

## Media release

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## Q2 with Gross Profit stabilization and guidance increase

- **Accelerated mobile postpaid customer growth (Q2'17: +97,400 or +6.8% YoY) in a competitive market environment**
- **Strong internet (Q2'17: +40,700 or +11.4% YoY) and TV customer growth (Q2'17: +40,400 or +27.4% YoY) supported by compelling tariffs and award-winning TV product**
- **Revenue decline of -1.1% (incl. MTR: -3.9%) YoY from CHF 472m to CHF 453m, driven by low-margin hubbing Revenue, while Service Revenue was stable**
- **Gross Profit improved 1.0% YoY to CHF 298m, confirming the trend towards stabilization**
- **Adj. EBITDA up +1.7% YoY from CHF 150m to CHF 153m, despite increased commercial expenses**
- **Net income more than doubled YoY to CHF 27m in Q2'17**
- **FY'17 adj. EBITDA guidance increased**

|  | H1'16      | H1'17      | YoY           | YoY<br><i>MTR adj.</i> | Q2'16      | Q2'17      | YoY            | YoY<br><i>MTR adj.</i> |
|--|------------|------------|---------------|------------------------|------------|------------|----------------|------------------------|
| <b>Revenue (CHF m)</b>                           |            |            |               |                        |            |            |                |                        |
| Mobile services                                  | 608        | 582        | (4.4%)        | (0.9%)                 | 311        | 303        | (2.8%)         | 0.8%                   |
| Landline services                                | 205        | 186        | (9.4%)        | (8.1%)                 | 108        | 91         | (15.8%)        | (13.4%)                |
| Landline internet                                | 104        | 117        | 12.1%         |                        | 52         | 60         | 13.7%          |                        |
| <b>Total Revenue</b>                             | <b>917</b> | <b>884</b> | <b>(3.6%)</b> | <b>(1.0%)</b>          | <b>472</b> | <b>453</b> | <b>(3.9%)</b>  | <b>(1.1%)</b>          |
| Service Revenue (total excl. hubbing & hardware) | 745        | 717        | (3.8%)        | (0.6%)                 | 377        | 364        | (3.4%)         | 0.2%                   |
| <b>Gross Profit</b>                              | <b>586</b> | <b>584</b> | <b>(0.3%)</b> |                        | <b>295</b> | <b>298</b> | <b>1.0%</b>    |                        |
| EBITDA   | 287        | 290        | 1.0%          |                        | 148        | 149        | 0.7%           |                        |
| <b>Adjusted EBITDA</b>                           | <b>290</b> | <b>295</b> | <b>1.9%</b>   |                        | <b>150</b> | <b>153</b> | <b>1.7%</b>    |                        |
| Adj. EBITDA margin (excl. hubbing & hardware)    | 38.9%      | 41.2%      |               |                        | 39.8%      | 41.9%      |                |                        |
| <b>Net income</b>                                | <b>17</b>  | <b>40</b>  | <b>134.1%</b> |                        | <b>10</b>  | <b>27</b>  | <b>163.9%</b>  |                        |
| <b>Equity free cash flow</b>                     | <b>93</b>  | <b>111</b> | <b>18.9%</b>  |                        | <b>117</b> | <b>82</b>  | <b>(29.8%)</b> |                        |
| <b>Customers (thousand)</b>                      |            |            |               |                        |            |            |                |                        |
| Mobile:  |            |            |               |                        |            |            |                |                        |
| Postpaid   | 1,439      | 1,537      | 6.8%          |                        |            |            |                |                        |
| Prepaid  | 899        | 805        | (10.4%)       |                        |            |            |                |                        |
| Landline:  |            |            |               |                        |            |            |                |                        |
| Retail voice                                     | 403        | 429        | 6.5%          |                        |            |            |                |                        |
| Internet   | 357        | 398        | 11.4%         |                        |            |            |                |                        |
| IPTV   | 147        | 188        | 27.4%         |                        |            |            |                |                        |

Olaf Swantee, CEO of Sunrise, comments: "Q2 was characterized by strengthening financial trends, including a strong performance of our recently launched converged tariff "Sunrise ONE". The quarter is another proof point that we deliver the leading network quality, customer interface, and innovation capacity."

## **Strong customer growth supported by Sunrise ONE launch**

Positive momentum in subscriber additions continued in Q2'17, supported by the multi brand approach, the strong network quality, diversified distribution channels, and a broad product offering with an attractive price performance ratio. Sunrise added 97,400 net new mobile postpaid customers YoY (+6.8%), reaching a total of 1.54m customers. 26,400 new postpaid customers were added in Q2 alone, including 18,800 primary SIM net adds compared to 12,100 last year. The mobile prepaid customer base decreased YoY as customers continue to migrate to postpaid tariffs.

Q2'17 internet subscribers went up 40,700 YoY (+11.4%) to 398,100 and TV subscribers increased YoY by 40,400 (+27.4%) to 187,600. Q2 internet and TV net adds came in double digit, driven by attractive 'Home' tariffs, convergence benefits, the recent Sunrise Smart TV enhancement and dedicated promotions.

A further driver for both mobile and internet/TV represents 'Sunrise ONE'. The latter is a high-end converged tariff launched in March. Swiss customers showed a strong demand for this new tariff, leading to growth in Sunrise's converged customer base.

## **Stable Service Revenue in Q2**

Q2 Service Revenue (i.e. total Revenue excluding low-margin hubbing and hardware) was stable at +0.2% YoY (MTR adjusted) with customer growth compensating for decreasing average Revenue per user (ARPU). The +0.2% represent an improvement compared to -1.4% in Q1, driven by mobile postpaid, which experienced solid customer growth and a moderation in APRU decrease. The moderation was related to improved value mix development and a base effect from Easter, which was in Q1 last year.

Total Revenue decreased by -3.9% YoY to CHF 453m in Q2. The key driver for the decrease was the on 20<sup>th</sup> October 2016 announced cut in Mobile Termination Rates (MTR) as per 1<sup>st</sup> January 2017. Its negative impact on Revenue was CHF -14m, while its impact on Gross Profit was almost negligible, as expected. Adjusted for MTR, total Revenue decreased by -1.1% driven by low-margin hubbing.

## **Improvements across Gross Profit, adjusted EBITDA and net income**

Gross Profit increased YoY by 1.0% in Q2'17, representing an improvement compared to -1.6% in Q1'17. The YoY increase was driven by an increasing Gross Margin supported by positive mix effects and less aggressive mobile promotions than last year. Adjusted Opex was stable in Q2, as continued cost efficiencies were able to offset increased commercial expenses. Improved Gross Profit and stable Opex YoY resulted in a +1.7% adj. EBITDA increase to CHF 153m in Q2. Net income more than doubled YoY to CHF 27m, supported by lower depreciation & amortization and lower financial expenses.

## **eFCF slightly up excluding factoring**

Equity free cash flow (eFCF) decreased from CHF 117m last year to CHF 82m in Q2'17. Last year's eFCF was supported by CHF 38m factoring, which consequently was paid back in H2'16 and terminated as of year-end as previously communicated. Adjusted for factoring, Q2 eFCF was slightly increasing YoY. Net debt increased to CHF 1,700m as per the end of Q2'17 as a result of the dividend payment in Q2. This leads to a net debt / adj. EBITDA ratio of 2.76x.

## **FY'17 guidance increased**

FY'17 Revenue continues to be expected within a range of CHF 1,820-1,860m. Sunrise increases its adjusted EBITDA guidance from CHF 577-592m to CHF 592-602m. The increase is mainly driven by the strong year-to-date trends and to a smaller extent by the one month later-than-expected deconsolidation of Swiss Towers AG. Capex for FY'17 continues to be expected to be within a range of CHF 255-295m, with normalized Capex excluding the one-off increase in FY'17 between CHF 225-265m. Upon meeting its FY'17 guidance, Sunrise expects to propose a dividend to the AGM for FY'17 in the range of CHF 3.90-4.10 per share to be paid from capital contribution reserves in 2018.

Sunrise Communications Group AG published its financial results for Q2 2017 today. Please see <http://corporate.sunrise.ch/ir/reports-and-presentations> for the report, the presentation, and further information.

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