expenses	(35,025)	(33,374)	(4,742)	(3,494)	(1,264)	(1,078)	(55,301)	(55,416)	(96,332)	(93,362)
Wages, salaries and pension costs	(14,731)	(14,690)	(9,343)	(8,319)	(1,096)	(1,017)	(28,623)	(30,517)	(53,793)	(54,543)
Other income	5	64	–	69	–	–	1,524	1,506	1,529	1,639
Other expenses	–	–	–	–	–	–	–	(428)	-	(428)
EBITDA[2]	**171,493**	**166,576**	**31,047**	**36,046**	**19,541**	**20,407**	**(72,925)**	**(74,972)**	**149,156**	**148,057**

[1] Including hubbing revenue of CHFk 29,547 generated in the three-month period ending as of June 30, 2017, and CHFk 35,125 generated in the three-month period ending as of June 30, 2016.

[2] Most of the inter-segment revenue and costs are related to YOL Communicactions GmbH which merged into Sunrise Communications AG retrospectively as of January 1, 2017. Accordingly the inter-segment revenue and costs decreased because of the merger in current year.

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

CHFk	H1 2017	H1 2016	Q2 2017	Q2 2016
EBITDA from reportable segments	**290,310**	**287,305**	**149,156**	**148,057**
Unallocated:				
– Amortization	(125,538)	(124,905)	(62,372)	(62,825)
– Depreciation	(87,013)	(106,610)	(39,731)	(54,877)
– Net financial items	(24,248)	(30,388)	(11,928)	(15,584)
Income before income taxes	**53,511**	**25,402**	**35,125**	**14,771**

NOTE 7

Revenue

CHFk	**H1 2017**	H1 2016	**Q2 2017**	Q2 2016
Mobile services	581,550	608,153	302,603	311,324
Landline services	185,757	205,033	91,161	108,208
Thereof hubbing	*60,444*	*60,817*	*29,547*	*35,125*
Landline internet and TV	116,939	104,296	59,514	52,362
Total	**884,246**	**917,482**	**453,278**	**471,894**

CHFk	**H1 2017**	H1 2016	**Q2 2017**	Q2 2016
Sales of goods	123,727	135,847	66,119	70,840
Sales of services	760,519	781,635	387,159	401,054
Total	**884,246**	**917,482**	**453,278**	**471,894**

Mobile services include revenue from voice and data traffic, subscription and connection fees for mobile devices and interconnection traffic as well as roaming revenue from group subscribers traveling abroad.

Landline services include revenue from traffic, subscription and connection for Voice over Internet Protocol (VOIP) and PSTN/ISDN) and other revenue from services, which primarily relate to business services.

Internet services comprise revenue from subscription fees for xDSL, related traffic charges for Internet traffic and IPTV services.

Sales of goods include sales of mobile devices and distribution and sales of ICT and telecommunication products in the e-business sector as well as installation, operation and maintenance services for these products.

NOTE 8

Other income

CHFk	H1 2017	H1 2016	Q2 2017	Q2 2016
Other income				
Early termination fees	661	890	371	305
Sub-leases	2,397	2,381	1,157	1,179
Other	19	155	1	155
Total	**3,077**	**3,426**	**1,529**	**1,639**

NOTE 9

Net financial items

CHFk **January 1 – June 30, 2017**	Interest	Total financial income/ (expenses) before foreign currency	Net foreign currency gains/(losses)	Total
Income				
Cash and cash equivalents	1	1	288	289
Other	79	79	843	922
Total	**80**	**80**	**1,131**	**1,211**
Expenses				
Financial liabilities measured at amortized cost	(22,700)	(22,700)	–	(22,700)
Other	(2,759)	(2,759)	–	(2,759)
Total	**(25,459)**	**(25,459)**	**-**	**(25,459)**
Net financial items	**(25,379)**	**(25,379)**	**1,131**	**(24,248)**

CHFk January 1 – June 30, 2016	Interest	Total financial income/ (expenses) before foreign currency	Net foreign currency gains/(losses)	Total
Income				
Cash and cash equivalents	–	–	358	358
Total	**-**	**-**	**358**	**358**
Expenses				
Financial liabilities measured at amortized cost	(25,846)	(25,846)	–	(25,846)
Other	(4,897)	(4,897)	(3)	(4,900)
Total	**(30,743)**	**(30,743)**	**(3)**	**(30,746)**
Net financial items	**(30,743)**	**(30,743)**	**355**	**(30,388)**

NOTE 9

Net financial items

CHFk **April 1 – June 30, 2017**	Interest	**Total financial income/ (expenses) before foreign currency**	Net foreign currency gains/(losses)	**Total**
Income				
Cash and cash equivalents	1	1	28	29
Other	76	76	667	743
Total	**77**	**77**	**695**	**772**
Expenses				
Financial liabilities measured at amortized cost	(11,299)	(11,299)	–	(11,299)
Other	(1,401)	(1,401)	–	(1,401)
Total	**(12,700)**	**(12,700)**	**-**	**(12,700)**
Net financial items	**(12,623)**	**(12,623)**	**695**	**(11,928)**

CHFk April 1 – June 30, 2016	Interest	**Total financial income/ (expenses) before foreign currency**	Net foreign currency gains/(losses)	**Total**
Income				
Cash and cash equivalents	–	–	205	205
Total	**-**	**-**	**205**	**205**
Expenses				
Financial liabilities measured at amortized cost	(12,886)	(12,886)	–	(12,886)
Other	(2,655)	(2,655)	(248)	(2,903)
Total	**(15,541)**	**(15,541)**	**(248)**	**(15,789)**
Net financial items	**(15,541)**	**(15,541)**	**(43)**	**(15,584)**

NOTE 10

Earnings per Share

Basic Earnings per Share is calculated by dividing net profit/(loss) for the period attributable to ordinary equity holders of the parent company by the weighted number of ordinary shares outstanding during the period.

	H1 2017	H1 2016	**Q2 2017**	Q2 2016
Basic earnings per share				
Net income attributable to equity holders of SCG (CHFk)	39,595	16,914	26,725	10,125
Weighted average number of shares outstanding	45,000,000	45,000,000	45,000,000	45,000,000
Basic earnings per share (in CHF)	**0.88**	**0.38**	**0.59**	**0.22**
Diluted earnings per share				
Net income attributable to equity holders of SCG (CHFk)	39,595	16,914	26,725	10,125
Weighted average number of shares outstanding	45,130,724	45,030,998	45,130,724	45,030,998
Diluted earnings per share (in CHF)	**0.88**	**0.38**	**0.59**	**0.22**

If the vesting conditions were fully met as of June 30, 2017, a maximum of 185,683 shares (December 31, 2016: 191,319) would have a dilutive effect.

NOTE 11

Equity

CHFk	**June 30, 2017**	December 31, 2016
Common shares	45,000	45,000
Share premium[1]	2,340,480	2,489,962
Other reserve	(776,143)	(776,143)
Accumulated deficit	(576,125)	(622,531)
Total equity	**1,033,212**	**1,136,288**

[1] Share premium includes reserves which are freely available for distribution of dividends.

Share capital

As of June 30, 2017, the total number of authorized and issued ordinary shares comprised 45,000,000 shares with a nominal value of CHF 1 each. Holders of these shares are entitled to dividends and one vote per share at General Meetings of the Company.

Other reserve

The change in other reserve represents the difference in the fair value of the contribution in kind and the book value of assets and liabilities as part of the business restructuring in 2015. Please see the 2015 financial report for more information.

Accumulated deficit

Actuarial gains and losses, net of taxes, the impact of the business restructuring, the results for the current period and earnings or losses carried forward are recognized in accumulated deficit.

NOTE 11
Equity

At the Annual General Meeting on April 11, 2017, the payment of an ordinary dividend from statutory reserves from capital contributions in the total amount of CHF 149.9 million (CHF 3.33 per share) in respect of the 2016 financial year was approved. The dividend payment was made on April 19, 2017.

NOTE 12

Borrowings

CHFk	Nominal value at inception	Capitalized debt issuance cost[1]	Debt repayments	**June 30, 2017**	December 31, 2016
Floating rate					
Term loan B – CHF[2]	1,360,000	(23,777)	–	1,336,223	1,333,709
Fixed rate					
Senior secured notes – CHF[3]	500,000	(4,879)	–	495,121	494,618
Total loans and notes	**1,860,000**	**(28,656)**	**-**	**1,831,344**	**1,828,327**
Other					
Debt relating to finance leases	–	–	(4,793)	12,040	16,833
Total borrowings				**1,843,384**	**1,845,160**
Thereof current				*7,249*	*7,597*
Thereof non-current				*1,836,135*	*1,837,563*

[1] At issuance of the borrowings
[2] Issued February 13, 2015 (CHF 1,000.0 million) and February 18, 2015 (CHF 360.0 million)
[3] Issued February 18, 2015

The Group’s financial indebtedness is governed by financial covenants specified in the senior facilities agreement dated February 9, 2015. The main covenant is the leverage ratio. The Group is requested to perform covenant testing as of each half year date within the financial year of the Group. The last covenant testing, performed as of June 30, 2017, showed that the Group was in compliance with the applicable financial covenants.

Liabilities relating to finance leases are related primarily to lease agreements on fiber networks.

Repricing and amendment of Senior Facilities Agreement
On December 30, 2016, Sunrise successfully closed on a repricing transaction for its credit facilities. As a result of this transaction, Sunrise achieved a margin reduction of 25 bps on its revolving credit facility and 50 bps on its term loan B facility. In addition to the repricing, the amendment of the senior facilities agreement includes an updated margin ratchet as well as an extension of maturity on the revolving credit facility to August 2021 and on the term loan B facility to February 2022. Other technical and legal amendments were also implemented. In connection with the repricing transaction the Group incurred transaction costs in the amount of CHF 8.0 million which are capitalized as debt issuance cost on the consolidated statement of financial position as of December 31, 2016.

NOTE 13

Fair value estimation

The fair value of current financial assets and liabilities at amortized cost is assumed to approximate their carrying amounts due to the short-term nature of these financial instruments.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

– Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
– Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
– Level 3: Techniques that use inputs with a significant effect on the recorded fair value and that are not based on observable market data

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to calculate the fair value of an instrument are observable, the instrument is included in level 2.

There were no transfers between the different hierarchy levels as of June 30, 2017 and December 31, 2016.

The table below shows a comparison by class of the carrying amounts and fair values of the Group's financial instruments carried in the condensed consolidated interim financial statements:

	CARRYING AMOUNT (BY MEASUREMENT BASIS)		
CHFk **June 30, 2017**	Amortized cost	**Total**	Comparison Fair value[1]
Financial assets			
Cash and cash equivalents	159,606	159,606	
Trade and other receivables	416,894	416,894	
Financial liabilities			
Trade payables and other payables	(468,876)	(468,876)	
Loans and notes	(1,831,344)	(1,831,344)	(1,867,900)
Financial leases	(12,040)	(12,040)	
Other current liabilities	(1,132)	(1,132)	

[1] The fair value of borrowings for disclosure purposes is based on quoted prices in an active market for identical liabilities.

NOTE 13

Fair value estimation

CHFk December 31, 2016	CARRYING AMOUNT (BY MEASUREMENT BASIS) Amortized cost	Total	Comparison Fair value[1]
Financial assets			
Cash and cash equivalents	214,175	214,175	
Trade and other receivables	449,686	449,686	
Financial liabilities			
Trade payables and other payables	(481,632)	(481,632)	
Loans and notes	(1,828,327)	(1,828,327)	(1,869,500)
Financial leases	(16,833)	(16,833)	
Other current liabilities	(989)	(989)	

[1] The fair value of borrowings for disclosure purposes is based on quoted prices in an active market for identical liabilities.

NOTE 14

Change in net working capital

CHFk	H1 2017	H1 2016	Q2 2017	Q2 2016
Change in inventories	(11,593)	393	(7,846)	2,956
Change in trade and other receivables	31,706	53,682	(2,841)	48,298
Change in trade and other payables	23,432	(45,016)	36,942	(10,495)
Change in other items, net	(25,927)	(29,652)	5,479	2,556
Total	**17,618**	**(20,593)**	**31,734**	**43,315**

Net working capital includes current assets and liabilities as well as non-current prepaid expenses, Freedom receivables and deferred income. Changes in trade and other payables related to the mobile license, and non-cash capital expenditures related to IRUs are excluded.

The positive change in net working capital of CHF 17.6 million for H1 2017 is primarily attributable to positive changes in trade and other receivables and changes in trade and other payables of CHF 55.1 million. Payments of prepaid expenses and bonus (included in change in other items) as well as an increase in inventory partially offset the positive change in net working capital for H1 2017.

Compared to the same period in 2016, the change in net working capital for H1 2017 showed an improvement of CHF 38.2 million driven by two trends: A change in payments terms in H1 2016 led to a significant negative impact (CHF 45.0 million) in trade and other payables. During the same period, the use of the factoring facility positively impacted the change in trade and other receivables with a net cash effect of CHF 20.8 million. In December 2016, the Group decided to discontinue the use of the factoring facility for strategic and operational reasons and the remaining balances were settled, reducing the effect compared to H1 2017.

NOTE 15

Assets/Liabilities held for sale

The management of Sunrise completed the sale of its subsidiary Swiss Towers AG on August 3, 2017 (refer to Note 19). As of June 30, 2017, assets and associated liabilities related to Swiss Towers AG were classified as held for sale. Assets and liabilities classified as held for sale are measured at their carrying value and comprised the following assets and liabilities:

CHFk	June 30, 2017
Assets	
Property, plant and equipment	108,039
Non-current portion of prepaid expenses	389
Current portion of prepaid expenses	8,875
Cash and cash equivalents	12,011
Total assets held for sale	**129,314**
Liabilities	
Deferred tax liabilities	678
Non-current portion of provisions	50,174
Employee benefit obligations	961
Current portion of trade and other payables	253
Income tax payable	2,088
Current portion of deferred income	1,076
Total liabilities directly associated with the assets held for sale	**55,230**

No gains or losses from remeasurement of these items were recorded in the condensed consolidated interim statements of income.

NOTE 16

Other balance sheet items

Property, plant and equipment

During the six-month period ended June 30, 2017, the Group acquired assets of CHF 71.3 million (June 30, 2016: CHF 55.3 million). In the same period, the Group paid CHF 85.3 million (H1 2016: CHF 83.5 million) of property, plant and equipment additions of which CHF 14.0 million related to assets acquired in 2016.

Current portion of prepaid expenses

The balance mainly consists of prepaid rent expenses and prepaid IT related payments for licenses and services. The prepayments are normally made at the beginning of the year and amortized over the contractual duration. Contracts with duration of more than 1 year are split into a current and non-current portion.

Non-current portion of trade and other payables

The decrease of non-current portion of trade and other payables is mainly due to the reclassification of the 3rd installment (due in January 2018) related to the investment into broadband connectivity services from Swisscom in the total amount of CHF 14.8 million from non-current to current portion of trade and other payables.

NOTE 17

Contractual commitments

The total contractual and purchase commitments as of June 30, 2017, amounted to CHF 110.8 million (December 31, 2016: CHF 92.9 million) consisting of future investments in property, plant and equipment and intangible assets.

NOTE 18

Financial risk management

The Group operates a centralized risk management system that distinguishes between strategic and operating risks. The Group's overall risk management program focuses on the unpredictability of financial market risks and seeks to minimize potential adverse effects on the Group's financial performance. All identified risks are quantified (according to their realization probability and impact) and noted on a risk schedule. This risk schedule is subject to an annual detailed review and discussion process by the Board of Directors. The Group is exposed to a variety of financial risks, namely market risk, credit risk and liquidity risk.

The Group's financial risk management is governed by policies approved by key management personnel. These policies provide guidelines for overall risk management as well as specific areas such as interest rate risk.

NOTE 19

Events after the balance sheet date

On August 3, 2017, SCG sucessfully closed the sale of Swiss Towers AG to a consortium led by Cellnex Telecom S.A. for CHF 500 million. Accordingly all assets and liabilities related to Swiss Towers AG will be deconsolidated. On August 4, 2017, SCG used a portion of the received consideration to repay and cancel CHF 450 million of the existing term loans under the senior facilities agreement originally dated January 13, 2015.

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

Zurich, 22 August 2017

Report on the review of condensed consolidated interim financial statements

Introduction

We have reviewed the condensed consolidated interim financial statements (consolidated statement of income, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and notes; pages 14 to 35) of Sunrise Communications Group AG for the three-month period from 1 April 2017 to 30 June 2017 and the six-month period from 1 January 2017 to 30 June 2017. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting".

Ernst & Young Ltd

Willy Hofstetter
Licensed audit expert
(Auditor in charge)

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