Sunrise

Media release

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Strong customer growth – financial stabilization – 20% dividend increase

- **Accelerated customer growth in mobile postpaid (+7.3% YoY), internet (+13.6% YoY) and TV (+31.1% YoY), driven by growth investments in the network, service and products**
- **Revenue increase of 4.3% (not incl. MTR adj. +1.7%) in Q4, driven by hardware revenue; service revenue increased for the third consecutive quarter (+0.9%); FY'17 revenue reached stabilization**
- **Gross profit up 0.3% in Q4, leading to gross profit stabilization in FY'17**
- **Adj. EBITDA down -1.5% (not incl. tower adj. -7.0%) in Q4 driven by commercial expenses; FY'17 adj. EBITDA stable YoY (incl. tower adj.) and at high-end of upward revised guidance**
- **Proposed dividend up 20% YoY to CHF 4.00 due to successful deleveraging after tower disposal**
- **Guidance of CHF 580-595m adj. EBITDA in 2018, representing improvement (incl. tower adj.) driven by continued growth investments; progressive 2018 dividend**

Revenue (CHF m)	FY'16	FY'17	YoY	YoY *MTR adj.*	Q4'16	Q4'17	YoY	YoY *MTR adj.*
Mobile services	1,264	1,231	*(2.6%)*	*0.8%*	331	341	*2.8%*	*6.1%*
Landline services	419	378	*(9.6%)*	*(8.1%)*	114	103	*(9.0%)*	*(7.3%)*
Landline internet	214	245	*14.2%*		56	65	*16.8%*	
Total revenue	1,897	1,854	*(2.2%)*	*0.3%*	501	509	*1.7%*	*4.3%*
Service revenue (total excl. low-margin hubbing & hardware)	1,511	1,470	*(2.7%)*	*0.5%*	382	373	*(2.4%)*	*0.9%*
Gross profit	1,193	1,193	*(0.0%)*		301	302	*0.3%*	
				YoY *Tower adj.*				YoY *Tower adj.*
EBITDA	599	592	*(1.1%)*		155	148	*(4.6%)*	
Adjusted EBITDA	**611**	**601**	*(1.6%)*	*0.8%*	**159**	**148**	*(7.0%)*	*(1.5%)*
Adj. EBITDA margin (excl. hubbing & hardware)	40.5%	40.9%			41.7%	39.7%		
Net income	87	505	*479.6%*		48	23	*(51.5%)*	
Equity free cash flow	230	219	*(4.9%)*		64	9	*(86.5%)*	
Customers (thousand)								
Mobile:								
Postpaid	1,485	1,594	*7.3%*					
Prepaid	842	756	*(10.2%)*					
Landline:								
Retail voice	417	441	*5.8%*					
Internet	372	422	*13.6%*					
IPTV	163	214	*31.1%*					

Olaf Swantee, CEO of Sunrise, comments: "2017 was characterized by accelerated customer momentum, financial stabilization, net debt reduction, and a leading position for Sunrise in independent telecom tests. In 2018, Sunrise will continue to invest in its network, service and products. This will sharpen our positioning as Switzerland's quality challenger and support positive financial trends."

Sunrise

Accelerated customer growth and high quality B2B customer gains

Healthy momentum in subscriber additions continued in FY'17. Sunrise added +7.3% net new mobile postpaid customers YoY, an acceleration compared to +6.1% in FY'16. Total customer numbers now stand at 1.59m. 30,600 new postpaid customers were added in Q4 alone, including 20,000 primary SIM net adds, compared with 16,000 in the same period last year. This solid performance was supported by strong network quality, the Sunrise multi-brand approach, diversified distribution channels, and a broad product portfolio at competitive prices. The mobile prepaid customer base decreased YoY as customers continue to migrate to postpaid tariffs.

Q4 internet and TV net adds saw double digit growth for the fourth consecutive quarter. FY'17 internet subscribers rose by +13.6% (FY'16: +8.9%) YoY to 422,200, while TV subscribers grew by +31.1% (FY'16: +21.7%) YoY to 213,500. These substantial increases were backed by the converged 'Sunrise ONE' tariff, recent enhancements to Sunrise Smart TV, improved TV sports content (Sky, Teleclub), and dedicated promotions.

A strong improvement in quality brought several significant Business customer wins to Sunrise in 2017. These include Nestlé, Swiss International Air Lines, NISSAN, Belcolor, and SIGG.

Service revenue up for third consecutive quarter

Q4 service revenue increased +0.9% YoY (MTR adjusted), with customer growth compensating for lower average revenue per user (ARPU). FY'17 service revenue improved +0.5% YoY (MTR adjusted), compared to -4.0% in FY'16. Accelerated customer growth and softened ARPU pressure drove this improvement.

Total revenue increased by +1.7% YoY to CHF 509m in Q4. The January 2017 cut in Swiss mobile termination rates (MTR) reduced revenue by CHF -13m, while the impact on gross profit continued to be negligible. Including MTR adjustments, total revenue increased by +4.3% in Q4, driven by hardware revenue. FY'17 total revenue increased +0.3%, adjusted for MTR to CHF 1,854m.

Reaching gross profit stabilization

Q4 gross profit rose +0.3% YoY to CHF 302m, leading to a steady FY'17 gross profit at CHF 1,193m. This represents a return to stability following a -4.1% gross profit decrease in FY'16. Adjusted EBITDA fell -7.0% to CHF 148m in Q4, driven by higher network service fees after the tower disposal in August 2017. Excluding this impact, the decrease in adjusted EBITDA during the quarter would have been -1.5%, mainly driven by higher commercial expenses as indicated in Q3 results. FY'17 adjusted EBITDA reached organic stabilization, after a -2.5% decrease in the previous year. Q4 net income halved YoY to CHF 23m. This was primarily driven by a base effect in Q4 2016, when net income benefited from a tax-deductible impairment of investment. Despite this, FY'17 net income saw a strong increase YoY to CHF 505m, largely due to the tower disposal's gain realized in Q3.

Substantial deleveraging and 20% dividend increase

Equity free cash flow (eFCF) decreased -4.9% YoY to CHF 219m, driven by higher Capex. The latter included for instance growth investments in both store improvements and the mobile network, which now has an outstanding 95% geographic 4G coverage. The investments allowed Sunrise to maintain its global network leadership: Sunrise provides one of the world's best mobile networks, beating the top P3 test scores in more than 70 countries. Improved quality led to accelerated customer growth and supported gross profit stabilization. Net debt strongly improved to CHF 1,147m by YE'17, from CHF 1,663m at YE'16. This was supported by cash generation and deleveraging after the tower disposal. As a result, the net debt to adj. EBITDA ratio reduced notably from 2.72x at YE'16 to pro forma 1.97x at YE'17. The Board of Directors will propose a dividend of CHF 4.00 per share at the AGM, representing a 20% YoY increase. The dividend will be paid from capital contribution reserves.

Sunrise entering long-term fibre access agreements with SFN, IWB and SIG

Sunrise entered into 20-year agreements with Swiss Fibre Net (SFN), Industrielle Werke Basel (IWB), and Services Industriels de Genève (SIG), replacing its previous wholesale agreements with the respective utilities. The three mentioned utilities provide optical fibre network infrastructure to more than 17% of Swiss households. The new agreements give Sunrise access to a certain amount of fibre lines on new terms: Sunrise will invest around CHF 56m upfront during 2018, and will then benefit from additional low single-digit annual gross profit contribution. The fibre line scope of the agreements are open to extension, dependent on further upfront investments and gross profit contribution. In addition to fibre access at utilities, Sunrise has an existing landline access agreement with Swisscom. It was closed in 2014 (including CHF 74m upfront investment) and will expire by the end of 2018. Sunrise intends to renew the access agreement with Swisscom. More information about the utility long-term agreements is provided in the separate Sunrise press release published on March 1, 2018.

2018 guidance

FY'18 revenue and adjusted EBITDA are expected to be between CHF 1,830-1,870m and CHF 580-595m, respectively. Adjusted EBITDA guidance includes incremental costs of around CHF 20m, related to higher network service fees YoY, after the tower disposal in August 2017. Excluding these service fees, adjusted EBITDA guidance represents modest growth. FY'18 Capex is expected to be in the range of CHF 283-323m. This includes CHF 56m upfront investment in landline access at utilities (see above). Excluding upfront investments, Capex guidance is CHF 227-267m. This includes a variable amount of CHF 47m (FY'17: CHF 44m) related to customer growth spend, allowing for the capitalization of routers and set-top boxes due to growth in internet and TV, as well as investment in B2B projects and indoor coverage solutions.

Dividend policy confirmed – near-term adjustment to buffer investors from cash flow volatility

Sunrise confirms its long-term dividend policy of paying out at least 65% of equity free cash flow, while continuing to target 85% if debt / adjusted EBITDA leverage is below 2.0x. Sunrise is targeting an annual 4-6% dividend progression in 2018-2020. This guidance specification is introduced, to buffer investors from near term cash flow volatility due to landline access and spectrum payments. Upon meeting its FY'18 guidance, Sunrise expects to propose a dividend in the range of CHF 4.15-4.25 per share for FY'18, paid out of capital contribution reserves in FY'19.

Please see http://corporate.sunrise.ch/ir/reports-and-presentations for the IFRS report, the investor presentation, and further information.

Sunrise Communications AG
Corporate Communications
P.O. Box
CH-8050 Zürich
media@sunrise.net
www.sunrise.ch
Phone: 0800 333 000
Outside of Switzerland: +41 58 777 76 66