# Q3 2017

**Interim Financial Report**

Nine-month period as of September 30, 2017

Sunrise

# Content

# Operational and Financial Review

## 3 Operational and Financial Review

# Financial KPIs

| CHF million | 01.01.–30.09.2017 | 01.01.–30.09.2016 | Change (%) | Q3 2017 | Q3 2016 | Change (%) |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Mobile services | 890 | 932 | (4.5) | 309 | 324 | (4.7) |
| – *Thereof mobile postpaid* | *574* | *575* | *(0.3)* | *201* | *201* | *0.3* |
| – *Thereof mobile prepaid* | *94* | *125* | *(24.6)* | *31* | *41* | *(23.0)* |
| – *Thereof mobile hardware* | *160* | *174* | *(7.7)* | *53* | *62* | *(13.9)* |
| Landline services (incl. voice) | 275 | 305 | (9.9) | 89 | 100 | (10.9) |
| – *Thereof landline voice* | *104* | *114* | *(9.0)* | *33* | *37* | *(11.4)* |
| – *Thereof hubbing* | *87* | *93* | *(6.5)* | *27* | *32* | *(17.5)* |
| Landline internet and TV | 180 | 158 | 13.3 | 63 | 54 | 15.6 |
| **Total revenue** | **1,345** | **1,396** | **(3.7)** | **460** | **478** | **(3.7)** |
| Service revenue excl. hubbing & mobile hardware | 1,097 | 1,128 | (2.8) | 380 | 384 | (0.9) |
| **Gross profit** | **890** | **891** | **(0.1)** | **306** | **306** | **0.2** |
| % margin | 66.2% | 63.9% | | 66.6% | 64.0% | |
| % margin (excl. hubbing & hardware revenue) | 81.2% | 79.0% | | 80.6% | 79.7% | |
| **EBITDA** | **444** | **444** | **0.2** | **154** | **156** | **(1.4)** |
| **EBITDA adjusted** | **453** | **452** | **0.3** | **158** | **162** | **(2.5)** |
| % margin | 33.7% | 32.4% | | 34.3% | 33.9% | |
| % margin (excl. hubbing & hardware revenue) | 41.3% | 40.0% | | 41.5% | 42.2% | |
| **Net income** | **481** | **39** | **1,143.5** | **442** | **22** | **1,926.9** |
| **Cash flow** | | | | | | |
| Reported EBITDA | 444 | 444 | 0.2 | 154 | 156 | (1.4) |
| Change in NWC (incl. factoring) | 44 | (34) | (227.5) | 26 | (14) | (290.5) |
| Net interest | (28) | (40) | (30.0) | (7) | (15) | (55.8) |
| Tax | (32) | (28) | 16.3 | (21) | (12) | 72.9 |
| CAPEX | (196) | (169) | 16.1 | (50) | (38) | 31.2 |
| Oher financing activities | (21) | (5) | 285.6 | (3) | (4) | (20.7) |
| **Equity free cash flow** | **210** | **166** | **26.5** | **100** | **73** | **36.0** |
| Other | (155) | (251) | (38.2) | (2) | (106) | (98.4) |
| **Total cash flow** | **55** | **(85)** | **(165.0)** | **98** | **(33)** | **(400.0)** |
| **Net debt** | **1,151** | **1,718** | **(33.0)** | **1,151** | **1,718** | **(33.0)** |
| Net debt / adj. EBITDA (LTM) | 1.9× | 2.8× | | 1.9× | 2.8× | |
| Net debt / pro forma adj. EBITDA (LTM)[1] | 2.0× | | | 2.0× | | |

[1] Pro forma taking into account annualized network service fees related to tower disposal

# Operational KPIs

| | 01.01.–30.09.2017 | 01.01.–30.09.2016 | Change (%) | Q3 2017 | Q3 2016 | Change (%) |
|---|---|---|---|---|---|---|
| **ARPU (CHF)** | | | | | | |
| **Mobile blended** | **31.8** | **33.3** | **(4.5)** | **33.0** | **34.3** | **(3.8)** |
| Postpaid | 41.8 | 44.8 | (6.8) | 43.3 | 46.2 | (6.2) |
| *– Thereof origination* | *38.5* | *39.5* | *(2.4)* | *40.1* | *40.9* | *(2.1)* |
| *– Thereof termination* | *3.3* | *5.4* | *(38.6)* | *3.1* | *5.2* | *(40.6)* |
| Prepaid | 12.9 | 15.1 | (14.6) | 13.1 | 15.1 | (13.2) |
| **Landline blended** | **67.9** | **69.4** | **(2.2)** | **67.7** | **68.5** | **(1.2)** |
| Retail Voice | 26.8 | 31.2 | (14.1) | 25.1 | 29.9 | (16.1) |
| Internet | 35.2 | 35.7 | (1.5) | 35.4 | 35.7 | (0.8) |
| Internet and IPTV | 47.3 | 45.8 | 3.3 | 48.1 | 46.1 | 4.4 |
| **Subscription base (in '000)** | | | | | | |
| **Mobile** | | | | | | |
| Postpaid | 1,563.3 | 1,458.8 | 7.2 | | | |
| – Primary | 1,293.4 | 1,224.4 | 5.6 | | | |
| – Secondary | 269.9 | 234.4 | 15.1 | | | |
| Prepaid (3-month rule) | 795.9 | 899.1 | (11.5) | | | |
| Prepaid (12-month rule) | 1,316.2 | 1,469.6 | (10.4) | | | |
| **Landline** | | | | | | |
| Retail voice | 434.6 | 411.5 | 5.6 | | | |
| Internet | 410.2 | 363.4 | 12.9 | | | |
| *– Thereof coupled to IPTV* | *200.9* | *151.9* | *32.3* | | | |
| *– Thereof without IPTV* | *209.3* | *211.5* | *(1.0)* | | | |
| **LTM Churn (%)** | | | | | | |
| Postpaid | 13.2 | 14.1 | (6.5) | | | |
| Landline | 15.5 | 12.3 | 25.5 | | | |
| **Employees** | | | | | | |
| FTEs | 1,647 | 1,698 | (3.0) | | | |
| Apprentices | 124 | 109 | 13.8 | | | |

# Financial Review

**Financial Summary**

In the first nine months of 2017, revenue decreased by 3.7%, driven mainly by lower mobile termination rates (MTR) and hardware revenue. Reported EBITDA was stable year-over-year, supported by cost efficiencies and mix effects, given the low profitability of MTR and hardware revenue.

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. MTR were reduced in Switzerland as per January 1, 2017, as communicated on October 20, 2016. On a revenue level, the reduced MTR lead to a decrease year-over-year. However, the effect of the MTR decrease is largely offset at the gross profit level as both revenue and costs of mobile operators are similarly reduced.

**Major Events**

**Sale of Swiss Towers AG**

On August 3, 2017, Sunrise sold its subsidiary Swiss Towers AG to a consortium led by Cellnex Telecom S.A. for a total consideration of CHF 502 million. The sale and its related deconsolidation of assets and liabilities of the subsidiary had the following impacts on the consolidated interim financial statements:

- One-time increase of net income of CHF 420 million (gain on disposal of subsidiary);
- Positive impact of CHF 450 million on cash flow from/(used) in investing activities (net proceeds from subsidiary sale);
- Decrease of property, plant, equipment, non-current portion of provisions and current/non-current portion of deferred income due to deconsolidation of net assets of subsidiary (refer to note 15);
- Increase of current portion of prepaid expenses due to prepayment of expenses for network service fees provided by Swiss Towers AG (refer to note 16);
- Higher other operating expenses due to network service fees to be paid to Swiss Towers AG.

**Repayment and cancellation of existing term loans**

On August 4, 2017, Sunrise used a portion of the received consideration from the sale of Swiss Towers AG to repay and cancel CHF 450 million of the existing term loans under the senior facilities agreement originally dated January 13, 2015. The repayment had the following impacts on the consolidated interim financial statements:

- Negative impact of CHF 450 million on cash flow used in financing activities (repayments of long-term loans and notes);
- Decrease of non-current portion of loans and notes in the condensed consolidated interim statements of financial position (refer to note 12);
- Increase of financial expenses in Q3 of CHF 6 million due to the release of capitalized debt issuance costs related to partial cancellation of the existing term loan B2.

**Revenue**

For the nine-month period ended as of September 30, 2017, total revenue showed a decrease of 3.7%, mainly driven by reduced MTR. Adjusted for the MTR effect, revenue decreased by 1.1%, due to lower hardware, mobile prepaid and landline services revenue.

**Mobile Services**

Revenue from mobile services declined by 4.5% to CHF 890 million. Adjusted for MTR, mobile services revenue decreased by 1.2% due to mobile hardware.

While the postpaid subscription base increased by 7.2% year-over-year, postpaid revenue decreased in the nine-month period due to lower average revenue per user (ARPU). Adjusted for MTR, postpaid revenue increased 3.7% year-over-year.

The year-over-year postpaid ARPU reduction of CHF 3.0 was mainly driven by lower MTR (CHF −2.0 ARPU impact) as well as dilution from growth of secondary data SIMs, which are sold at below average price levels. The postpaid subscription base totaled 1,563 thousand subscribers as of September 30, 2017 (September 30, 2016: 1,459 thousand). The subscription base increase was supported 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 and the launch of data SIMs for mobile broadband are 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 17.7% MTR adjusted, due to a decreasing subscription base and lower ARPU. The year-over-year ARPU reduction of CHF 2.3 in the nine-month period in 2017 includes a MTR effect of CHF −0.9. The prepaid subscription base shrank year-over-year by 11.5% to 796 thousand subscribers. The reduction in prepaid ARPU and subscribers was driven by high value prepaid customers migrating to postpaid, competitive pressure, and less international prepaid calls related to more attractive postpaid offers and increased OTT usage.

Mobile hardware revenue (low margin) decreased year-over-year by 7.7% to CHF 160 million for the nine-month period ended as of September 30, 2017. Hardware revenue depends on handset innovation/launches and volatile sales to retailers.

**Landline Services**

Landline services revenue decreased by 9.9% to CHF 275 million for the nine-month period ended as of September 30, 2017, partly due to lower MTR (CHF −5 million). Adjusted for the MTR effect, landline services revenue decreased by 8.3% driven by lower retail voice revenue.

Retail voice revenue decreased as a result of 14.0% lower ARPU caused by fixed-to-mobile substitution, voice flat rates and increased use of OTT services. Furthermore, Hubbing revenue, which is low-margin, declined by 6.5% for the nine-month period ended as of September 30, 2017.

**Landline Internet and TV**

Internet and TV revenue increased by 13.3% to CHF 180 million for the nine-month period ended as of September 30, 2017.

Revenue growth was supported by stabilizing ARPUs and customer growth. The total Internet subscription base increased by 12.9% year-over-year to 410 thousand subscriptions. The IPTV product, which can be purchased alongside Internet service, increased its customer base by 32.3% year-over-year to 201 thousand subscribers. Customer growth was supported by the competitive internet and IPTV product, convergence benefits including the Sunrise ONE offer, and improved TV sports content.

**Transmission Costs and Cost of Goods Sold**

Transmission costs and cost of goods sold totalled CHF 454 million for the nine-month period ended as of September 30, 2017; down 9.9% year-over-year.

Gross profit remained roughly stable at CHF 890 million (−0.1%) for the nine-month period ended as of September 30, 2017. Despite lower revenue, gross profit confirmed trend towards stabilization due to mix effects, as the decreasing MTR and hardware revenue have below group average profitability.

**Adjusted EBITDA**

Adjusted EBITDA for the nine-month period ended as of September 30, 2017, amounted to CHF 453 million, a year-over-year increase of 0.3%. The table below shows one-time adjustments from reported EBITDA to adjusted EBITDA. The biggest adjustments (CHF 11 million) arise from non-recurring/non-operating events and include CHF 7 million mainly relatd to advisory fees for the set-up/preparation of Sunrise’s subsidiary Swiss Towers AG to be available fo sale. Costs directly attributable to the sale of Swiss Towers AG are part of the gain of disposal of subsidiary and shown below EBITDA in the condensed consolidated statements of income.

| in CHFk | **01.01.–30.09.2017** | 01.01.–30.09.2016 |
|---|---|---|
| **Reported EBITDA** | **444,442** | **443,622** |
| Prior-year-related events | (3,133) | (1,118) |
| Non-recurring and / or non-operating events | 10,749 | 8,362 |
| Costs relatd to share-based payment | 1,264 | 1,068 |
| **Adjusted EBITDA** | **453,322** | **451,934** |

**Reported EBITDA**

For the nine-month period ended as of September 30, 2017, the Group generated an EBITDA of CHF 444 million, which is line with prior year's EBITDA for the nine-month period. Cost efficiencies and mix effects on gross profit level supported a stable EBITDA.

**Other Operating Expenses**

Other operating expenses increased year-over-year by CHF 5 million, or 1.8%, from CHF 285 million to CHF 290 million for the nine-month period as of September 30, 2017. The increase is primarily attributable to higher network service fees after the disposal of Swiss Towers AG (refer to major events).

**Wages, Salaries and Pension Costs**

Wages, salaries and pension costs totalled CHF 160 million for the nine-month period ended as of September 30, 2017. This represents a reduction of 4.6% compared to the same period in 2016 which is mainly driven by lower FTEs due to 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 85 million in its condensed consolidated interim financial statements as of September 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.

The decrease of CHF 17 million in the pension liability from CHF 102 million as of December 31, 2016 to CHF 85 million as of September 30, 2017, is due to the increase of the discount rate from 0.65% to 0.73% as well as a positive return on plan assets which led to an overall actuarial gain of CHF 19 million.

**Other Income and Expenses, Net**

Other income and expenses decreased by CHF 1 million for the nine-month period ended in September 30, 2017, compared to the same period in the prior year. This is mainly attributable to lower early termination fees.

**Net Income**

The Group reported a net income of CHF 481 million for the nine-month period ended as of September 30, 2017, a year-over-year improvement of CHF 442 million from a net income of CHF 39 million in 2016. The main driver for an increased net income is the recording of a one-time gain of CHF 420 million related to the sale of Swiss Towers AG. Furhtermore, lower interest expenses as well as lower amortization and depreciation further supported the positive development.

**Amortization and Depreciation and impairment losses**

Depreciation and amortization were CHF 26 million lower than in prior year. For the nine-month period as of September 30, 2017, depreciation and amortization totaled CHF 318 million, of which CHF 95 million related to the amortization of purchased intangibles (CHF 96 million as of September 30, 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 3 million to CHF 42 million for the nine-month period as of September 30, 2017, and mainly consist of interest expenses. With the 2016 repricing transaction, the weighted average cost of debt was further reduced.

**Gain on disposal of subsidiary**

Gain on disposal of subsidiary is related to the sale of Swiss Towers AG. Total consideration of CHF 502 million reduced by disposal related expenses as well as the dispoal of net assets, resulted in a gain of CHf 420 million.

**Income Taxes**

For the nine-month period ended as of September 30, 2017, the net income tax expense of CHF 23 million (September 30, 2016: net income tax expense of CHF 16 million) consists of a CHF 41 million (September 30, 2016: CHF 32 million) tax expense related to current income taxes and a tax benefit of CHF 18 million (September 30, 2016: CHF 16 million) related to the change in deferred taxes. The higher current income tax expense is mainly related to a higher taxable profit of the main operating company for the nine-month period in 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 44 million for the nine-month period ended as of September 30, 2017 is primarily attributable to positive change in trade and other receivables of CHF 25 million related to higher incoming customer payments and change in trade and other payables of CHF 31 million driven by longer average payment cycles. Payments of prepaid expenses and an increase in inventory partially offset the positive changes for the nine-month period ended as of September 30, 2017.

For the nine-month period ended as of September 30, 2016, the negative change in net working capital was CHF 34 million. This was mainly driven by change in trade and other payables of CHF 21 million related to shorter average payment cycles. Hereto come a negative change in other items of CHF 22 million mainly driven by income recognition of deferred revenue in the profit and loss.

## Cash Flow

Cash and cash equivalents totaled CHF 270 million as of September 30, 2017, an increase of CHF 55 million compared to the cash position held as of December 31, 2016. A strong cash flow from operating activities, supported by a positive change of net working capital could overcompensate the purchase of intangible assets, property, plant and equipment as well as the payment of a dividend and the second installment related to the investment into broadband connectivity services from Swisscom. The positive impact from the net proceeds from the sale of subsidiary (CHF 450 million) was fully offset by the repayment and cancellation of the existing term loan of CHF 450 million.

**Cash Flow from Operating Activities**

The year-over-year increase of CHF 90 million for the nine-month period ended as of September 30, 2017, is primarily attributable to an improved net working capital of CHF 75 million as well as lower paid interest of CHF 12 million.

**Cash Flow From/(used) in Investing Activities**

The cash flow from/(used) in investing activities for the nine-month period ended as of September 30, 2017, amounted to CHF 253 million. This represents an increase of CHF 422 million compared to the same period in prior year. The increase is related to the net proceeds from the sale of Swiss Towers AG of CHF 450 million and was only partially offset by CHF 27 million higher purchase of intangible assets as well as property, pland and equipment.

**Cash Flow Used in Financing Activities**

The cash flow used in financing activities increased by CHF 373 million for the nine-month period ended as of September 30, 2017, compared to the same period in prior year. The increase is mainly due to the repayment of the existing term loans of CHF 450 million in August 2017 as well as a CHF 15 million higher dividend payment in 2017. The commission of the payment of CHF 108 million for the mobile spectrum license in 2017 (third and final installment paid in Q3 2016) partially offset the higher used cash flow in financing activities in 2017.

**Net Debt**

The Group's consolidated debt position – consisting of a term loan B2 facility, senior secured notes and capital leases – amounted to CHF 1,389 million (nominal value: CHF 1,410 million), of which CHF 5 million is expected to be paid within 12 months. Net debt at nominal value totaled CHF 1,151 million as of September 30, 2017, resulting in a net debt to EBITDA leverage ratio of 1.9× (December 31, 2016: 2.7×). The decrease of the nebt debt to EBITDA leverage ratio is due to the repayment of the term loan B2 amounted to CHF 450 million.

**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** | On September 1, 2017, Robert Wigger started his position as Chief Business Officer and member of the executive leadership team. He replaces Massimiliano Nunziata who resigned in May 2017. |
| **Material Contractual Arrangements** | On August 3, 2017, Sunrise and Swiss Towers AG signed a Master Services Agreement which is a long-term service contract regarding the provision of tower infrastructure services. Additionally Sunrise is subcontracted to build new telecom towers according to a built-to-suit agreement with Swiss Tower AG. |
| **Certain Other Contractual Commitments** | Total contractual and purchase commitments as of September 30, 2017, amounted to CHF 78 million, consisting of future investments in property, plant and equipment and intangible assets. |
| **Credit Ratings** | As of September 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. The notes and term loan facilities are still rated BBB- by S&P as well as Fitch and Ba2 by Moody's. On September 18, 2017, Fitch affirmed the BB+ rating with a stable outlook for Sunrise Communications Holding S.A. and the BBB- rating for the notes and term loan facilities. |
| **Acquisitions, Disposals and Recapitalization** | On August 3, 2017, Sunrise sold Swiss Towers AG for a total consideration of CHF 502 million. The disposed assets and liabilities of Swiss Towers AG, which had been classified as held for sale since March 31, 2017, were deconsolidated on August 3, 2017. 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. |
| **Material development after the balance sheet date** | No material development occurred after the balance sheet date. |
| **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 reiterates the guidance for 2017.

Revenue and adjusted EBITDA continue to be expected within a range from CHF 1,820 million to CHF 1,860 million and CHF 592 million to CHF 602 million, respectively. Capex for 2017 is reiterated within a range of CHF 255 million to CHF 295 million, which includes additional Capex of CHF 30 million from proceeds of the tower disposal. 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 | 01.01.–30.09.2017 | 01.01.–30.09.2016 | Q3 2017 | Q3 2016 |
|---|---|---|---|---|---|
| | | Unaudited | Unaudited | Unaudited | Unaudited |
| **Revenue** | **6,7** | **1,344,695** | **1,395,712** | **460,449** | **478,230** |
| Transmission costs and cost of goods sold | | (454,245) | (504,236) | (154,006) | (172,353) |
| Other operating expenses | | (290,428) | (285,430) | (98,415) | (91,867) |
| Wages, salaries and pension costs | | (159,705) | (167,416) | (54,924) | (59,694) |
| Other income | 8 | 4,235 | 5,453 | 1,158 | 2,027 |
| Other expenses | | (110) | (461) | (130) | (26) |
| **Income before depreciation and amortization, net financial items and income taxes** | | **444,442** | **443,622** | **154,132** | **156,317** |
| Amortization | | (187,335) | (186,975) | (61,797) | (62,070) |
| Depreciation and impairment losses | | (130,767) | (157,014) | (43,754) | (50,404) |
| **Operating income** | | **126,340** | **99,633** | **48,581** | **43,843** |
| Foreign currency gains/(losses), net | | 1,019 | 929 | (112) | 574 |
| Financial income | | 90 | 34 | 10 | 34 |
| Financial expenses | | (42,917) | (45,675) | (17,458) | (14,932) |
| **Net financial items** | **9** | **(41,808)** | **(44,712)** | **(17,560)** | **(14,324)** |
| Gain on disposal of subsidiary | 15 | 419,589 | – | 419,589 | – |
| **Income before income taxes** | | **504,121** | **54,921** | **450,610** | **29,519** |
| Income taxes | | (22,799) | (16,214) | (8,883) | (7,726) |
| **Net income** | | **481,322** | **38,707** | **441,727** | **21,793** |
| **Net income attributable to equity holders of the parent company** | | **481,322** | **38,707** | **441,727** | **21,793** |
| **Basic earnings per share (in CHF)** | **10** | **10.70** | **0.86** | **9.82** | **0.48** |
| **Diluted earnings per share (in CHF)** | **10** | **10.66** | **0.86** | **9.79** | **0.48** |

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

# Condensed Consolidated Interim Statements of Comprehensive Income

| CHFk | 01.01.–30.09.2017 | 01.01.–30.09.2016 | Q3 2017 | Q3 2016 |
|---|---|---|---|---|
| | Unaudited | Unaudited | Unaudited | Unaudited |
| **Net income** | **481,322** | **38,707** | **441,727** | **21,793** |
| Actuarial gain / (losses) related to defined benefit pension plans | 19,388 | (33,620) | 10,832 | 4,595 |
| Income tax effect | (3,955) | 7,060 | (2,210) | (966) |
| **Net other comprehensive income / (loss) not to be reclassified to profit and loss in subsequent periods** | **15,433** | **(26,560)** | **8,622** | **3,629** |
| **Other comprehensive income / (loss), net of tax** | **15,433** | **(26,560)** | **8,622** | **3,629** |
| **Total comprehensive income** | **496,755** | **12,147** | **450,349** | **25,422** |
| **Comprehensive income attributable to equity holders of the parent company** | **496,755** | **12,147** | **450,349** | **25,422** |

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

# Condensed Consolidated Interim Statements of Financial Position

## Assets

| CHFk | Note | 30.09.2017 | 31.12.2016 |
|---|---|---|---|
| | | Unaudited | Audited |
| **Non-current assets** | | | |
| Intangible assets | | 2,241,651 | 2,348,900 |
| Property, plant and equipment | 16 | 754,659 | 883,792 |
| Non-current portion of trade and other receivables | | 43,643 | 55,830 |
| Non-current portion of prepaid expenses | | 301 | 583 |
| Deferred tax assets | | 433 | 433 |
| **Total non-current assets** | | **3,040,687** | **3,289,538** |
| **Current assets** | | | |
| Inventories | | 31,527 | 28,741 |
| Current portion of trade and other receivables | | 381,072 | 393,856 |
| Current portion of prepaid expenses | 16 | 28,058 | 7,916 |
| Cash and cash equivalents | | 269,592 | 214,175 |
| **Total current assets** | | **710,249** | **644,688** |
| **Total assets** | | **3,750,936** | **3,934,226** |

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

## Equity and liabilities

| CHFk | Note | 30.09.2017 | 31.12.2016 |
|---|---|---|---|
| | | Unaudited | Audited |
| **Equity** | | | |
| Common shares | | 45,000 | 45,000 |
| Share premium | | 2,341,282 | 2,489,962 |
| Other reserves | | (776,143) | (776,143) |
| Accumulated deficit | | (125,776) | (622,531) |
| **Total equity** | **11** | **1,484,363** | **1,136,288** |
| **Non-current liabilities** | | | |
| Non-current portion of loans and notes | 12 | 1,388,794 | 1,828,327 |
| Non-current portion of financial leases | 12 | 5,758 | 9,236 |
| Non-current portion of trade and other payables | 16 | 5,166 | 16,043 |
| Deferred tax liabilities | | 168,782 | 184,881 |
| Non-current portion of provisions | 16 | 69,031 | 118,222 |
| Employee benefit obligations | | 85,065 | 102,234 |
| Non-current portion of deferred income | 16 | 7,720 | 10,409 |
| **Total non-current liabilities** | | **1,730,316** | **2,269,352** |
| **Current liabilities** | | | |
| Current portion of financial leases | 12 | 4,986 | 7,597 |
| Current portion of trade and other payables | | 491,179 | 476,271 |
| Income tax payable | | 10,583 | 3,873 |
| Current portion of provisions | | 3,928 | 6,146 |
| Current portion of deferred income | | 24,454 | 33,710 |
| Other current liabilities | | 1,127 | 989 |
| **Total current liabilities** | | **536,257** | **528,586** |
| **Total liabilities** | | **2,266,573** | **2,797,938** |
| **Total equity and liabilities** | | **3,750,936** | **3,934,226** |

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

# Condensed Consolidated Interim Statements of Cash Flow

| CHFk | Note | 01.01.–30.09.2017 | 01.01.–30.09.2016 Restated[1] | Q3 2017 | Q3 2016 Restated[1] |
|---|---|---|---|---|---|
| | | Unaudited | Unaudited | Unaudited | Unaudited |
| **Income before income taxes** | | **504,121** | **54,921** | **450,610** | **29,519** |
| Amortization | | 187,335 | 186,975 | 61,797 | 62,070 |
| Depreciation and impairment losses | | 130,767 | 157,014 | 43,754 | 50,404 |
| Gain on disposal of property, plant and equipment | | (18) | (45) | – | (17) |
| Gain on disposal of subsidiary | 15 | (419,589) | | (419,589) | |
| Movement in pension | | 2,612 | 3,246 | 840 | 1,141 |
| Movement in provisions | | (1,846) | (5,684) | (612) | 2,192 |
| Change in net working capital | 14 | 43,724 | (34,296) | 26,106 | (13,703) |
| **Cash flow from operating activities before net financial items and tax** | | **447,106** | **362,131** | **162,906** | **131,606** |
| Financial income | 9 | (90) | (34) | (10) | (34) |
| Financial expense | 9 | 42,917 | 45,675 | 17,458 | 14,932 |
| Foreign currency gains, net | | (316) | (924) | (28) | (569) |
| Interest received | | 90 | 34 | 10 | 34 |
| Interest paid | | (28,438) | (40,513) | (6,767) | (15,335) |
| Corporate income and withholding tax paid | | (32,388) | (27,840) | (20,918) | (12,099) |
| **Total cash flow from operating activities** | | **428,881** | **338,529** | **152,651** | **118,535** |
| Purchase of property, plant and equipment | 16 | (121,822) | (108,888) | (36,488) | (25,349) |
| Purchase of intangible assets | | (74,661) | (60,454) | (13,143) | (12,494) |
| Sale of property, plant and equipment | | 18 | 53 | – | 25 |
| Net proceeds from subsidiary disposal | 15 | 449,502 | – | 449,502 | – |
| **Total cash flow from/(used) in investing activities** | | **253,037** | **(169,289)** | **399,871** | **(37,818)** |
| Proceeds from long-term loans and notes | | (321) | (240) | – | – |
| Repayments of long-term loans and notes | 12 | (450,000) | – | (450,000) | – |
| Repayments of capital leases | 12 | (6,090) | (5,117) | (1,297) | (920) |
| Payment of 3rd installment of mobile spectrum license | | – | (108,308) | – | (108,308) |
| Dividend payment | | (149,850) | (135,000) | – | – |
| Other financing activities | | (20,556) | (5,331) | (3,278) | (4,136) |
| **Total cash flow used in financing activities** | | **(626,817)** | **(253,996)** | **(454,575)** | **(113,364)** |
| **Total cash flow** | | **55,101** | **(84,756)** | **97,947** | **(32,647)** |
| Cash and cash equivalents as of January 1 | | 214,175 | 244,388 | – | – |
| Cash and cash equivalents as of July 1 | | – | – | 171,617 | 192,637 |
| Foreign currency impact on cash | 9 | 316 | 830 | 28 | 472 |
| **Cash and cash equivalents as of September 30** | | **269,592** | **160,462** | **269,592** | **160,462** |

[1] see Note 3

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 | – | – | – | – | 38,707 | 38,707 |
| Other comprehensive loss | – | – | – | – | (26,560) | (26,560) |
| **Total comprehensive loss** | **-** | **-** | **-** | **-** | **12,147** | **12,147** |
| Share-based payment | – | 514 | – | – | – | 514 |
| Dividend payment | – | (135,000) | – | – | – | (135,000) |
| Other | – | – | – | 23 | – | 23 |
| **Equity as of September 30, 2016** | **45,000** | **2,489,237** | **(776,143)** | **-** | **(711,874)** | **1,046,220** |
| Net income for the period | – | – | – | – | 48,386 | 48,386 |
| Other comprehensive income | – | – | – | – | 40,957 | 40,957 |
| **Total other comprehensive income** | **-** | **-** | **-** | **-** | **89,343** | **89,343** |
| Share based payment | – | 725 | – | – | – | 725 |
| **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 | – | – | – | – | 481,322 | 481,322 |
| Other comprehensive income | – | – | – | – | 15,433 | 15,433 |
| **Total comprehensive income** | **-** | **-** | **-** | **-** | **496,755** | **496,755** |
| Share-based payment | – | 1,170 | – | – | – | 1,170 |
| Dividend payment | – | (149,850) | – | – | – | (149,850) |
| **Equity as of September 30, 2017** | **45,000** | **2,341,282** | **(776,143)** | **-** | **(125,776)** | **1,484,363** |

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 nine-month period ended September 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 November 8, 2017.

NOTE 2

## Basis of preparation

The condensed consolidated interim financial statements of the Group as of and for the nine-month period ended September 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 | **30.09.2017** | 31.12.2016 | **01.01 – 30.09.2017** | 01.01 – 30.09.2016 |
| Euro | 1.1440 | 1.0721 | 1.0961 | 1.1035 |
| US Dollar | 0.9683 | 1.0190 | 1.0018 | 0.9934 |

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 nine-month period as of September 30, 2016 is shown in the table below:

| CHFk | **Reported** | Adjustment | **Restated** |
|---|---|---|---|
| **Impact on figures for the nine-month period as of September 30, 2016** | | | |
| Cash flow used in investing activities | (142,876) | (26,413) | (169,289) |
| *– Thereof purchase of property, plant and equipment* | *(93,845)* | *(15,043)* | *(108,888)* |
| *– Thereof purchase of intangible assets* | *(49,084)* | *(11,370)* | *(60,454)* |
| *– Thereof sale of property, plant and equipment* | *53* | *–* | *53* |
| Change in net working capital | (60,709) | 26,413 | (34,296) |

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 consolidated 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 – September 30 | RESIDENTIAL 2017 | RESIDENTIAL 2016 | BUSINESS 2017 | BUSINESS 2016 | WHOLESALE[1] 2017 | WHOLESALE[1] 2016 | HEAD OFFICE ACTIVITIES 2017 | HEAD OFFICE ACTIVITIES 2016 | TOTAL 2017 | TOTAL 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | | | |
| External customers | 955,204 | 988,828 | 197,616 | 209,768 | 163,133 | 169,977 | 28,742 | 27,139 | 1,344,695 | 1,395,712 |
| Inter-segment revenue[2] | – | – | – | – | 1,160 | 31,731 | – | – | 1,160 | 31,731 |
| **Total** | **955,204** | **988,828** | **197,616** | **209,768** | **164,293** | **201,708** | **28,742** | **27,139** | **1,345,855** | **1,427,443** |
| **Transmission costs and costs of goods sold** | | | | | | | | | | |
| External customers | (285,198) | (307,014) | (62,263) | (65,180) | (106,799) | (132,040) | 15 | (2) | (454,245) | (504,236) |
| Inter-segment costs[2] | (1,160) | (31,731) | – | – | – | – | – | – | (1,160) | (31,731) |
| **Total** | **(286,358)** | **(338,745)** | **(62,263)** | **(65,180)** | **(106,799)** | **(132,040)** | **15** | **(2)** | **(455,405)** | **(535,967)** |
| Other operating expenses | (100,212) | (101,040) | (13,273) | (11,455) | (3,381) | (3,481) | (173,562) | (169,454) | (290,428) | (285,430) |
| Wages, salaries and pension costs | (44,893) | (44,939) | (28,008) | (25,225) | (3,324) | (3,329) | (83,480) | (93,923) | (159,705) | (167,416) |
| Other income | 12 | 20 | – | – | – | – | 4,223 | 5,433 | 4,235 | 5,453 |
| Other expenses | – | (9) | – | – | – | – | (110) | (452) | (110) | (461) |
| **EBITDA[2]** | **523,753** | **504,115** | **94,072** | **107,908** | **50,789** | **62,858** | **(224,172)** | **(231,259)** | **444,442** | **443,622** |

[1] Including hubbing revenue of CHF 87.2 million generated in the nine-month period ended as of September 30, 2017, and CHF 93.3 million generated in the nine-month period ended as of September 30, 2016.

[2] Most of the inter-segment revenue and costs are related to YOL Communications 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 July 1 – September 30 | RESIDENTIAL 2017 | RESIDENTIAL 2016 | BUSINESS 2017 | BUSINESS 2016 | WHOLESALE[1] 2017 | WHOLESALE[1] 2016 | HEAD OFFICE ACTIVITIES 2017 | HEAD OFFICE ACTIVITIES 2016 | TOTAL 2017 | TOTAL 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | | | |
| External customers | 328,336 | 340,579 | 68,168 | 68,570 | 54,181 | 60,206 | 9,764 | 8,875 | 460,449 | 478,230 |
| Inter-segment revenue[2] | – | – | – | – | 248 | 10,400 | – | – | 248 | 10,400 |
| **Total** | **328,336** | **340,579** | **68,168** | **68,570** | **54,429** | **70,606** | **9,764** | **8,875** | **460,697** | **488,630** |
| **Transmission costs and costs of goods sold** | | | | | | | | | | |
| External customers | (97,998) | (106,823) | (22,696) | (19,662) | (33,327) | (45,867) | 15 | (1) | (154,006) | (172,353) |
| Inter-segment costs[2] | (248) | (10,400) | – | – | – | – | – | – | (248) | (10,400) |
| **Total** | **(98,246)** | **(117,223)** | **(22,696)** | **(19,662)** | **(33,327)** | **(45,867)** | **15** | **(1)** | **(154,254)** | **(182,753)** |
| Other operating expenses | (31,940) | (31,762) | (3,962) | (4,384) | (1,009) | (1,350) | (61,504) | (54,371) | (98,415) | (91,867) |
| Wages, salaries and pension costs | (14,859) | (15,180) | (9,936) | (8,947) | (1,191) | (1,288) | (28,938) | (34,279) | (54,924) | (59,694) |
| Other income | – | (59) | – | (69) | – | – | 1,158 | 2,155 | 1,158 | 2,027 |
| Other expenses | – | (9) | – | – | – | – | (130) | (17) | (130) | (26) |
| **EBITDA[2]** | **183,291** | **176,346** | **31,574** | **35,508** | **18,902** | **22,101** | **(79,635)** | **(77,638)** | **154,132** | **156,317** |

[1] Including hubbing revenue of CHF 26.8 million generated in the three-month period ended as of September 30, 2017, and CHF 32.3 million generated in the three-month period ended as of September 30, 2016.
[2] Most of the inter-segment revenue and costs are related to YOL Communications 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 | 01.01.–30.09.2017 | 01.01.–30.09.2016 | Q3 2017 | Q3 2016 |
|---|---|---|---|---|
| **EBITDA from reportable segments** | **444,442** | **443,622** | **154,132** | **156,317** |
| Unallocated: | | | | |
| – Amortization | (187,335) | (186,975) | (61,797) | (62,070) |
| – Depreciation | (130,767) | (157,014) | (43,754) | (50,404) |
| – Net financial items | (41,808) | (44,712) | (17,560) | (14,324) |
| – Gain on disposal | 419,589 | – | 419,589 | – |
| **Income before income taxes** | **504,121** | **54,921** | **450,610** | **29,519** |

NOTE 7

## Revenue

| CHFk | **01.01.–30.09.2017** | 01.01.–30.09.2016 | **Q3 2017** | Q3 2016 |
|---|---|---|---|---|
| Mobile services | 890,264 | 932,259 | 308,714 | 324,106 |
| Landline services | 274,851 | 304,985 | 89,094 | 99,952 |
| *Thereof hubbing* | *87,229* | *93,294* | *26,785* | *32,477* |
| Landline internet and TV | 179,580 | 158,468 | 62,641 | 54,172 |
| **Total** | **1,344,695** | **1,395,712** | **460,449** | **478,230** |

| CHFk | **01.01.–30.09.2017** | 01.01.–30.09.2016 | **Q3 2017** | Q3 2016 |
|---|---|---|---|---|
| Sales of goods | 188,244 | 204,514 | 64,517 | 68,667 |
| Sales of services | 1,156,451 | 1,191,198 | 395,932 | 409,563 |
| **Total** | **1,344,695** | **1,395,712** | **460,449** | **478,230** |

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 | 01.01.–30.09.2017 | 01.01.–30.09.2016 | Q3 2017 | Q3 2016 |
|---|---|---|---|---|
| **Other income** | | | | |
| Early termination fees | 1,103 | 1,315 | 442 | 425 |
| Sub-leases | 3,049 | 3,534 | 652 | 1,153 |
| Other | 83 | 604 | 64 | 449 |
| **Total** | **4,235** | **5,453** | **1,158** | **2,027** |

NOTE 9

## Net financial items

| CHFk<br>**January 1–September 30, 2017** | Interest | Total financial income/(expenses) before foreign currency | Net foreign currency gains/(losses) | Total |
|---|---|---|---|---|
| **Income** | | | | |
| Cash and cash equivalents | 1 | 1 | 316 | 317 |
| Other | 89 | 89 | 703 | 792 |
| **Total** | **90** | **90** | **1,019** | **1,109** |
| **Expenses** | | | | |
| Financial liabilities measured at amortized cost | (38,814) | (38,814) | – | (38,814) |
| Other | (4,103) | (4,103) | – | (4,103) |
| **Total** | **(42,917)** | **(42,917)** | **-** | **(42,917)** |
| **Net financial items** | **(42,827)** | **(42,827)** | **1,019** | **(41,808)** |

| CHFk<br>January 1–September 30, 2016 | Interest | Total financial income/(expenses) before foreign currency | Net foreign currency gains/(losses) | Total |
|---|---|---|---|---|
| **Income** | | | | |
| Cash and cash equivalents | – | – | 830 | 830 |
| Other | 34 | 34 | 99 | 133 |
| **Total** | **34** | **34** | **929** | **963** |
| **Expenses** | | | | |
| Financial liabilities measured at amortized cost | (38,916) | (38,916) | – | (38,916) |
| Other | (6,759) | (6,759) | – | (6,759) |
| **Total** | **(45,675)** | **(45,675)** | **-** | **(45,675)** |
| **Net financial items** | **(45,641)** | **(45,641)** | **929** | **(44,712)** |

**NOTE 9**

Net financial items

| CHFk<br>**July 1 – September 30, 2017** | Interest | **Total financial income/ (expenses) before foreign currency** | Net foreign currency gains/(losses) | **Total** |
|---|---|---|---|---|
| **Income** | | | | |
| Cash and cash equivalents | – | – | 28 | 28 |
| Other | 10 | 10 | – | 10 |
| **Total** | **10** | **10** | **28** | **38** |
| **Expenses** | | | | |
| Financial liabilities measured at amortized cost | (16,114) | (16,114) | – | (16,114) |
| Other | (1,344) | (1,344) | (140) | (1,484) |
| **Total** | **(17,458)** | **(17,458)** | **(140)** | **(17,598)** |
| **Net financial items** | **(17,448)** | **(17,448)** | **(112)** | **(17,560)** |

| CHFk<br>July 1 – September 30, 2016 | Interest | **Total financial income/ (expenses) before foreign currency** | Net foreign currency gains/(losses) | **Total** |
|---|---|---|---|---|
| **Income** | | | | |
| Cash and cash equivalents | – | – | 472 | 472 |
| Other | 34 | 34 | 102 | 136 |
| **Total** | **34** | **34** | **574** | **608** |
| **Expenses** | | | | |
| Financial liabilities measured at amortized cost | (13,070) | (13,070) | – | (13,070) |
| Other | (1,862) | (1,862) | – | (1,862) |
| **Total** | **(14,932)** | **(14,932)** | **-** | **(14,932)** |
| **Net financial items** | **(14,898)** | **(14,898)** | **574** | **(14,324)** |

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.

| | **01.01.–30.09.2017** | 01.01.–30.09.2016 | **Q3 2017** | Q3 2016 |
|---|---|---|---|---|
| **Basic earnings per share** | | | | |
| Net income attributable to equity holders of SCG (CHFk) | 481,322 | 38,707 | 441,727 | 21,793 |
| Weighted average number of shares outstanding | 45,000,000 | 45,000,000 | 45,000,000 | 45,000,000 |
| **Basic earnings per share (in CHF)** | **10.70** | **0.86** | **9.82** | **0.48** |
| **Diluted earnings per share** | | | | |
| Net income attributable to equity holders of SCG (CHFk) | 481,322 | 38,707 | 441,727 | 21,793 |
| Weighted average number of shares outstanding | 45,134,601 | 45,148,611 | 45,134,601 | 45,148,611 |
| **Diluted earnings per share (in CHF)** | **10.66** | **0.86** | **9.79** | **0.48** |

If the vesting conditions were fully met as of September 30, 2017, a maximum of 185,532 shares (December 31, 2016: 191,319) would have a dilutive effect.

NOTE 11

## Equity

| CHFk | **30.09.2017** | 31.12.2016 |
|---|---|---|
| Common shares | 45,000 | 45,000 |
| Share premium[1] | 2,341,282 | 2,489,962 |
| Other reserve | (776,143) | (776,143) |
| Accumulated deficit | (125,776) | (622,531) |
| **Total equity** | **1,484,363** | **1,136,288** |

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

### Share capital

As of September 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

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

**Dividend**

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 | **30.09.2017** | 31.12.2016 |
|---|---|---|---|---|---|
| **Floating rate** | | | | | |
| Term loan B2 – CHF[2] | 1,360,000 | (16,586) | (450,000) | 893,414 | 1,333,709 |
| **Fixed rate** | | | | | |
| Senior secured notes – CHF[3] | 500,000 | (4,620) | – | 495,380 | 494,618 |
| **Total loans and notes** | **1,860,000** | **(21,206)** | **(450,000)** | **1,388,794** | **1,828,327** |
| **Other** | | | | | |
| Debt relating to finance leases | – | – | (6,090) | 10,744 | 16,833 |
| **Total borrowings** | | | | **1,399,538** | **1,845,160** |
| *Thereof current* | | | | *4,986* | *7,597* |
| *Thereof non-current* | | | | *1,394,552* | *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); partially repaid on August 4, 2017 (CHF 450.0 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. Nevertheless, the last covenant testing, performed as of September 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.

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 B2 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 B2 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.

On August 4, 2017, Sunrise partially used the gross proceeds from the disposal of subsidiary (refer to note 15) to reduce the indebtedness of the Group by CHF 450.0 million.

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 September 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<br>**September 30, 2017** | Amortized cost | **Total** | Comparison Fair value[1] |
| **Financial assets** | | | |
| Cash | 269,592 | 269,592 | |
| Trade and other receivables | 423,793 | 423,793 | |
| **Financial liabilities** | | | |
| Trade payables and other payables | (483,491) | (483,491) | |
| Loans and notes | (1,388,794) | (1,388,794) | (1,418,325) |
| Financial leases | (10,744) | (10,744) | |
| Other current liabilities | (1,127) | (1,127) | |

[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<br>December 31, 2016 | CARRYING AMOUNT (BY MEASUREMENT BASIS)<br>Amortized cost | **Total** | Comparison Fair value[1] |
|---|---|---|---|
| **Financial assets** | | | |
| Cash | 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 | **01.01.–30.09.2017** | 01.01.–30.09.2016 | **Q3 2017** | Q3 2016 |
|---|---|---|---|---|
| Change in inventories | (2,787) | 745 | 8,806 | 352 |
| Change in trade and other receivables | 25,073 | 7,275 | (6,633) | (46,407) |
| Change in trade and other payables | 30,561 | (20,628) | 7,129 | 24,388 |
| Change in other items, net | (9,123) | (21,688) | 16,804 | 7,964 |
| **Total** | **43,724** | **(34,296)** | **26,106** | **(13,703)** |

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 43.7 million for the nine-month period ended as of September 30, 2017 is primarily attributable to positive change in trade and other receivables of CHF 25.1 million related to higher incoming customer payments and change in trade and other payables of CHF 30.6 million driven by longer average payment cycles. Payments of prepaid expenses and an increase in inventory partially offset the positive changes for the nine-month period ended as of September 30, 2017.

For the nine-month period ended as of September 30, 2016, the negative change in net working capital was CHF 34.3 million. This was mainly driven by change in trade and other payables of CHF 20.6 million related to shorter average payment cycles. Hereto come a negative change in other items of CHF 21.7 million mainly driven by income recognition of deferred revenue in the profit and loss.

NOTE 15

## Disposal of subsidiary

On August 3, 2017, Sunrise sold Swiss Towers AG (the "subsidiary") to a consortium led by Cellnex Telecom S.A. for a total consideration of CHF 502.3 million. The assets and liabilities of the subsidiary, which had been classified as held for sale since March 31, 2017, were deconsolidated as of August 3, 2017. The net assets sold amounted to CHF 72.9 million. The net result recorded on the transaction amounts to a gain of CHF 419.6 million and is recognized as gain on disposal in the condensed consolidated interim statements of income.

On August 4, 2017, Sunrise used a portion of the received consideration to repay CHF 450.0 million of the existing term loans under the senior facilities agreement originally dated January 13, 2015 (for additional information refer to note 12).

The result of the disposal of subsidiary in 2017 is as follows:

| CHFk | 30.09.2017 |
|---|---|
| Total sales proceeds | 502,250 |
| Disposal-related expenses | (5,548) |
| Forgiveness of loan | (4,196) |
| Disposal of net assets | (72,917) |
| **Gain on disposal of subsidiary** | **419,589** |
| Disposal of net assets | 72,917 |
| Disposal of cash and cash equivalents | (43,004) |
| **Net cash flow from disposal of subsidiary** | **449,502** |

**NOTE 15**

Disposal of subsidiary

The net assets disposed of, amounting to CHF 72.9 million, can be broken down as follows:

| CHFk | 03.08.2017 |
|---|---|
| **Assets** | |
| Property, plant and equipment | 113,835 |
| Current portion of prepaid expenses | 8,581 |
| Cash and cash equivalents | 43,004 |
| **Total assets** | **165,420** |
| **Liabilities** | |
| Deferred tax liabilities | 2,139 |
| Non-current portion of loans and notes | 4,196 |
| Non-current portion of provisions | 50,276 |
| Employee benefit obligations | 961 |
| Current portion of trade and other payables | 8,227 |
| Income tax payable | 1,433 |
| Current portion of deferred income | 25,271 |
| **Total liabilities** | **92,503** |
| **Net assets disposed** | **72,917** |

**NOTE 16**

## Other balance sheet items

### Property, plant and equipment

During the nine-month period ended September 30, 2017, the Group acquired assets of CHF 115.4 million (September 30, 2016: CHF 94.7 million). In the same period, the Group paid CHF 121.8 million (September 30, 2016: CHF 93.8 million) of property, plant and equipment additions.

### 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.
The increase of current portion of prepaid expenses as of September 30, 2017, is related to the prepayment of expenses for network service fees provided by Swiss Towers AG (refer to note 15).

### 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.

### Non-current portion of provisions/current portion of deferred income

The decrease of the balances of those two line items is mainly related to the disposal of a subsidiary (refer to note 15).

**NOTE 17**

## Contractual commitments

The total contractual and purchase commitments as of September 30, 2017, amounted to CHF 78.4 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

There are no significant events to report after the balance sheet date.

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To the Board of Directors of
**Sunrise Communications Group AG, Zurich**

Zurich, 8 November 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 36) of Sunrise Communications Group AG for the three-month period from 1 July 2017 to 30 September 2017 and the nine-month period from 1 January 2017 to 30 September 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)

Tobias Meyer
Licensed audit expert

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