Sunrise Communications Group AG

Q2'17 financial results – 24 August 2017

Agenda

1	Summary, guidance and operational update	O. Swantee (CEO)
2	Financials	A. Krause (CFO)
3	Conclusion	O. Swantee (CEO)
4	Q&A	

Sunrise

Summary: Q2 results confirm improving trends

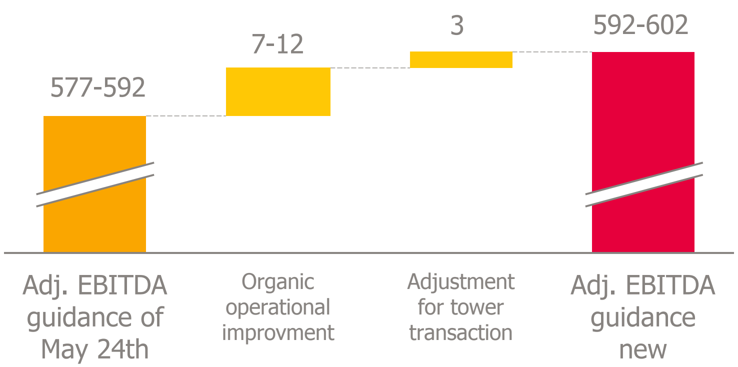
- Ongoing **subscriber** growth momentum in key focus areas
  - Sunrise ONE with a good start, supporting 26.2% 4P growth YoY (+8.2% in Q2 alone)
  - Continued strong growth in mobile postpaid (6.8% YoY), internet (11.4% YoY) and TV (27.4%)
- **Revenue** down -1.1% YoY (MTR adjusted) due to hubbing (low-margin)
  - Service Revenue [1] trends improved in Q2 (+0.2% YoY MTR adjusted) compared to -1.4% in Q1'17
  - Subscriber momentum compensating for headwinds in prepaid and landline voice; B2B transition ongoing with first positive proof points
- **Gross Profit** grew +1.0% YoY; improving trend towards stabilization (Q1:-1.6% YoY)
- Adj. **EBITDA** up 1.7% YoY
- **eFCF** slightly increased when excluding last year's factoring; in-line with management expectation
- **Guidance 2017:** Adj. EBITDA revised upwards

[1] Total Revenue excluding low-margin hubbing and mobile hardware Revenue

Sunrise

Increased 2017 adj. EBITDA guidance

Adj. EBITDA guidance bridge 2017 (CHFm)



- **Organic** guidance increase of CHF 7-12m on adj. EBITDA driven by strong YTD trends, with moderating momentum expected in H2
- **Adjustment** of tower transaction driven by closing of transaction in August rather than July, leading to CHF -15m Opex impact (instead of CHF-18m) in FY'17

2017 guidance new

		CHFm
Revenue		1'820 – 1'860
Adj. EBITDA		592 – 602
Capex	Normalised[1]	225 – 265
	Reported	255 – 295

Confirming dividend guidance and **leverage** target:

- Upon meeting guidance, a dividend of CHF3.90 – 4.10 per share is expected to be proposed to AGM [2]
- At least 65% eFCF, and targeting 85% once reported ND/adj. EBITDA is below 2.0x
- Targeting 2.0x reported ND/adj. EBITDA over the medium term

1) Excludes CHF30 million additional one-off Capex in 2017

2) Based on underlying eFCF adjusted for book gain on asset sale, transaction costs /one-offs, and one-off Capex

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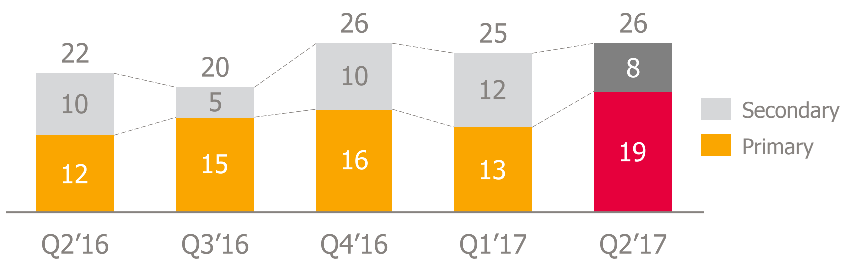
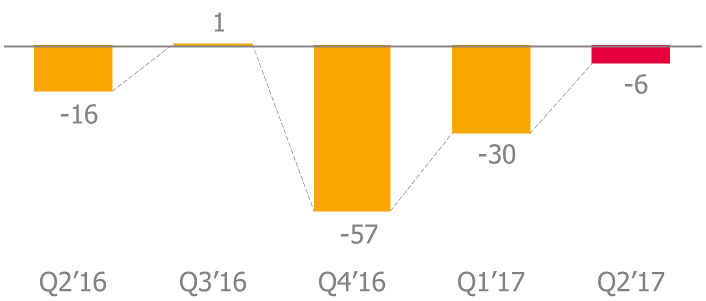
Continued customer momentum in mobile

Postpaid mobile net adds ('000)



Prepaid mobile net adds ('000)



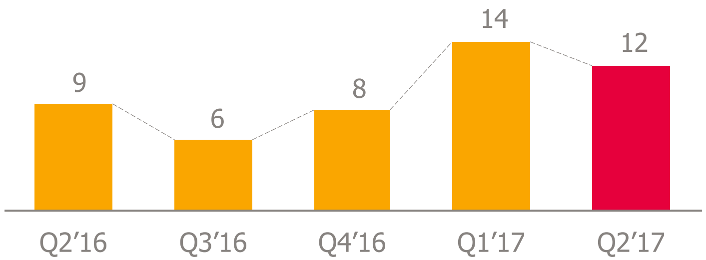
- **Postpaid** driven by primary SIMs (high value), leading to 1.54m total subscribers (+6.8% YoY)
- Primary SIMs driven by Sunrise ONE, multi brand approach, improved network quality, broad product offering with attractive price performance ratio, and diversified distribution channels which are undergoing layout refresh
- Secondary SIMs supported by increased customer focus on data attachments and by campaigns; Q2 with launch of data SIM for mobile broadband

- **Prepaid** with ongoing pre- to postpaid migration, leading to 805k total subscribers
- Q2 sequentially improved, partly due to seasonality; focus on valuable customer in-take maintained
- Q2 with launch of unlimited mobile Prepaid tariff: CHF 2.5 for 24h
- Restatement: Increasing call center 'spam' calls to non-active prepaid customers inflated subscriber base; new subscriber definition better reflects value generating prepaid customers; no impact on revenue (see Appendix)

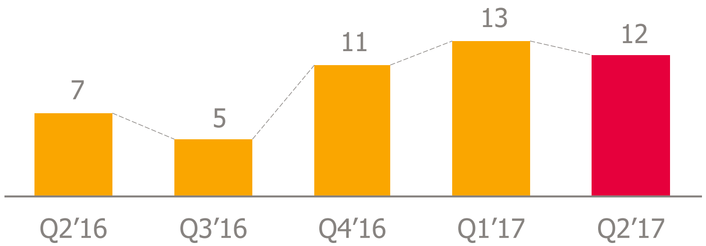
Sunrise

Broadband and TV continued with double digit net adds

Internet net adds ('000)



TV net adds ('000)



- **Steady internet growth continues**: Sunrise now has 398k internet subscribers
- Successful introduction of converged tariff 'Sunrise ONE' supported continued growth momentum
- Demand also driven by attractive modular 'Home' tariffs introduced in Q3'14, convergence benefit, dedicated promos, and competitive Sunrise TV offering

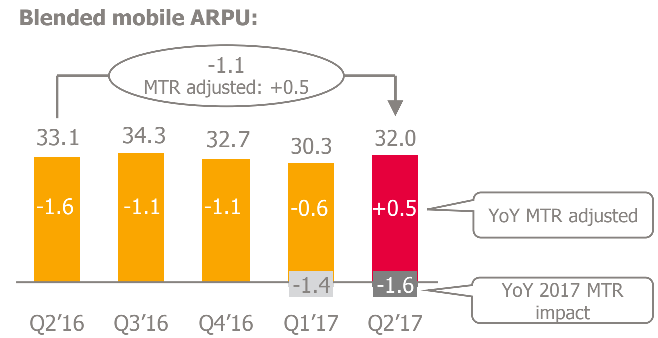
- **Double digit TV growth continues:** Sunrise now has 188k TV subscribers
- 26% YoY increase in 4P billed customer base
- Supported by enhanced Sunrise TV offering launched in late Q1'17 including UHD, WiFi data transmission, Bluetooth remote control and Netflix offering

Sunrise

ARPU trends continuing - postpaid decline moderated

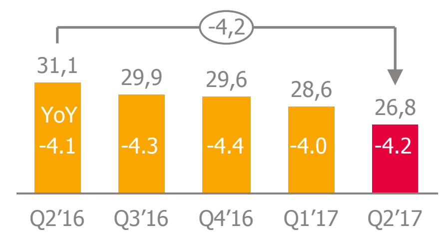
Blended mobile ARPU (CHF)

- **Blended mobile** ARPU up CHF +0.5 YoY (MTR adj.[1)]) due to growing Postpaid subscribers, which have a higher ARPU than decreasing Prepaid subscribers
- **Postpaid** down CHF -0.4 YoY (MTR adj.[1)]) mainly due to 2nd SIM dilution and Freedom HW unwind [2)]; eased YoY pressure compared to Q1 (CHF -1.7) due to improved value mix development, fading Freedom HW unwind, and Easter effect [3)]
- **Prepaid** down CHF -1.2 (MTR adj.[1)]), due to high value prepaid customers migrating to postpaid and competitive pressure (vs. CHF -1.7 YoY in Q1)



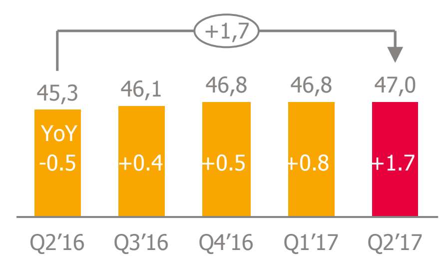
Landline voice ARPU (CHF)

- **Landline voice** down CHF -4.2 YoY due to migration to flat rate packages and fixed to mobile/OTT migration resulting in reduced voice usage



Blended internet & IPTV ARPU (CHF)

- **Blended internet & IPTV** up CHF 1.7 YoY driven by TV customer growth and fading 'Home' tariff migration impact
- Sequential trends are also impacted by promotions and tariff changes



1) Mobile ARPU YoY decreases not adjusted for MTR are: Blended mobile CHF-1.1, Postpaid CHF-2.5, Prepaid CHF-2.2

2) Partly counteracted by support from low base YoY due to last year's promos

3) 2017 (2016) Easter was in Q2 (Q1), which supported ARPU contribution from roaming in Q2'17 YoY

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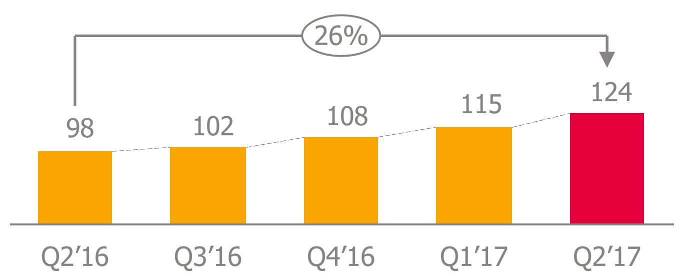
Successful Sunrise ONE launch

- **Sunrise ONE, our converged tariff,** was launched successfully on March 6, driving cross selling from Mobile (25% market share) into Internet (11%) and TV (4%)
- 26k or 21% of 4P billed customer base already on Sunrise ONE; primarily migrators while share of new customers is increasing
- Currently >10k customers on either Mobile or Home unlimited, potentially moving to 4P going forward
- Migrations to Sunrise ONE lead to **higher revenue** per billed customer

4P billed customer base [1)]



[1)] Excluding B2B

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B2B transition with first positive proof points

- Management changes announced last year initiated transition phase
- **Product line-up renewal** ongoing and well on-track
- Increased **focus on SMEs** e.g. via cross selling
- Use large enterprise customers (e.g. Zurich Airport) to **raise awareness** and to market Sunrise Business solutions
- First **positive proof points** include increasing B2B mobile orders YoY, as well as order funnel growth with improving win rate year-to-date; transition phase ongoing, still a long road ahead

Sunrise

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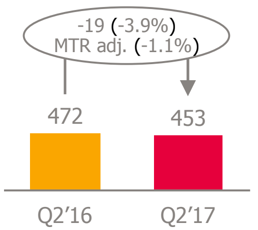
Overview: Stable service revenue and higher adj. EBITDA

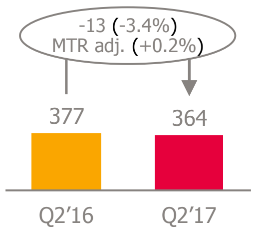
Revenue (CHFm)

- **Revenue down** -1.1% (MTR[1] adj.) due to low-margin hubbing
- **Service Revenue [2] stable** at +0.2% (MTR adj.) with subscriber growth offset by lower ARPUs and less Revenue in a low-margin B2B area (product transition)
- Service Revenue improvement vs. Q1 (-1.4% YoY) driven by mobile postpaid: customer growth and moderated APRU decrease (improved value mix development and Easter effect [3])

Total Revenue:



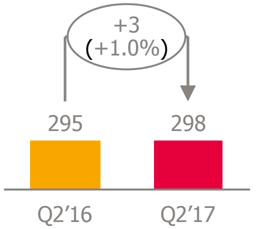
Service revenue [2]:



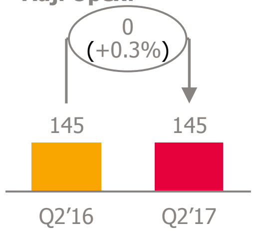
Gross Profit & adj. Opex (CHFm)

- **Gross Profit up** 1.0% in Q2 due to gross margin expansion
- Stable **Opex** YoY with cost savings offsetting increased commercial expenses

Gross Profit:

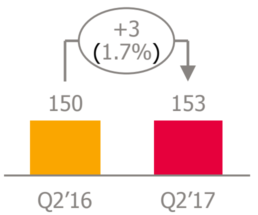


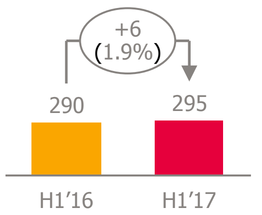
Adj. Opex:



Adj. EBITDA (CHFm)

- **Adj. EBITDA increased** as a result of higher Gross Profit and stable Opex

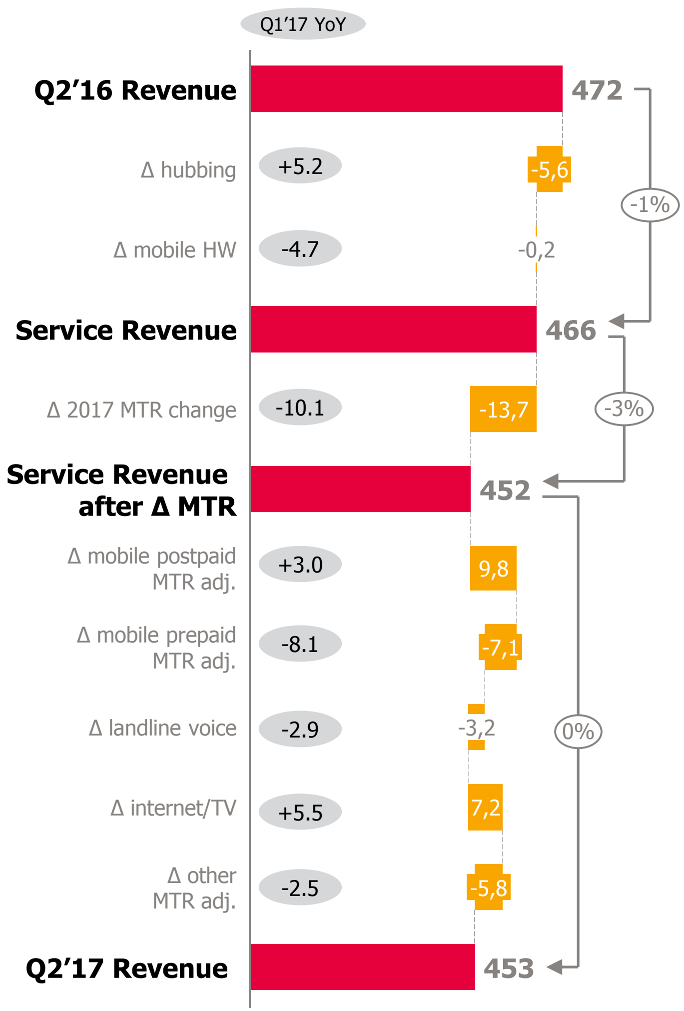




[1] MTR changes as per 1 January 2017 negatively impact Revenue, but are largely neutral on Gross Profit level; see press release from 20 Oct 2016
[2] Total Revenue excluding hubbing and mobile hardware Revenues, which are low margin
[3] 2017 (2016) Easter was in Q2 (Q1), which supported ARPU contribution from roaming in Q2’17 YoY

Focus on Q2 Revenue

Q2'17 Revenue bridge (CHFm)



- **Hubbing**: international trading business which is volatile by nature
- **Mobile HW**: Revenue depends on handset innovations / launches, which vary across quarters leading to revenue volatility

- **Postpaid** (MTR adj.): positive subscriber momentum driven by investments in network, customer interface, and innovative converged products; offsetting moderating ARPU pressure
- **Prepaid** (MTR adj.): down due to pre- to postpaid migration, competitive pressure, and less international prepaid calls related to more attractive postpaid offers and OTT
- **Landline voice**: decline caused by fixed to mobile substitution, migration to flat rates as part of fixed bundles, and OTT
- **Internet/TV**: continued subscriber growth in internet and TV
- **Other:** mainly driven by lower margin areas such as product transition in a B2B area and volatility in wholesale

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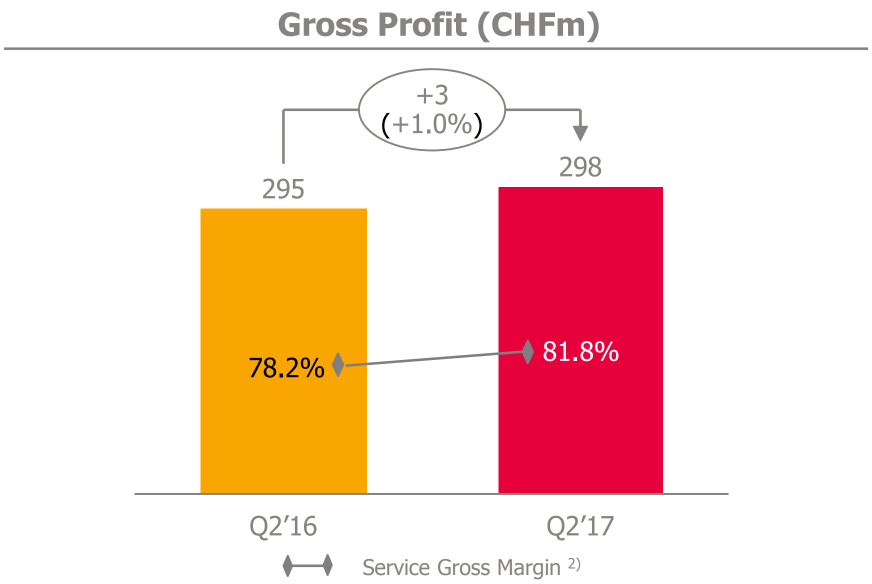
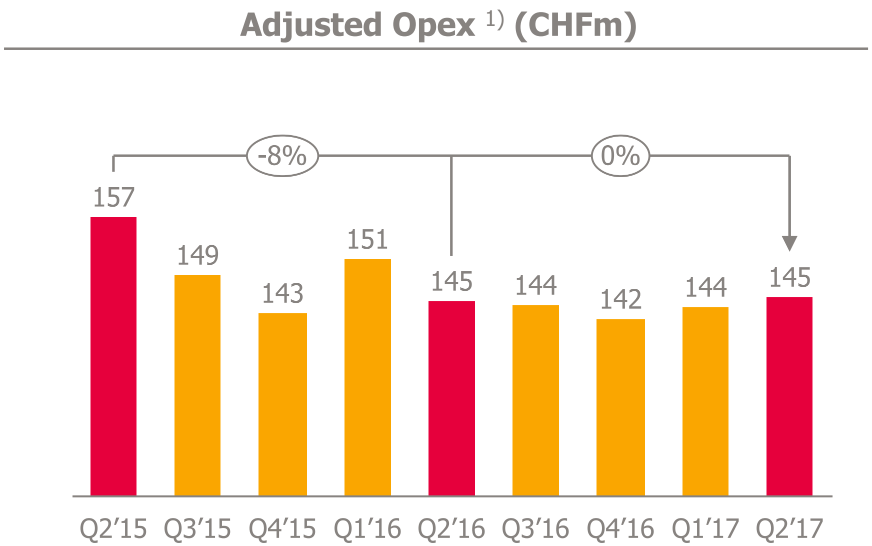
Gross Profit improvement confirming stabilization trend





- **Gross Profit up** +1.0% in Q2 from -1.6% (Q1)
- Service Gross Margin [2] up primarily driven by MTR change which lowers revenue significantly but not GP; furthermore support from mix effects, less aggressive mobile promos than last year, partnership with local utility EWZ [3], and internet price increase (June 2016)

- Adj. **Opex stable** YoY with increased commercial expenses (+7% YoY) compensated by ongoing efficiencies such as management streamlining announced in Q3'16
- Future cost savings identified based on sourcing optimization as well as simplifying and digitizing processes and customer interactions

[1] Total adjustments to reported EBITDA include out-of-period income and expenses, such as prior year related events, non recurring and/or non operating events and cost related to share-based payment

[2] Service Gross Margin is simplified calculated: total Gross Profit divided by Service Revenue (i.e. Revenue excluding low-margin hardware and hubbing Revenue)

[3] See press release 10 April 2017

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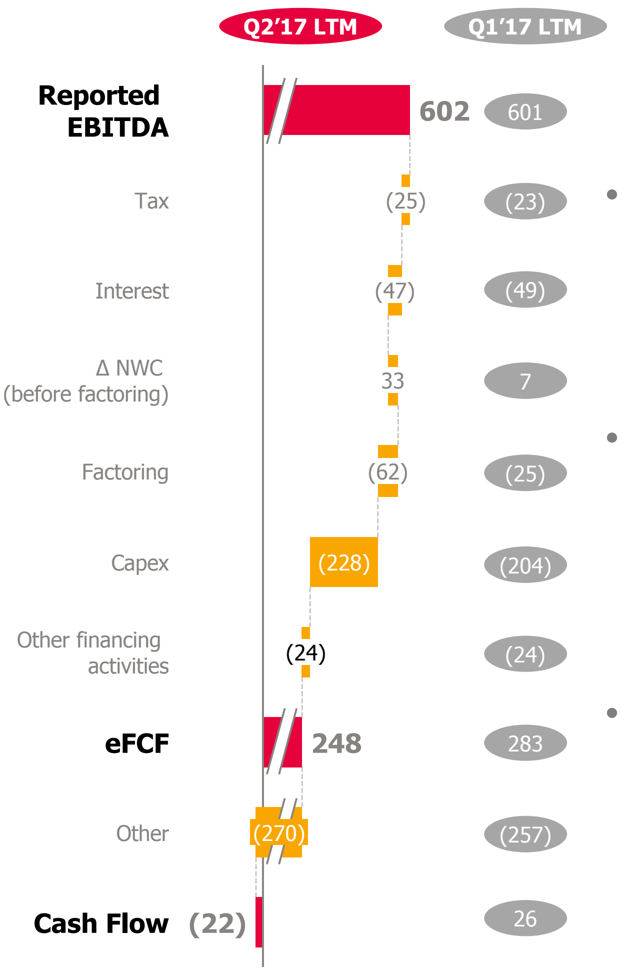
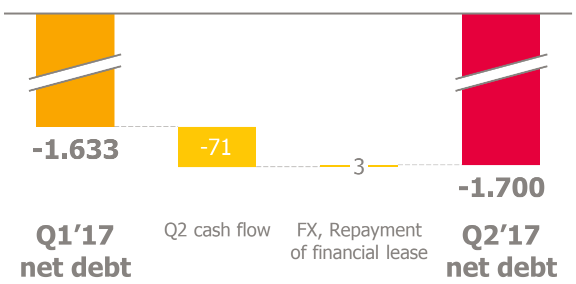
eFCF slightly up excluding factoring

Cash flow 'Last Twelve Months (CHFm)



- **eFCF LTM Q2** excl. factoring slightly up compared to Q1; down incl. factoring as factoring was drawn in Q2'16 but not in Q2'17
- Different NWC seasonality than last year; accelerated Capex supported by Tower proceeds
- **'Other'** impacted by CHF 150m dividend (Q2'17) and CHF 108m payment of final installment of mobile license (Q3'16)

Net debt QoQ (CHFm)



- **Net debt** increase, primarily as a result of Q2 dividend pay-out, leading to net debt / adj. EBITDA ratio of 2.76x

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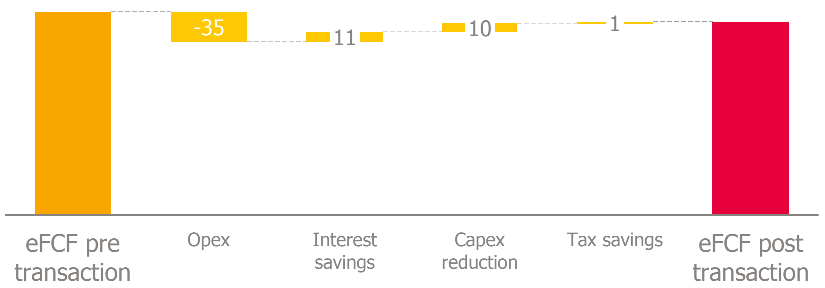
Tower transaction successfully closed

Closing and deleveraging in August

- Transaction closed on 3 August 2017; deconsolidation of passive infrastructure as of closing (previously communicated was July 1)
- IFRS book gain of around CHF430m, strengthening shareholders' equity
- Reduction of 2016 reported ND/adj. EBITDA from 2.7x to 2.1x[1)]; no new lease obligations as contract is treated as service under IFRS
- Primary use of gross proceeds
    - CHF450m term loan repayment executed on 4 August 2017
    - CHF30m one-off Capex to underpin customer growth momentum in 2017
    - Transaction related costs and deconsolidation of cash on balance sheet of sold entity

Unchanged normalised annual eFCF impact (CHFm) [2)]



- **Minimal impact on eFCF**
- **Significant deleveraging**
- **Stronger balance sheet**

[1)] Adjusting the 2016 net debt by gross debt deleveraging of CHF450 million and 2016 EBITDA by CHF35 million

[2)] Assuming 12 month of deconsolidation

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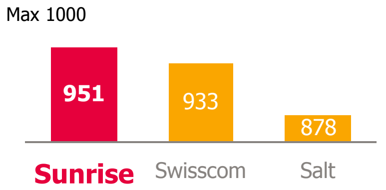
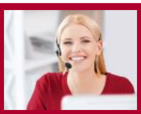
On-track with key priorities

Network quality

Connect score 2016



- Tower sale proceeds partly used for **accelerated mobile network upgrade,** with all macro sites carrying 4G after completion of this year's program
- Capex-light landline wholesale strategy; intensified collaboration for fibre with Zurich utility 'EWZ' [1)]



Customer interface

Own shop optimization

- Tower sale proceeds partly used to **enhance own shop** network with better quality locations ('flagship store' concept)
- Ongoing **refresh** of shops with new corporate appearance and values initiated in February
- **No. 1** of 'big providers' in BILANZ category '**Support**' [2)]

Innovative converged products

Sunrise ONE push

- **Q2 launches** include unlimited mobile prepaid tariff, data SIM for mobile broadband, and new Lebara prepaid proposal; enhanced TV sports offering announced in August
- Pushed awareness for converged tariff 'Sunrise ONE' with iPad promo
- **No. 1** of 'big providers' in the BILANZ category '**Innovation**' [2)]

1) See press release of 10 April 2017

2) Source: BILANZ 18/2016 September; referring to residential results; average rating across Mobile Telephony, TV, and Internet Service Provider except for Salt which is Mobile Telephony only

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Q2 conclusion

Q2 recap

- Continued **subscriber** momentum in focus areas; successful launch of Sunrise ONE
- Service **Revenue** (MTR adj.) development further improved
- 1.7% adj. **EBITDA** growth, as a result of increasing Gross Profit and stable Opex, despite increased commercial expenses
- Equity free **cash flow** (LTM) excluding factoring slightly up

Outlook

- FY'17 **guidance** increased on adj. EBITDA driven by YTD trends

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Appendix

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Income Statement

P&L (CHFm)	H1 2017	H1 2016	Q2 2017	Q2 2016
Mobile services	**582**	**608**	**303**	**311**
thereof mobile postpaid	*373*	*375*	*192*	*190*
thereof mobile prepaid	*63*	*84*	*32*	*42*
thereof hardware	*107*	*112*	*60*	*60*
Landline services	**186**	**205**	**91**	**108**
thereof landline voice	*71*	*77*	*35*	*38*
thereof hubbing	*60*	*61*	*30*	*35*
Landline internet & TV	**117**	**104**	**60**	**52**
Total revenue	**884**	**917**	**453**	**472**
% YoY growth	*(3.6%)*		*(3.9%)*	
Service revenue (total excl. hubbing & hardware)	717	745	364	377
% YoY growth	*(3.8%)*		*(3.4%)*	
COGS	(300)	(332)	(156)	(177)
Gross profit	**584**	**586**	**298**	**295**
% YoY growth	*(0.3%)*		*1.0%*	
% margin	*66.0%*	*63.8%*	*65.7%*	*62.5%*
Opex	(294)	(298)	(149)	(147)
EBITDA	**290**	**287**	**149**	**148**
% YoY growth	*1.0%*		*0.7%*	
Adjusted EBITDA	**295**	**290**	**153**	**150**
% YoY growth	*1.9%*		*1.7%*	
% margin	*33.4%*	*31.6%*	*33.7%*	*31.8%*
% margin (excluding hubbing revenues)	*35.9%*	*33.8%*	*36.0%*	*34.4%*
Depreciation and amortization	(213)	(232)	(102)	(118)
% YoY growth	*8.2%*		*13.3%*	
Operating income	**78**	**56**	**47**	**30**
Net financial items	(24)	(30)	(12)	(16)
Income taxes	(14)	(8)	(8)	(5)
Net income	**40**	**17**	**27**	**10**
Thereof (before tax impact):				
PPA effect	(64)	(64)	(32)	(32)

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Cash Flow Statement

Cash Flow (CHFm)	H1 2017	H1 2016	Q2 2017	Q2 2016
EBITDA	**290**	**287**	**149**	**148**
Change in net working capital	18	(21)	32	43
thereof handset receivable factoring impact	*-*	*21*	*-*	*38*
Movement in pension and provisions	1	(6)	0	(2)
Interest paid	(22)	(25)	(8)	(10)
Corporate income and withholding tax paid	(11)	(16)	(5)	(2)
Cash flow from operating activities	**276**	**220**	**169**	**177**
Capex	(147)	(131)	(86)	(62)
% Capex-to-revenue	*16.6%*	*14.3%*	*19.1%*	*13.2%*
Cash flow after investing activities	**129**	**89**	**83**	**115**
Repayment other financing items	(17)	(1)	(0)	(0)
Proceeds/(repayments) from debt, net	(5)	(4)	(3)	(2)
Payment of dividend	(150)	(135)	(150)	(135)
Total cash flow	**(43)**	**(52)**	**(71)**	**(22)**
Cash and cash equivalents as of BoP	214	244	242	215
Foreign currency impact on cash	0	0	0	0
Cash and cash equivalents as of June, 30	**172**	**193**	**172**	**193**

Equity Free Cash Flow CHF million	H1 2017	H1 2016	Q2 2017	Q2 2016
EBITDA	**290**	**287**	**149**	**148**
Change in net working capital	18	(21)	32	43
Interest paid	(22)	(25)	(8)	(10)
Corporate income and withholding tax paid	(11)	(16)	(5)	(2)
Capex	(147)	(131)	(86)	(62)
Other financing activities	(17)	(1)	(0)	(0)
Equity free cash flow	**111**	**93**	**82**	**117**

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Net debt increase due to dividend payment

Net debt (CHFm)	June 30, 2017	March 31, 2017	December 31, 2016	June 30, 2016
Senior Secured Notes issued February 2015	500	500	500	500
Term loan B	1'360	1'360	1'360	1'360
Total cash-pay borrowings	**1'860**	**1'860**	**1'860**	**1'860**
Financial lease	12	15	17	19
Total debt	**1'872**	**1'875**	**1'877**	**1'879**
Cash & Cash Equivalents*	(172)	(242)	(214)	(193)
Net debt	**1'700**	**1'633**	**1'663**	**1'686**
Net debt / adj. EBITDA	**2.8x**	**2.7x**	**2.7x**	**2.7x**

* Thereof CHF 12 million of cash and cash equivalents are classified as held for sale as of June 30, 2017

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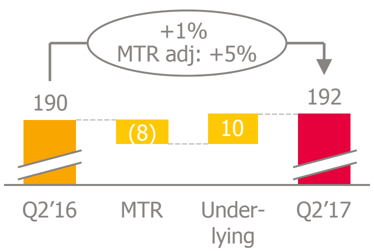
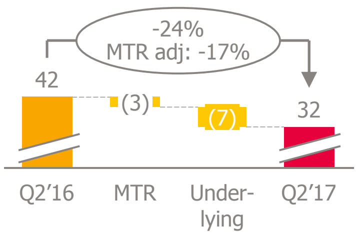
MTR change impacts Revenue, but is largely neutral on Gross Profit

- **Mobile Termination Rates** [1] change as per 1 January 2017 negatively impacts Revenue, but is largely neutral on Gross Profit level – as announced on 20 Oct 2016; effect incorporated in FY'17 guidance

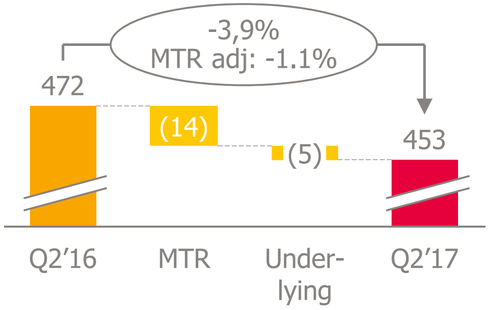
Postpaid Revenue:



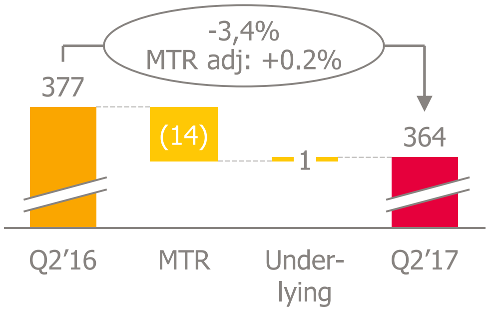
Prepaid Revenue:



Total Revenue (CHFm) [2]



Service Revenue (CHFm) [2]



[1] Mobile termination rates are transmission fees collected by a mobile communications provider when it accepts calls from another provider's landline or mobile network and passes them on to customers on its own network

[2] MTR impact is primarily in Postpaid and Prepaid, furthermore there is a CHF-2.6m impact in Landline Services (in Q1 negligible); Service Revenue excludes hubbing and mobile hardware Revenues

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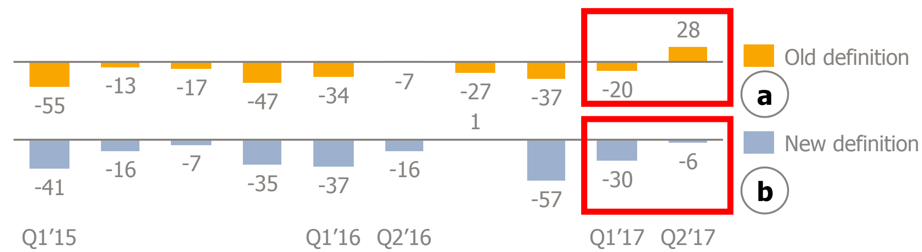
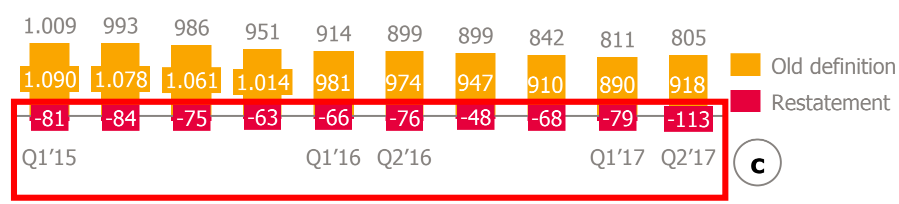
Prepaid subscriber base restatement

- **a** Number of spam **call centers** calls to prepaid customers strongly increased; leading to reactivation of non-active prepaid customers
- **b** In order to **reflect value generating** prepaid customers, Sunrise changed the definition of its prepaid subscriber base
- **b** The **new definition** excludes SIMs where only incoming calls or SMS but no outgoing usage has been recognized over the last 3 months
- **c** Restatement of ARPUs (up) and subscribers (down) as of Q1'15 - with **no impact** on prepaid **revenue**

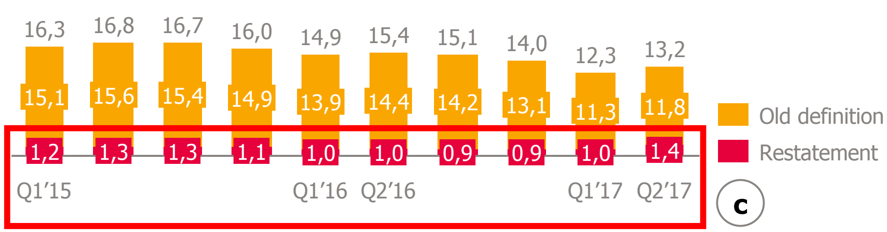
Prepaid subscribers Net Adds 3 month rule ('000) [1]



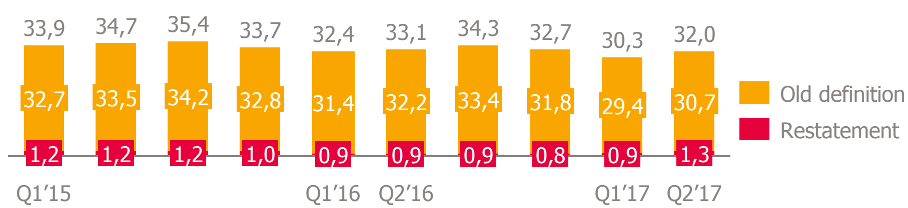
Prepaid subscribers 3 month rule ('000) [1]



Prepaid ARPU 3 month rule (CHF)



Blended ARPU 3 month rule (CHF)



[1] In the new counting method, Prepaid mobile subscriptions are counted in subscription base if they had an activity event (such as outgoing call or refill) within the last 3 or 12 months, respectively

Sunrise

Thank you for your interest in Sunrise

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