

**Sunrise**

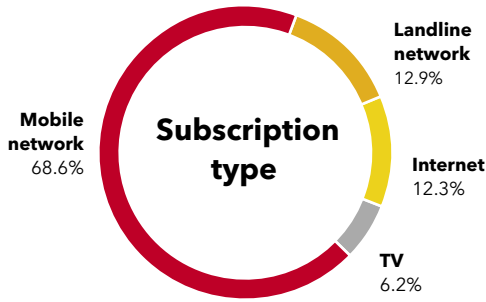
# **Annual Report 2017**



# Facts & Figures

## Customers by subscription type

(in percent)



# 3.426

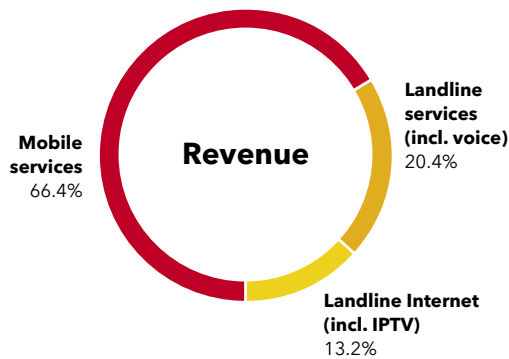
million

## Customers

With more than 3.4 million customers, Sunrise is the leading alternative telecom provider in Switzerland, both in the mobile and landline network sectors. Additionally, Sunrise is the third largest provider of landline network, Internet and TV services.

## Revenue by subscription type

(in percent)



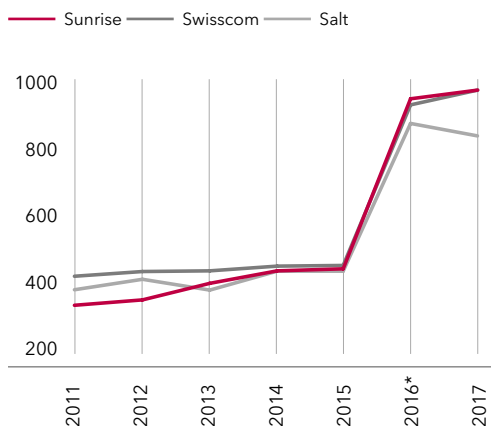
# 1,713

## Employees

29% of the total number of 1,713 Sunrise employees (1,645 FTEs) are women. Approximately 14% of Sunrise employees work part-time. Sunrise trains 122 apprentices in five apprenticeship programs.

## connect test history since 2011

(in points)



\* connect began using a 1000-point scoring system in 2016. The values in the chart have been adjusted to the 500-point scoring system of previous years.

# 91

## Offices and retail stores

With 85 retail locations, Sunrise has a presence in all regions of Switzerland. The Company is headquartered in Zurich and has additional business offices in Prilly, Geneva, Bern, Basel and Lugano.

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# Message to Shareholders



**Peter Kurer**  
Chairman of the Board (right)

**Olaf Swantee**  
Chief Executive Officer (left)

## Dear Shareholders,

Fiscal year 2017 was a positive and successful year for Sunrise. We were able to stabilize organic adjusted EBITDA, and our share price rose by 33%. Thanks to a number of initiatives Sunrise implemented, our customers now enjoy even better services than they did just one year ago. For example, they now have unlimited Internet access at top speeds, both at home and on the go. These initiatives have helped Sunrise expand its position as the leading competitor in the Swiss telecommunications market during the past year, thus also strengthening its position as an agile, refreshing, customer-focused and innovative alternative to Swisscom, the government-controlled market leader.

## Solid results thanks to superior quality and competitive rates

Mounting competition did not keep Sunrise from growing its net customer base by 108,800 in the mobile postpaid sector (+7.3%) to a total of 3.4 million customers. Compared to the previous year, the Internet sector also grew by a total of 50,400 new subscriptions (+13.6%). Once again, one of the strongest growth drivers turned out to be Sunrise Smart TV with an increase of 50,700 (+31.1%) subscriptions. Overall, accelerated customer growth was able to compensate for ongoing price pressure in the market. This led to a MTR adjusted increase of 0.3% and revenue of CHF 1,854 million. Adjusted EBITDA declined by 1.6% to CHF 601 million due to higher service fees after the tower disposal in August 2017. Excluding this, adjusted EBITDA would have increased by 0.8% organically. Net profit increased to CHF 505 million. This high net profit contains a one-time gain of CHF 420 million from the sale of our antenna towers to an investment consortium.

### **Sunrise share performance in 2017**

The Sunrise share price soared by 33% in 2017. By comparison, the Swiss Performance Index (SPI) reported an increase of 20% and the STOXX Europe 600 Telecommunications Index (€) decreased by 4% during the same period. Together with the dividend that was paid out in April, our shareholders earned a total return (share price change and dividend) of 39%.

### **2017 dividend**

At the Annual General Meeting, the distribution of a higher ordinary dividend of CHF 4.00 per share will be proposed. This corresponds to a total dividend of approximately CHF 180 million and an attractive dividend growth of 20% over the previous year.

### **First-class infrastructure and high level of security**

As in 2016, Sunrise won several awards in 2017: The Swiss business magazine BILANZ confirmed once more in its independent survey, the largest annual customer survey in the Swiss telecom market, that Sunrise offers the best mobile communications network for residential and business customers as well as the best TV service in Switzerland. Sunrise also took first place in the BILANZ Telekom Rating as the best full-service provider (universal provider) for residential customers and small and medium-sized enterprises.

In the mobile network test conducted by connect, Europe's largest trade journal, Sunrise was named the "test winner" yet again. Swisscom earned the same distinction and made up for last year's lost ground, but was unable to get ahead of Sunrise. By scoring 973 out of a maximum of 1,000 points, Sunrise surpassed its top result of the previous year and was again rated Outstanding. Additionally, it earned the highest number of points ever achieved in any mobile network test in more than 70 countries.

Having attained an excellent geographic coverage of 95% of Switzerland, Sunrise currently offers the highest 4G area coverage in Switzerland and supplies the Swiss population with top-quality mobile broadband services. This also means that Sunrise offers mobile broadband Internet connections in areas where satisfactory Internet access cannot be provided over the landline network. At up to 900 Mbit/s (4G+), the Sunrise mobile network already offers fiber-optic network speeds in the five largest Swiss cities.

An external audit again confirmed the certification of the Sunrise information security management system (ISMS). This makes Sunrise the first and only telecom provider in Switzerland to satisfy the technical infrastructure and operational process requirements of the stringent ISO 27001 certification standard on a company-wide basis. Business customers, in particular, consider this an essential indicator of quality.

### **Seizing new opportunities**

In response to a challenging economic environment, Sunrise has continued to adjust and refine its business strategy. With new and innovative products and a sustained network infrastructure expansion, Sunrise has been able to position itself as the leading full-service competitor in the Swiss market. In this context, the Company's digitalization strategy represents a vital pillar of innovation. The new Sunrise website is one of the digital transformation projects that is clearly visible from the outside. More personalization, a mobile-friendly display, and a compre-

**Sunrise is  
on its way  
to becoming  
the most  
recommended  
telecom  
company in  
Switzerland.**

**Olaf Swantee**  
Chief Executive Officer



## Sunrise has achieved financial stability and is proposing a 20% higher dividend for 2017.

**Peter Kurer**  
Chairman of the Board

hensive online shop and service area – all this, plus the accompanying app, make it easy for our customers to access their accounts and make changes directly online, anytime and from anywhere. Those features earned Sunrise the prestigious Swiss Digital Transformation Award from the jury of the Best of Swiss Web Awards. Every year, this award honors the company that has made the most impressive advances in the area of digital transformation.

Sunrise took another step toward digitalization with the launch of its ID Checker, the first entirely digital customer identification tool in Switzerland. The Sunrise ID Checker makes it easy to digitalize identification processes and correspondence, and, going forward, will allow the end-to-end digital processing of orders and owner changes without requiring the customer to be present at any particular time or location.

### **Strengthening our brand for a digital future**

To illustrate its accomplishments as a digital pioneer and its positioning as The Unlimited Company, Sunrise revamped its online presence last spring. The Company's new values of bold, intuitive and positive are inspired by its journey into the digital future. Boldly exploring new paths, intuitively offering customers simple and exciting experiences, positively responding to customer requirements with optimism and a focus on solutions – all this is what defines the new Sunrise values. To highlight these company values externally, as well, Sunrise also introduced a new logo, new colors and new brand principles to the public.

### **Innovation and customer orientation for the ultimate customer experience**

Sunrise shapes the market through its investments and innovations, and also promotes competition. With the rollout of Sunrise One in early March, the Company introduced its first fully convergent offer in the market that bundles landline, Internet, TV and mobile services, thus allowing customers to purchase all their telecom services conveniently from a single source. Regardless of the technology, Sunrise One always offers the maximum available connection speed at the lowest package price. Customers with fiber-optic connections can now enjoy transmission speeds of 1 Gbit/s.

Moreover, Sunrise Prepaid Unlimited was the first prepaid offer in Switzerland with a scope of services that is just as good as that of a flat-rate subscription. For 24 hours, 30 or 90 days following the initial chargeable activity, Prepaid Unlimited customers can make unlimited calls to all Swiss networks, use SMS/MMS services and surf the Internet on the go at the full 4G+ high speed of up to 300 Mbit/s - all at one flat rate.

### **Expansion of business customer sector**

Sunrise continues to expand its services for business customers as well. The Company must remain agile and flexible to hold on to its competitive edge over the long term. Nearly no company will be capable of managing the radical changes of the digital revolution without any help. Instead, the situation calls for partnerships that open up new opportunities and are beneficial for everybody involved. Strategic partnerships with global leaders, such as Microsoft, Cisco, Alcatel Lucent, Apple, IBM and Huawei, were a crucial contributor to customer growth as well. In addition to its partnership with Telefónica, Sunrise is now also a member of the FreeMove Alliance, where leading providers unite to offer their customers coordinated services throughout the world. Together with FreeMove, Sunrise has been able to win over some international companies with its top-notch network quality and exemplary service management.

### **Looking ahead**

2017 was a successful year for us. Our goal, however, remains unchanged: We aim to become the most popular telecommunications provider in Switzerland. There are tremendous challenges ahead of us. We will not be deterred, however, and plan to impress our customers with innovative products and an even higher level of service quality. On behalf of both our shareholders and customers, we will once again go that extra mile.

### **A sincere "thank you"**

Despite the challenging market environment, we had many successes in 2017. This shows that we are on the right path with our customer-oriented quality strategy. We will leverage this positive starting point to promote the targeted development of Sunrise as a company. Our achievements are due in no small part to our employees and partners - they are the factors that guarantee our Company's success. At this point, we would like to thank all of them very much for their tremendous commitment. We would also like to say "thank you" to our customers for their trust in us, and to our shareholders for their loyalty.



Peter Kurer  
Chairman of the Board



Olaf Swantee  
Chief Executive Officer





# Financial and Operational KPIs

Strong customer growth compensated the lower average revenue per user (ARPU), resulting in a stable revenue of CHF 1,854 million (MTR adjusted) for 2017. Gross profit stabilized for the first time after having declines over the past years. Adjusted EBITDA decreased slightly to CHF 601 million due to higher network service fees after the sale of the subsidiary Swiss Towers AG. Sunrise reached a net income of CHF 505 million in 2017, which contains a one-time gain of CHF 420 million from the sale of Swiss Towers AG.

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# Financial KPIs

CHF million	2017	2016	Change (%)
<b>Revenue</b>			
Mobile services	1,231	1,264	(2.6)
– Thereof mobile postpaid	768	768	0.0
– Thereof mobile prepaid	122	161	(24.0)
– Thereof mobile hardware	256	253	0.9
Landline services (incl. voice)	378	419	(9.6)
– Thereof landline voice	137	152	(9.5)
– Thereof hubbing	128	132	(3.2)
Landline Internet and TV	245	214	14.2
<b>Total revenue</b>	<b>1,854</b>	<b>1,897</b>	<b>(2.2)</b>
Service revenue excl. hubbing & mobile hardware	1,470	1,511	(2.7)
<b>Gross profit</b>	<b>1,193</b>	<b>1,193</b>	<b>(0.0)</b>
% margin	64.3%	62.9%	
% margin (excl. hubbing & hardware revenue)	81.1%	78.9%	
<b>EBITDA</b>	<b>592</b>	<b>599</b>	<b>(1.1)</b>
<b>EBITDA adjusted</b>	<b>601</b>	<b>611</b>	<b>(1.6)</b>
% margin	32.4%	32.2%	
% margin (excl. hubbing & hardware revenue)	40.9%	40.5%	
<b>Net income</b>	<b>505</b>	<b>87</b>	<b>479.6</b>
<b>Cash flow</b>			
Reported EBITDA	592	599	(1.1)
Change in NWC (incl. factoring)	32	(68)	147.6
Net interest	(39)	(51)	22.2
Tax	(31)	(30)	(5.3)
CAPEX	(315)	(213)	(48.2)
Other financing activities	(20)	(8)	(162.9)
<b>Equity free cash flow</b>	<b>219</b>	<b>230</b>	<b>(4.9)</b>
Other	(159)	(262)	39.4
<b>Total cash flow</b>	<b>60</b>	<b>(32)</b>	<b>290.4</b>
<b>Net debt</b>	<b>1,147</b>	<b>1,663</b>	<b>(31.0)</b>
Net debt/adj. EBITDA (LTM)	1.9x	2.7x	
Net debt/pro forma adj. EBITDA (LTM) <sup>1</sup>	2.0x		

<sup>1</sup> Pro forma adjusted EBITDA taking into account annualized network service fees related to tower disposal.

# Operational KPIs

	2017	2016 <sup>1</sup>	Change (%)
<b>ARPU (CHF)</b>			
<b>Mobile blended</b>	<b>31.7</b>	<b>33.1</b>	<b>(4.2)</b>
Postpaid	41.6	44.5	(6.4)
– <i>Thereof origination</i>	38.3	39.1	(1.9)
– <i>Thereof termination</i>	3.3	5.4	(39.2)
Prepaid	12.7	14.9	(14.7)
<b>Landline blended</b>	<b>68.1</b>	<b>69.2</b>	<b>(1.7)</b>
Landline voice	26.4	30.8	(14.4)
Internet	35.3	35.8	(1.3)
Internet and TV	47.7	46.1	3.5
<b>Subscription base (in thousand)</b>			
<b>Mobile</b>			
Postpaid	1,594.0	1,485.2	7.3
– <i>Primary</i>	1,313.3	1,240.4	5.9
– <i>Secondary</i>	280.6	244.8	14.6
Prepaid (3-month rule)	755.6	841.7	(10.2)
Prepaid (12-month rule)	1,281.5	1,431.1	(10.5)
<b>Landline</b>			
Landline voice	440.9	416.7	5.8
Internet	422.2	371.8	13.6
– <i>Thereof coupled to TV</i>	213.5	162.8	31.1
– <i>Thereof without TV</i>	208.7	209.0	(0.1)
<b>LTM churn (%)</b>			
Postpaid	13.3	14.1	(5.4)
Landline	15.6	12.5	25.0
<b>Employees</b>			
FTEs	1,645	1,656	(0.6)
Apprentices	122	109	11.9

<sup>1</sup> Restatement of prepaid ARPU and prepaid subscription base as well as mobile blended ARPU (see H1 2017 report for additional information).



# Operational and Financial Review

Thanks to excellent quality in its mobile network and customer experience, Sunrise has continued to gain subscribers. With the introduction of the Unlimited promise and a focus on innovation and digitalization, the Company remains the leading full-service challenger in the Swiss market.

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# Operational and Financial Review

## 1 Business Activities

Sunrise is the second-largest integrated communications provider in Switzerland, bringing mobile voice and data, landline voice, landline Internet and IPTV services to residential customers, business customers and other carriers across Switzerland using an integrated nationwide landline network and the best Swiss mobile network.

### 1.1 Residential Customers

Sunrise offers its residential customers mobile calling, landline, Internet and TV services from a single source. Mobile voice and data services are provided on both a postpaid and prepaid basis. Sunrise offers are tailored to meet its customers' needs for unlimited, high-speed access to the Internet at home and on the go, while also providing competitive, easy-to-use products, and various convergence options with no limits to digital access.

### 1.2 Business Customers

Sunrise business customers can select from a comprehensive range of products and services, from mobile offers and landline voice, Internet and data solutions, to systems integration and management of services. The specific needs of customers are met with a portfolio of standardized products for small businesses, as well as customized, scalable and secure offers for large enterprises.

### 1.3 Wholesale

Wholesale operations provides mobile voice and data as well as Internet services to other national and international carriers. Sunrise offers voice hubbing services based on excess capacity on the proprietary landline network.

## 2 Sunrise Strategy

In line with its past strategy, Sunrise has positioned itself as The Unlimited Company and aims to become the most recommended telecommunications provider in Switzerland. This while concurrently gaining market share and leveraging both its strong position in the mobile market and its positive momentum in the areas of Internet and TV.

This successful multi-brand strategy as well as the improved quality in both its mobile network and customer experience have strengthened the Company. Sunrise has become the market challenger and is gaining customers across all segments. Going forward, its plan of action is

to combine the following five key strategic components with the goal of becoming the most recommended telecommunications provider in Switzerland.

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### Focus on innovation and convergent products

Launch innovative products for home and on the go and keep the Unlimited promise in the digital era

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Sunrise has demonstrated every year that keeping a watchful eye on innovations and its customers' preferences is a key to the Company's success.

In 2017, Sunrise launched Sunrise One, the first convergent bundle offer in the Swiss market. It was followed by other innovations such as Mobile internet unlimited and Sunrise Prepaid Unlimited. In the coming year, the Company's objective is to take further steps toward the Unlimited promise by introducing new offers with no limits for a simpler everyday digital life.

Innovation is not only reflected in products, but also in the way the Company interacts with its customers by leveraging digitalization, eliminating complexity and increasing customer satisfaction and loyalty. The best example is the Sunrise ID Checker, which permits the digital identification and document exchange needed to complete many processes.

Sunrise has repeatedly earned top rankings as the best full-service provider for residential customers and small and medium-sized enterprises in the BILANZ rating, the largest annual independent customer survey in the Swiss telecommunications market, and these recurring distinctions are some of the signs that the Sunrise strategy is showing results.

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### Best-in-class customer service

Deliver a best-in-class customer service experience to become the most recommended telecommunications provider

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With a Service team of 1,200 agents covering the entire Sunrise product portfolio, the Company is committed to delivering an outstanding customer experience. It has refreshed its strategy in the last 12 months with an increased focus on service across the entire organization.

Its number one priority is a pragmatic and customer-focused approach to enhancing the service it provides.

With the help of a continuous focus on Net Promoter Score (NPS), contact resolution and customer feedback, Sunrise identifies customer pain points and barriers to an outstanding customer experience. These pain points form a key part of the service transformation plan and are reviewed weekly with the Executive Leadership Team and select other leaders on the newly established Service Steering Committee.

In 2017 alone, over 200 pain points were removed by investing CHF 2 million into the Company's processes and work practices. This work will continue in 2018 at the same high level of commitment.

The evolution of the service operating model delivers the best structure for providing support to customers. Phone lines staffed with experts were recently introduced to ensure that customers always get assistance from the most qualified agents. Supporting this approach more broadly, the implementation of a benchmark model ensures consistency across the front-line community with regard to all customer inquiries.

To meet customer expectations and offer a multi-channel experience, Sunrise is also enhancing its digital service capabilities by rolling out new tools and systems, including messaging for support, IVR enhancements and an automated chat solution. All initiatives focus on making the information customers need available to them through their preferred channels and as effortlessly as possible.

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## **Maintain a state-of-the-art infrastructure**

Leverage the superior frequency spectrum position and continue investing to maintain a competitive advantage and capitalize on future growth opportunities

Since launching the network program together with technology partner Huawei in 2012, Sunrise has invested more than CHF 1.3 billion into the expansion and upgrade of its network; the vast majority of this investment has been funneled into its mobile network.

Sunrise will continue to leverage and maintain a state-of-the-art mobile and landline network infrastructure to continue to provide customers with a reliable high-speed network throughout Switzerland and to ensure a

best-in-class customer experience while also capitalizing on future growth opportunities in convergence and data.

In the landline area, Sunrise will build on its own infrastructure and backbone transmission to provide customers with innovative, fast, high-quality voice and data transmission. It will continue to provide high-speed access in Switzerland by leveraging the latest VDSL developments with G.fast, as well as fiber coverage through partnerships with Swisscom, local utilities and Swiss Fibre Net AG, the joint venture of local energy providers in Switzerland.

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## **Accelerate brand development and significantly increase quality perception**

Further invest in brand building to highlight the Company's values and to strengthen all relevant consideration drivers

Past investments in marketing that supported the Company's brand positioning generated strong momentum for the Sunrise brand and all brand drivers. This was further accelerated when Roger Federer was named the Sunrise Brand Ambassador in 2014. Since then, Sunrise has significantly improved its brand esteem and recognition.

In 2017, Sunrise defined a new brand framework that represents a fundamental lever for challenging the market once again. The new marketing strategy aims to showcase Sunrise as The Unlimited Company based on three new brand pillars, the company values of bold, intuitive and positive. These reflect the Company's commitment to becoming the most recommended telecommunications provider in Switzerland.

Throughout 2018, Sunrise will continue to implement and anchor its brand values and strengthen the relevant drivers of consideration by enhancing its communication across all relevant communication touchpoints.

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## **Grow B2B**

Grow the enterprise market share by offering high-quality digital communication services to large and small business customers

Sunrise serves large companies with tailored, scalable and secure telecom solutions that include professional services and support for its customers on their journey toward digitalization and during their transition to making maximum use of cloud-based services.

For small companies, Sunrise continuously invests in expanding its portfolio of standardized, straightforward products and in strengthening direct and partner sales channels to increase its market reach.

Sunrise focuses on solutions designed to simplify processes and thus increase productivity.

The services are provided through its own expert resources. Sunrise will enhance these offers through strategic and selective cooperation with leading partners such as the FreeMove alliance.

### 3 Customers

Sunrise continues to apply significant focus to improving the customer experience, a key principle of its business strategy. Processes are in place to survey and gather customer feedback after each contact. This feedback is used to enhance ways of working across all channels and touchpoints. These efforts gained a number of new awards in 2017. BILANZ Telecom Rating recognized Sunrise as the best universal provider for residential customers offering the best TV and mobile telephony services. In addition, Sunrise won the connect Hotline Test for Broadband, again for providing the best customer service experience.

#### 3.1 Net Promoter Score

In 2013, Sunrise launched a company-wide, multi-year program dedicated to achieving a substantial improvement in the customer experience across multiple customer touchpoints. The enduring nature of the program is proof of its success.

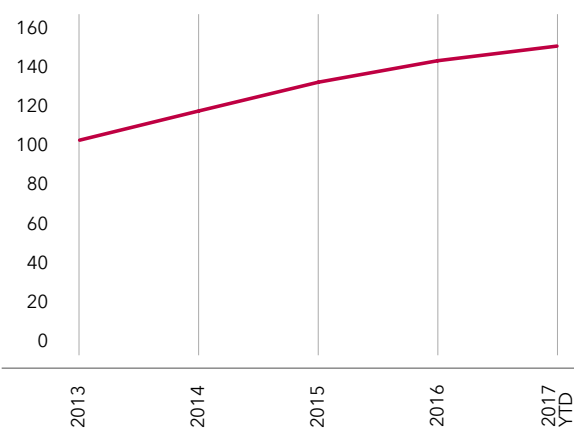
Through the Net Promoter Score (NPS) program, Sunrise has been able to continuously identify areas with improvement potential and ensure the successful implementation of enhanced customer service. NPS is a powerful and easy-to-understand metric for measuring customer loyalty and satisfaction. It is obtained through a simple customer survey administered immediately after customers have defined interactions with Sunrise and is supported by follow-up measures.

As a result, Sunrise has significantly improved its NPS (from a basis of 132.4% as of December 31, 2015, to 148.1% as of December 31, 2017, compared to index of 100% in 2013).

#### Base NPS evolution

NPS performance improvement since launch of customer experience program in 2013 (values indexed to Q1 '13)

— NPS overall (average year)



Sunrise offers support across all products and services including sales, administration, dealer support and technical support for both mobile and landline products. Its Customer Services organization provides services through dedicated call centers, written correspondence and an online chat service both in-house and through outsourced partners.

To meet soaring customer expectations in a digitalizing world, Sunrise has during the last few years focused on significantly improving its digital capabilities. At the current time, the Company continues to implement digital initiatives to further increase its market share and profits.



## 4 Market Environment

The Swiss telecommunications market is a highly competitive market with one of the highest levels of service quality in the world.

### 4.1 Economic Environment

The Swiss economy continues its gradual recovery after the economic slowdown set off by the appreciation of the Swiss franc in early 2015. The Swiss franc depreciated in real terms in 2016 and early 2017, but upward pressures remain and have led to sizeable interventions by the Swiss National Bank.

Swiss GDP growth was at around 1% in 2017 and thus weaker than the 2016 growth rate of 1.4%; nevertheless, the GDP is expected to rise gradually (IMF World Economic Outlook, October 2017, projection for 2018). Increasingly open to Europe and the rest of the world, Switzerland benefits in the context of global improvements.

After two years of deflation, the expected gradual shift toward positive inflation arrived with a 0.5% growth in consumer prices in 2017 compared to -0.4% in 2016 (IMF World Economic Outlook, October 2017, projection for 2018). Nevertheless, inflation is expected to remain low through the next few years, while the low interest rate environment is set to continue.

### 4.2 Industry and Competitive Environment

Swisscom is the largest Swiss mobile network operator (MNO) followed by challengers Sunrise and Salt. Each of the three MNOs has its own nationwide network infrastructure with a spectrum license granted until 2028. In addition to the MNOs, there are branded wholesale resellers on all three mobile networks, as well as MVNOs (mobile virtual network operators) that use the MNOs' infrastructure to provide their services. The market share structure in Switzerland has remained quite stable over the past few years. Following the 2016 trend, 2017 was a highly competitive year in terms of mobile prices. The competition in the budget market continued to increase, and Salt maintained its aggressive promotional campaigns. In this context, Sunrise has emerged as a strong challenger whose mobile subscriber base has increased in 2017 driven by the growth in the postpaid segment, and has shown faster growth in the Internet sector compared to its main competitors.

2017 was the year of convergent offers, with various bundled products launched in the market that were well-received by Swiss consumers.

### 4.2.1 Mobile Networks

Mobile networks in Switzerland boast a high standard of quality. connect, the independent network tester, rated the Sunrise network as Outstanding in 2016 and 2017. The Company received the highest rating ever, scoring 973 out of a maximum of 1000 points in 2017. The networks operated by Swisscom received the Outstanding rating for the first time in 2017, and Salt earned a rating of Good. According to the test, Sunrise provides the best geographic 4G coverage (94.3%) across Switzerland, enabling "outstanding" mobile broadband connections virtually everywhere. With this result, beating P3 test results in more than 70 countries, Sunrise propels Switzerland to the position of global leader in mobile networks.

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### The best mobile network

Sunrise achieved the highest score ever recorded in a connect mobile network test. Beating also the top P3 test scores in more than 70 countries, the Company provides one of the world's best mobile networks.



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### 4.2.2 Landline Services and TV

In Switzerland, landline voice services run primarily over the digital access lines of the phone network and the access lines of cable network operators. Swisscom is the largest provider of landline voice telephony in Switzerland, followed by UPC and Sunrise.

Landline broadband Internet connections can be established via several different access technologies, including fiber, VDSL, and cable modem. Swisscom is the leader in the Swiss broadband Internet market, followed by UPC and Sunrise. Unbundling has made access lines available to providers including Sunrise. Additionally, Salt has announced its entrance into the landline market by means of the previously mentioned unbundling of access.

The two leaders in the Swiss television market, serving slightly more than half the market, are Swisscom and UPC. The rest of the market remains fragmented among local cable companies, satellite and digital terrestrial

television providers. In the past few years, UPC and the other cable operators were losing some market share to providers of IPTV (mainly Swisscom and Sunrise). Sunrise entered the TV market in 2012, and has been steadily gaining market share since then by leveraging a high-quality TV offer with extensive content. This offer was reached by pursuing strategic partnerships with content providers. It was underscored by the result of a September 2017 rating conducted by the Swiss magazine BILANZ which ranked Sunrise as the best provider of TV services throughout Switzerland.

To meet the increasing demand for higher bandwidth services and IPTV, Sunrise entered into an agreement with Swisscom which grants Sunrise access to all fiber- and copper-based access technologies, including VDSL and G.fast. Additionally, Sunrise has partnerships with Swiss Fibre Net AG, a joint venture of local energy providers in Switzerland, and with local utilities which grant the Company access to their fiber networks.

## 5 Products, Services and Sales Channels

Based on the Company's new values of bold, intuitive and positive, its product portfolio is of high quality and is tailored to its customers' needs. This has created effortless and engaging customer experiences, making a difference every day in the success Sunrise enjoys in a challenging environment.

### 5.1 Convergent Offer: Sunrise One

By launching Sunrise One in April 2017, Sunrise positioned itself as The Unlimited Company with this first converged bundle product in the Swiss market with no limits to digital access.

Sunrise One combines mobile, landline, Internet and TV services in one convergent offer that comprises the two products Sunrise Mobile Unlimited and Sunrise Home Unlimited. Sunrise One is very attractive compared to equivalent packages offered by competitors.

The mobile services included are unlimited calls, unlimited SMS/MMS messages and unlimited surfing at maximum speed, all within Switzerland. Additionally, two bundled options can be added: Travel Unlimited and International Unlimited.

Sunrise Home Unlimited offers Internet at the fastest network speed that is technically possible at any given time, unlimited calls to all networks in Switzerland, and Sunrise TV with the following main features: 270+ TV channels, 80+ HD and Video on Demand; 7 days of ComeBack TV, 1,200 hours of recordings, and a wide array of content entertainment.

Keeping in mind that convergence is a key market trend, Sunrise offers its customers different types of convergence. They can either create their own package offering the best of both worlds with the Home (landline) and Freedom (mobile) subscriptions and benefit from Sunrise Advantage (10% discount on all basic fees each month), or they can select Sunrise One, the convenient combo package.

### 5.2 Mobile Offerings

Mobile service offers include mobile voice and data and other value-added services such as international calls, roaming and device insurance, as well as access to Sunrise TV products via mobile devices. Sunrise also offers mobile phones and tablets, plus other devices and accessories.

### 5.3 Sunrise Freedom

The Sunrise Freedom portfolio targets the mass market. Freedom rate plans, launched in April 2014, introduced separate service and mobile phone plans without a fixed contract period, allowing customers to change their subscriptions at no cost any time their needs change.

In May 2016, Sunrise refined its Freedom portfolio to better satisfy the growing demand for mobile data and roaming. Customers on Sunrise Freedom relax, max and super max, as well as MTV mobile Freedom world and max, started enjoying unlimited high-speed surfing on 4G+ at speeds of up to 300 Mbit/s in Switzerland.

### 5.4 Sunrise extra SIM surf & talk

To meet the growing demand for mobile Internet access and wearable devices, Sunrise launched extra SIM surf & talk in May 2017. This rate plan lets customers use the high-speed data volume and voice minutes included in their Freedom mobile subscriptions on another device equipped with a second SIM card. Customers can purchase up to five options or additional SIM cards per mobile subscription, and can also sign up for an additional plan for a second device.

### 5.5 Sunrise extra SIM watch option

Sunrise was one of the first five telecom providers in Europe to offer cellular services on the Apple Watch via its new product, the extra SIM watch option. With this option, customers can use their iPhone mobile number on their Apple watch and tap into voice and data from their Freedom rate plan without needing a second SIM card, as the Apple watch has an embedded eSIM. This option allows parallel calls and ringing and was launched in December 2017 with a special introductory promotion.

### 5.6 MTV mobile

In September 2010, Sunrise launched the MTV mobile rate plans that provide attractive products to youth segment customers up to the age of 30. With this offer, the Company has been the only telecommunications brand in the Swiss market to specifically target the youth market. MTV mobile Freedom follows the same flexible principles as Sunrise Freedom and has been highly successful. The offer is attractively positioned in all postpaid youth segments and is enhanced by attractive benefits relevant to this age group, such as the Swiss Half-Fare travelcard on the SBB railway system.

### 5.7 Roaming

In the last few years, Sunrise launched and enhanced a comprehensive, attractive and competitive range of products and services targeting both regular and occasional roamers. While the former can select one of the Freedom rate plans including roaming, occasional users benefit from the broad portfolio of roaming options (Sunrise travel days, travel data options and travel talk options) and pay only when they need it. The Sunrise Roaming Cockpit allows customers to keep costs under control.

For data roaming outside of Region 1 with EU+ and USA/Canada, Sunrise has also improved its travel data packages by increasing the number of countries included from 28 to 50. The price for the 100 MB travel data packet was reduced, and there is now a 2 GB data package available for Zone A.

Taking a further step toward the Unlimited promise, Sunrise removed data roaming limits in August 2017 by introducing its new roaming package called travel data unlimited 5 borders. This package offers unlimited surfing, including 5 GB of high-speed Internet, in Switzerland's neighboring countries of Germany, France, Italy, Liechtenstein and Austria, which are among the most popular travel destinations of the Swiss.

With the launch of Sunrise One, Sunrise also broke the limits for roaming by launching its travel unlimited EU+/USA/CAN option (only available with Sunrise Mobile Unlimited). This option includes incoming and outgoing calls to and from 44 countries, 4 GB of data roaming, unlimited SMS throughout the world, and calls from Switzerland to 36 countries at very attractive prices.

### 5.8 International

Being sensitive to the diversity of the Swiss population, Sunrise uses different approaches to accommodate its customers' wide range of international needs.

For customers making international calls regularly, unlimited calls to 17 countries are included in Freedom super max, Freedom max, MTV mobile Freedom max and MTV mobile world. To meet more specific needs, the international portfolio can be complemented with lower-cost international calling options (Sunrise International options) and attractive options directed to a number of countries (Sunrise my country options).

With Sunrise One, the Company launched an unlimited international proposition called International Unlimited EU+/USA/Canada. This option includes calls and SMS/MMS messages from Switzerland to 36 countries and is only available with Sunrise Mobile Unlimited.

### 5.9 yallo Postpaid Plans

Since the relaunch of yallo postpaid in March 2015, the portfolio has evolved to better meet the needs of the growing budget and ethnic markets in response to increasing smartphone penetration and data consumption in these segments.

Along with a brand refresh in March 2017, yallo launched three new flat rate subscriptions: yallo regular, yallo fat and yallo super fat, focusing even more closely on quality-conscious and online-oriented bargain hunters. yallo regular includes unlimited calls and SMS messages to all networks in Switzerland, as well as 3 GB of data at 4G speeds also in Switzerland. yallo fat includes unlimited calls, SMS messages to all networks in Switzerland and unlimited data at 4G speeds in Switzerland. And yallo super fat comprises unlimited calls and SMS messages to all networks in Switzerland, and to 43 European countries, as well as unlimited data at 4G speeds in Switzerland and 1 GB of data roaming in Europe. The three price plans can be bundled with a constantly changing variety of smartphone offers that customers can get at special prices. The popular previous rate plans yallo postpaid, yallo swiss, and yallo

flat continue to be available in stores, including at Swiss Post, Mobilezone, and Interdiscount.

Since 2016, yallo has also been offering unlimited mobile Internet with its yallo Go! product, thus meeting the Internet needs of the ethnic and budget segments, both at home and on the go.

### 5.10 Prepaid Offerings

Sunrise offers prepaid voice and data services under a wide range of brands (Sunrise, MTV, ALDI SUISSE mobile, ERA, yallo, Ortel and Lebara) to appeal to different market segments and their diverse needs. With all brands, the Company offers a wide range of customized options, including calling, SMS messages, data and roaming, as well as combinations thereof, for a monthly fee. As smartphone penetration and data consumption increase, prepaid is declining, and there is a shift from prepaid to postpaid subscriptions.

Sunrise enhanced its prepaid portfolio in May 2017 with the launch of Prepaid Unlimited, an innovative prepaid offer that is on a par with the scope of services of a flat rate subscription. It is available in Switzerland for an attractive flat fee. Prepaid Unlimited customers can make unlimited calls to all Swiss networks, send unlimited SMS/MMS messages and get unlimited surfing up to 300 Mbit/s at fast 4G+ speeds for 24 hours. In August 2017, Sunrise extended Sunrise Unlimited and became the first telecommunications provider to offer two prepaid options that can be used for either 30 or 90 days. The options are available at [www.sunrise.ch](http://www.sunrise.ch), and can also be bought with practical top-up cards at more than 4,000 points of sale across Switzerland. This makes Prepaid Unlimited the perfect solution for customers or tourists who might not use their smartphone every day, but want to have access to maximum performance at all times.

To complete their prepaid portfolio, Sunrise and MTV mobile have offers based on a cost-control feature (called airbag) as well as two prepaid options. With the Sunrise Prepaid airbag plan, customers pay only for the first two minutes of a call, and with MTV mobile WhatsApp pre, they pay a maximum of CHF 0.75 per day for mobile Internet usage. The two prepaid options Sunrise Prepaid budget 10 and Sunrise Prepaid budget 15 are particularly appealing to regular users, as they provide a specified number of calls, SMS messages to all Swiss networks and megabytes of mobile Internet surfing at 4G speeds.

yallo, Ortel and Lebara offers consist mainly of attractive, minute-based rates for international calls, and competitive voice and data plans for Switzerland.

yallo also has the two options yallo Flat Prepaid and yallo Flex in its portfolio. While yallo Flat Prepaid includes unlimited calls to Switzerland and Europe as well as 3 GB of high-speed mobile data, yallo Flex includes 200 minutes in Switzerland and Europe, plus 1 GB of national data. yallo also provides data bucket options (yallo surf), roaming options and specific offers for calls to Kosovo.

The Lebara portfolio, called Lebara Plus, meets the full range of needs of its target market (immigrants and Swiss citizens with friends and family abroad), and focuses on customers' rising data usage. Lebara Plus offers international savings options, low-cost daily passes for Switzerland (data, voice and SMS), plus free 4G data every time a refill is purchased, therefore successfully replacing the previously used "free cash" model.

### 5.11 Mobile Internet

In May 2017, a new mobile Internet offer replaced the previous Take Away Freedom subscriptions. This new offer fulfills the Unlimited promise with different prices per month for different speeds (2 Mbit/s, 10 Mbit/s and up to 300 Mbit/s with 1 GB of roaming included), thus giving customers an easy and carefree surfing option on the best mobile network in Switzerland with no data limits.

To crown this offer, Sunrise launched its improved mobile Wi-Fi hotspots in the summer of 2017: pocket hotspots and home hotspots. Pocket hotspots are compact with a powerful battery, thus making them perfect for mobile use, while home hotspots are easy to connect and are specifically designed for local use. Both hotspots are available with a device plan.

### 5.12 Devices and Accessories

Sunrise offers its customers a broad range of mobile devices and related accessories sourced from a number of well-known suppliers and distributors, including Apple, Samsung, HTC, Huawei and Beats. The Company continuously seeks to improve the quality and range of its mobile device and accessory portfolio by embracing new technology developments and mobile device features.

Sunrise launched the Sunrise Smartphone Upgrade option in September 2016. After a one-year subscription, customers are able to trade in their iPhone 7 for an iPhone 8 or iPhone X at no charge. The new phone also

comes with a 24-month device plan, and any unpaid installments for the old iPhone are waived.

The Apple Watch Series 3 GPS + Cellular is another highlight of Apple's latest products, and Sunrise is one of the first telecom providers in the world to launch and offer the cellular feature of the Apple Watch Series 3.

Sunrise took another step forward in November 2017, when it started offering customers the option to purchase accessories by adding them to their installment plans and pay them off in convenient monthly installments.

### **5.13 Innovative Services**

Since April 2016, Sunrise has been offering its customers a direct carrier billing option, called Sunrise Pay, as a payment method for Google Play. With Sunrise Pay, customers can make secure purchases without providing credit card or bank account details. The purchase amount is then added to the customer's next mobile phone bill (subscribers) or deducted from their account balance (prepaid users). As a result of a joint effort between Sunrise and its partner DOCOMO Digital, Sunrise customers have also been able to purchase iTunes codes and Apple Music memberships with Sunrise Pay since February 2017. Sunrise will continue its efforts to onboard further partners and services to expand this innovative solution.

With Sunrise surf protect, Sunrise was the first telecommunications provider in Switzerland to launch network protection for secure surfing both on the mobile network and via the Sunrise router. Sunrise surf protect offers protection against phishing, ransomware, viruses and other threats. It is easy to use, always up-to-date, and does not require any software installation. Additionally, Sunrise offers the Kaspersky Safe Kids parental control solution that helps parents protect adolescents and children in the digital world.

### **5.14 Landline Voice, Internet and IPTV Offers**

Sunrise provides Internet access and landline voice and television services based on the Internet Protocol (IP) to both residential and business customers. The Company will continue to provide this high-speed access in Switzerland by leveraging the latest VDSL innovations with G.fast and fiber coverage through partnerships with Swisscom, local utilities and Swiss Fibre Net AG, a joint venture of local energy providers in Switzerland.

As a leading challenger, Sunrise is opting for the best solutions available and operates top-speed, future-oriented fiber optic connections.

#### **5.14.1 Landline Voice**

Sunrise offers local, national, landline-to-mobile and international voice services to residential and business customers throughout Switzerland.

#### **5.14.2 Internet and IPTV**

With Sunrise Home and MTV home, customers can select the combination of Internet, digital TV and landline that best suits their needs. When they get these comprehensive, transparent and flexible products, customers only pay for what they actually use and for what makes sense for them. They also have the option of adjusting the individual products in their package quickly and at no charge. In addition, they can opt for Sunrise One, the convenient combination package, and always get the maximum available speed.

Since launching Sunrise TV in 2012, Sunrise has transformed television into a completely new experience every year. Its sizeable innovation efforts have resulted in Sunrise offering the best digital TV throughout Switzerland (BILANZ Telecom Rating 2017).

In April 2017, Sunrise launched the UHD TV Box (Ultra High Definition), the most up-to-date UHD TV Box in Switzerland, with integrated WLAN, remote control over Bluetooth and superb processor performance.

The year 2017 was the year of content innovation. In addition to integrating Netflix into its new TV Box, Sunrise became the leading challenger in sports by offering the best of the world of sports with Sky Sports and Teleclub.

Its partnership with Sky, the biggest pay TV provider in Europe, includes great live sports content, as well as unique, first-rate HBO series, such as Game of Thrones. With Sky, Sunrise customers can access, with a monthly or daily pass, all sports for which Sky holds the rights in Germany and Austria, such as Bundesliga, 2. Bundesliga, UEFA Europa League and UEFA Champions League, handball, tennis, Formula 1 and golf. As an exclusive launch special, Sunrise offered three months at no charge in cooperation with Sky.

The Teleclub offer, integrated in Sunrise TV, includes HD-quality Teleclub live sports content as part of a top-notch package or as individual pay-per-view options.

As a launch special, Sunrise exclusively offered the new world of sports free for six months.

As part of the Unlimited experience with the Sunrise TV app, the whole family can watch different channels on TV and on up to five smartphones or tablets at the same time, whether at home or on the go. Even while abroad, Sunrise TV provides customers with access to all ComeBack TV content and stored recordings via Wi-Fi. The Sunrise TV app lets users find their favorite shows quickly and easily and then transfers those shows directly to their TVs.

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## BILANZ rating

In 2017, the Swiss business magazine BILANZ rated Sunrise the best universal and mobile phone service provider for residential and business customers and the best TV provider throughout Switzerland. This result strongly reflects improvements the Company has made in the areas of network quality and customer interaction, thus showing that its strategy is paying off.

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### 5.15 Sales Channels

Sunrise distributes its products and services through direct and indirect channels.

Direct distribution occurs through self-branded company stores, self-branded mobile centers, websites, web chats, mobile apps, direct mail and phone sales via call centers (inbound and outbound). As of December 31, 2017, Sunrise had 85 self-branded points of sale.

The new era of Sunrise as The Unlimited Company and the pioneer of digital Switzerland is also being reflected in a fresh new look in its shops, to be continued in 2018, with a modern and flexible design that gives the brand a clear and distinct appearance and increases footfall.

To support the strong performance by the Company's digital channels, Sunrise has been offering MyDelivery since November 2016. While it lets customers choose where and when to receive their device orders, MyDelivery also includes 2,500 pickup locations throughout Switzerland.

Indirect channels range from nationwide chains such as Mobilezone (the largest independent telecommunications retailer in Switzerland), Swiss Post, Media Markt, Interdiscount and Fust, to regional Sunrise Premium Partners and dealers. Indirect channels provide approximately 2,500 points of sale throughout Switzerland.

A comprehensive and target-segment-specific distribution network with approximately 1,500 points of sale offers services for the ethno-segment under the Lebara, Ortel and yallo brands. Through its new online shop, yallo has extended the distribution of its brand to the mass market, therefore facilitating the purchase of yallo products.

Sunrise has dedicated account management teams for its medium and large enterprise customers, while small business customers are mainly supported by sales partners (indirect channels) and the Company's own retail stores.

### 5.16 ISO-Certified Services

Sunrise was the first telecom provider in Switzerland to have its entire organization – both its company-wide technology infrastructure and operational processes – certified to the ISO 27001 standard. This certification ensures the highest levels of quality and security for Sunrise customers, therefore protecting their personal information and communication services.

### 5.17 Digital Experience

The Company's digitalization strategy forms an important element of this innovation and is extended to all brands. Not only did Sunrise build an entirely new website, but it also digitalized a great many processes and drove change forward within the Company. More personalization, a layout optimized for mobile devices, and an extensive online shop and service area are just four of the many innovations the new Sunrise website offers.

Both the Sunrise website and the My Sunrise app set in motion the implementation of numerous digital initiatives aimed at simplifying and improving customers' online experience. Another fitting example is the Sunrise ID Checker, launched in September 2017, that facilitates

the digital identification and document exchange needed to complete many processes, meaning no more shifting and time constraints for customers.

As a result of the Company's efforts and its focus on digital transformation, the jury of the Best of Swiss Web Awards presented the prestigious Swiss Digital Transformation Award to Sunrise in April 2017 for the progress it had made in digitalization. In addition, Sunrise was awarded second place in the Master of Swiss Web competition.

## 6 B2B

Sunrise is the leading challenger in the area of communications services for large and small businesses in Switzerland.

Explicitly designed for business customers, Sunrise B2B offers a comprehensive range of services, from mobile offers to landline voice, Internet and data solutions, systems integration, and end-to-end managed services.

It is the Company's objective to be the most recommended telecommunications provider in Switzerland by consistently providing high-quality services and a high ease of doing business.

### 6.1 Portfolio

Sunrise offers a complete range of mobile, landline, Internet, and data services that are tailored to both small and medium-sized enterprises as well as large companies.

#### 6.1.1 Mobile

Sunrise business mobile provides communications solutions for mobile calling and high-speed data needs. Its flat rates are tailored to the needs of the mobile workforce that requires 24/7 accessibility – both in Switzerland and during business travel abroad.

#### 6.1.2 Mobile M2M/IoT

As the number of interconnected devices continues to rise, efficient machine to machine (M2M)/Internet of things (IoT) management is becoming increasingly important. Sunrise services are designed to facilitate communication between machinery and devices – without direct human intervention. Sunrise helps small and medium-sized enterprises use their machines and construction vehicles more efficiently. Multiple features are integrated into the M2M management platform allowing employees to view all device-related connection

information in real time. This facilitates the optimization of business processes and increases in efficiency.

#### 6.1.3 Unified Communication

Sunrise offers a wide range of scalable solutions for efficient communication and collaboration. It supports company-internal flexibility and productivity and simplifies employees' day-to-day lives. Unified communication offers all the features of traditional voice solutions, plus messaging and presence technology, online meetings, telephony and video conferencing. It is valued for providing high levels of availability as well as flexibility and scalability for core business tasks.

#### 6.1.4 Connectivity

Sunrise connectivity services provide complete IP solutions for linking company locations, and ensure that they have the fastest possible access to the Internet. It offers connectivity between locations throughout Switzerland.

#### 6.1.5 Security

Sunrise provides a wide range of security services that protect data and keep threats at bay. Security-conscious companies want to benefit from the advantages the Internet provides without putting their own data and systems at risk. Their modular structure and scalability make Sunrise security services perfect for small and medium-sized enterprises and large corporations.

### 6.2 Sales Channels

Sunrise has dedicated account management teams for its medium and large enterprise customers, while small business customers are mainly supported by sales partners (indirect channels) and the Company's own retail stores.

## 7 Network

In 2017, Sunrise continued its long-term strategy toward providing a defect-free network and therefore globally acclaimed, exceptional quality. After achieving great success in the internationally recognized quality benchmark test by connect in 2016, Sunrise was able to improve its test results even further in 2017, when it earned 973 points out of 1,000 – the highest score ever awarded by connect anywhere in the world – and was able to defend its title of test winner. This shows once more that the Company's strong focus on quality is paying off.

### 7.1 High-Quality Technologies

Sunrise provides mobile services over its own network using GSM/GPRS/EDGE/UMTS/HSPA and 4G/4G+ technologies. On the landline side, Sunrise leverages 631 points of presence in its fully-invested local loop unbundled network, covering approximately 85% of households in Switzerland. It benefits from a 12,242 km long, state-of-the-art fiber optic network reaching across Switzerland. As a result of its long-term agreement with Swisscom, and a strategic collaboration partnership with Swiss Fibre Net AG, a joint venture of Swiss energy providers and local utilities, the Company has access to the most advanced, next-generation copper- and fiber-based access technologies, such as vectoring, fiber-to-the-street, fiber-to-the-building and fiber-to-the-home.

### 7.2 Investment in the Network

Sunrise has continued to invest in network quality, availability and security. The Company remains committed to its clear strategy of expanding 4G+ technology and is not stopping at the typical key performance indicators for population coverage: As early as in 2016, it reached a 4G population coverage level of more than 99%, thus achieving this objective ahead of schedule. Sunrise continued to fulfill its promise of more than 92% 4G area coverage in 2017 and over-delivered in November 2017 with 94.3% of 4G area coverage. Key drivers for this strategy continued to be the sustained rapid growth in data traffic, which currently doubles every 10 months, and the demand for mobile and landline broadband services.

The success of this strategy is not only paying off in several different network tests and benchmarks, such as the connect test, Ookla (speedtest.net) and Open-Signal.com, but also in the fact that many top-quality brands have decided to move their services to Sunrise.

Swiss International Air Lines is one example. It made the decision to move the mobile phones of 1,500 users in Zurich, Basel, Geneva and other smaller airport locations in Switzerland to the Sunrise network. The main reasons for Swiss to make this switch were the exceptional level of 4G area coverage Sunrise provides, the quality of the connection itself as well as the strong service management competences of Sunrise.

During 2017, Sunrise won a contract with Swiss Post to deliver WAN (wide area network) services. This was yet another example that the Company's strong quality strategy also works to enhance its perception in the business-to-business area and increases cross-selling.

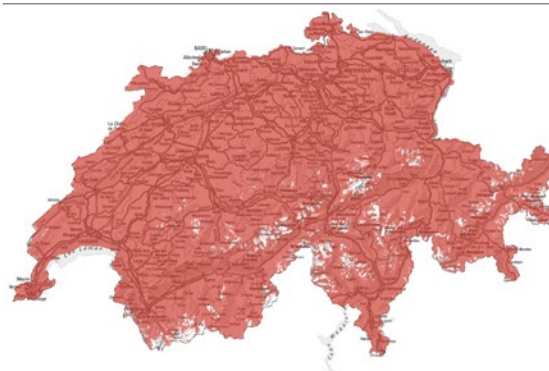
Sunrise also demonstrated that, together with its long-term technological partner Huawei, it is actively working on the future of mobile communications. In December 2017, Sunrise publicly presented a live 5G network demo that provided a glimpse into the future of mobile networks, and demonstrated eye-opening experience showcases such as the parallel provision of multiple 4K TVs over the air, live 360-degree videos, and virtual and augmented reality use cases.

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### Sunrise 4G coverage

(as of December 2017)

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With its strong focus on network expansion, Sunrise now provides more than 99% of Swiss residents with 4G mobile high-speed Internet and covers 95% of the territory of Switzerland.

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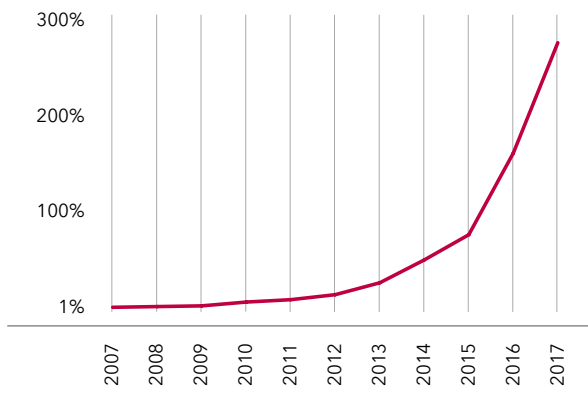
### 7.3 Tower Deal

In May 2017, Sunrise successfully closed a deal with the Spanish tower company Cellnex. It involved the sale of 2,239 telecom towers with all attached passive infrastructure, a long-term service contract for supplying tower infrastructure services, and a new build-to-suit program comprising new macrosites and small cells. The active infrastructure, which mainly consists of all telecommunication equipment such as base stations, antennas, amplifiers, transmission equipment and power supplies, remains with Sunrise. This allows Sunrise to further enhance its outstanding network quality by concentrating on its core business, i.e., the engineering and optimization of the active components of the mobile network, while at the same time relying on a very experienced partner for site-owner care, maintenance of passive infrastructure towers, and the acquisition of new towers.



## Data traffic in %

Massive increase in data traffic over the past ten years



### 7.4 Network App

The network app that allows customers to provide direct feedback on their experience with the Sunrise mobile network was further developed in 2017. The app, launched in May 2015, has provided immensely valuable direct feedback from customers and has been used to design the Sunrise network expansion programs in 2016 and 2017. In 2017, Sunrise took another step toward outstanding quality by giving its customers the opportunity to provide feedback on their network experience while abroad. This feedback helps further improve roaming services, e.g., by shifting to roaming partners with better network quality or by means of joint troubleshooting with the operator abroad.

### 7.5 Outstanding Network

It was an unprecedented achievement when the Sunrise network received a rating of Outstanding by scoring 951 points in the 2016 connect test. Then, in 2017, the Company transcended its own record by accumulating 973 points, thus again earning the rating of Outstanding.

The outstanding network quality, however, was not only revealed by the connect test: Various crowdsourcing platforms such as Ookla (speedtest.net) and OpenSignal confirmed the unparalleled quality and speed of the Sunrise mobile network. In OpenSignal's latest Swiss country report from November 2017, Sunrise again received the distinction of having the fastest network in Switzerland. In its report, OpenSignal declares Sunrise as the winner of its speed crown.

## 8 Regulatory Environment

Sunrise Communications Group AG (Sunrise) is listed on the SIX Swiss Exchange in Zurich and is therefore bound by Swiss stock corporation law. As a mobile and landline operator in Switzerland, Sunrise is subject to regulation and supervision by various Swiss government agencies, including the Federal Communications Commission (ComCom) and the Federal Office of Communications (OFCOM).

### 8.1 Regulatory Framework

The regulatory framework is based primarily on the Swiss Federal Telecommunications Act (TCA) and its associated regulations (such as the Swiss Federal Ordinance on Telecommunications Services), but also the Swiss Cartel Act, the Swiss Federal Act on the Surveillance of Postal and Telecommunications Traffic (BÜPF), the Swiss Federal Radio and Television Act and related ordinances. There are some conceptual differences between Swiss and EU telecommunications regulations, the most important being ex-post regulation in Switzerland as opposed to ex-ante regulation applicable in the EU, the technology-based "last mile" system in Switzerland, which grants access at long-run incremental cost conditions only to the incumbent's copper infrastructure, and the lack of regulation on end-consumer pricing in international mobile roaming. The fact that EU regulations within the European Economic Area do not apply to Swiss carriers has led certain operators in the EU to increase the termination rates charged to Swiss carriers for voice traffic originating in Switzerland to price levels higher than those applicable to operators located within the EU; this is the subject of ongoing negotiations. Although Sunrise believes these EU operators are in violation of WTO rules on international free trade, European Authorities seem to protect or at least tolerate the behavior. Bilateral price negotiations have now largely succeeded in mitigating the situation.

### 8.2 Revision of the Swiss Telecommunications Act

In December 2015, the Federal Council launched the public consultation on the partial revision of the TCA. A large majority of the submissions received during the consultation confirm that a partial adaptation of the regulatory framework is required. The Federal Council therefore tasked the Federal Department of the Environment, Transport, Energy and Communications with the preparation of a draft revision of the TCA, which was submitted to the Parliament by September 2017.

The proposal calls for the addition of youth and consumer protection measures, transparency requirements regarding network neutrality as well as the preservation of proven ex-post regulations regarding network access. The originally proposed ex-officio or ex-ante regulation was dropped. To prevent a new monopoly, especially in combined fiber-optic and copper network technologies (FTTC, FTTB, and FTTS broadband infrastructures based on the copper network without competitive access), Sunrise and other providers have proposed that the Federal Council be granted the right to extend regulations to fiber technologies. In the event of a market failure, that would guarantee a minimum level of fair competition and ensure investments in network expansion, especially in rural areas.

Another objective is the proposed facilitation of the common use of mobile networks and frequencies. The more liberal provisions regarding network cooperation and frequency transfers may improve the efficiency of how scarce resources are handled. Because of this, Switzerland would then benefit from further investments in new technology and competition, whereby the improved supply would be particularly beneficial in remote areas.

The parliamentary debate has since started with a hearing in the Transport and Telecommunications Committee of the National Council.

### **8.3 Allocation of new mobile radio frequencies**

On behalf of ComCom, OFCOM launched a consultation in May 2016 regarding the allocation and use of the new mobile radio frequencies. The frequency bands involved are 700 MHz, 1400 MHz and 3400 to 3800 MHz, which are expected to be available for use from 2019 on. The consultation is the first stage of preparatory work for the allocation of the new mobile radio frequencies.

ComCom plans to allocate the newly available frequencies within the framework of an award procedure. ComCom is currently preparing the way forward and the final tender documents. The allocation of new frequencies is intended to foster competition and digitalization. Frequencies are scheduled to be awarded during the second half of 2018.

### **8.4 Universal Service Requirements**

ComCom periodically grants licenses for the provision of universal services under certain conditions. As in the past, Swisscom most recently held a license of this nature from 2008 to 2017. According to a survey conducted by OFCOM for the period from 2018 to 2022, the former

monopolist is the only provider with an interest in a license. Sunrise has based its lack of interest on insufficient network access regulation, which makes it unfeasible for the Company to provide universal services. In May 2017, ComCom awarded the universal service license for the 2018 to 2022 period to Swisscom.

In December 2016, the Federal Council passed a revision to the Telecommunications Services Ordinance under which traditional analog and digital connections were replaced by a multifunctional connection as of 2018. The minimum data transfer rate for Internet access was also raised to 3000/300 kilobits per second.

### **8.5 Copyright Protection**

In December 2015, the Federal Council submitted the draft of a new copyright protection law for consultation which focuses on carriers' obligations to restrict access to websites illegally offering copyrighted content and to send warnings to customers sharing content through peer-to-peer services. In December 2016, the Federal Council announced the results of deliberations regarding partial revisions to the Copyright Act. The Federal Council submitted the corresponding draft act in November 2017 to the Parliament. The bill is based on a compromise agreed upon by various stakeholders in a working group set up by the Federal Department of Justice and Police. It strengthens the rights and interests of creative artists and the culture industry by taking an appropriate approach to pirated online content, yet without imposing obligations on access providers to block such content. At the same time, it upholds the principle that consumers who take advantage of such illegal offers will not be criminalized.

### **8.6 Telecommunications Surveillance**

Telecommunications providers are subject to the BÜPF. They are required to maintain their own infrastructure for adequate surveillance and be capable of running surveillance operations at any time. In spring 2017, the Parliament approved a revision of the BÜPF aimed at extending surveillance. A referendum opposing the revision to the law was rejected. Providers will be subject to additional requirements as a result. The Federal Council decided in November 2017 that the new BÜPF and its implementing regulations would enter into effect on March 1, 2018, with some transitional periods for implementation.

### **8.7 Revision of the Federal Act on Data Protection**

The Federal Council approved a revision to the Federal Act on Data Protection (FADP) in the spring of 2015 and asked the Federal Department of Justice and Police

(DFJP) to submit a preliminary draft of a revision of the FADP based on data protection reforms adopted in the EU and by the Council of Europe. The FDJP delivered a corresponding draft on December 21, 2016, for deliberation by the Federal Council. In September 2017, the Federal Council approved the draft of the revised law and dispatched it to the attention of the Parliament. The draft will tighten data protection substantially. At the same time, it aligns Swiss law with developments in the EU and in the Council of Europe.

### **8.8 Environmental Protection from Radio Emissions**

The Swiss Ordinance on Protection against Non-Ionizing Radiation requires Swiss carriers to comply with much stricter safety limits than most of the carriers in the European Union. In February 2015, in response to two political initiatives, the Federal Council issued a report on options for expanding capacity in mobile communication networks. Three possible measures mentioned in the report are: an increase in limits, a change in the number of installations per carrier and the simplification of processes. Despite support by the Swiss National Council and the Expert Committee of the Council of States for immediate implementation of these measures as requested in a motion by the National Council Committee, the Council of States voted against the motion in December 2016 by a narrow margin. However, the Federal Council retains the power to adjust the ordinance. Mobile network operators have already warned of impending capacity shortages amid the current increase in data that will negatively impact their ability to provide mobile services to the public and the business sector. Due to increasing utilization of the mobile infrastructure, the Transport and Telecommunications Committee of the Council of States has initiated a preliminary discussion on a possible revision of the Ordinance on Protection against Non-Ionizing Radiation.

### **8.9 International Roaming**

Switzerland has not regulated international roaming. As part of the current revision of the TCA, the Federal Council is recommending measures for increased transparency and more accurate billing.

### **8.10 Network Neutrality**

In its draft of the new Telecommunications Act, the Swiss Federal Council limits its proposal to the introduction of transparency requirements for differentiated services and subsequent monitoring of market developments if necessary to evaluate future regulations. Based on a code of conduct signed by Sunrise, Swisscom, Salt,

UPC and Suissedigital, the carriers established a conciliation body effective September 2015.

### **8.11 Mobile Termination Rates**

Mobile termination rates (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. The new MTR were reduced as of January 1, 2017.

### **8.12 Sports Broadcasting Rights**

Due to abuse of market dominance through exclusive sports broadcasting, the Competition Commission imposed a CHF 71.8 million fine against the Swisscom Group (including Cinetrade and Teleclub) in May 2016 without ordering any specific actions. According to the judges' decision, which was appealed by the parties before the Swiss Federal Administrative Court, the requirements for protective measures were not met. The decisions by the Competition Commission and the Federal Administrative Court show that competition laws in general (such as the Swiss Cartel Act) are not sufficient for creating or protecting competition. Although the Competition Commission has regularly found the former monopolist guilty of abuse of power and imposed heavy fines on it, the regulatory agencies and courts have failed to prevent this abuse from happening in the first place. Swisscom's appeal against the fine is still pending.

## **9 Corporate Responsibility**

To ensure credible management, Corporate Responsibility (CR) must be deeply entrenched in the organization's culture. Its main focus areas and strategy are also influenced by current challenges, such as digitalization.

### **9.1 Corporate Responsibility Strategy**

CR focus areas and strategy at Sunrise are tailored to current global challenges, thus ensuring relevant sustainability management both now and in the future. The ongoing digitalization of society is an important driver, significantly impacting the focus of CR activities in the various sustainability dimensions.

Digitalization has had a number of positive effects on the environment, such as the decrease in resource consumption as a result of the virtualization of many aspects of daily life. As a leader in the digitalization movement, Sunrise must deal with the sharp rise in data consumption that is associated with rising Internet usage and the

increasingly widespread linking of communication devices. Therefore, it is the Company's goal to make the high annual surge in network performance independent from increased direct power consumption. The environmental strategy of Sunrise is thus clearly focused on boosting the energy efficiency of its network.

Digitalization is also impacting the work environment. For example, flexible work hours and models are becoming increasingly important and are a deciding factor in a company's appeal as an employer. Sunrise offers its employees a modern work environment with flexible work hour models (see section 10.7 Workplace Wellbeing on page 30).

### 9.2 Corporate Responsibility Governance and Principles

In addition to involving decision-makers, incorporating behavioral principles and guidelines is an important part of CR at Sunrise.

A CR Steering Committee that extends across business lines meets quarterly and is made up both of manage-

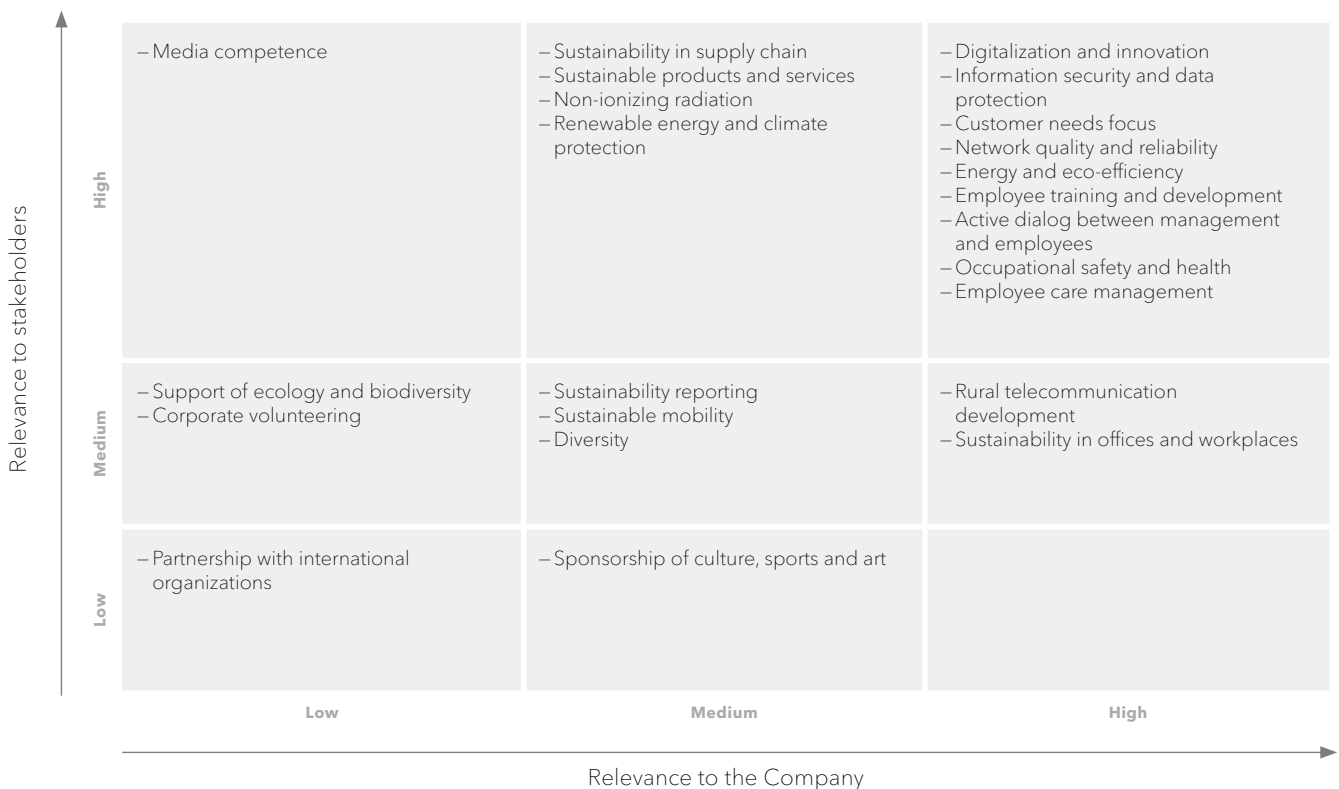
ment and staff representatives. It ensures that the CR function receives the attention it deserves at the highest levels of the Company. The Committee's objective is to manage CR activities and focus while also broadening the support CR receives throughout the Company. In addition, the Steering Committee regularly evaluates CR activities on behalf of the Audit Committee, which consists of representatives from the Board of Directors.

Sunrise has had company-wide environmental and social responsibility policies in place for two years now. These policies, in turn, form the basis for additional rules and standards. For example, Sunrise has established social and environmental requirements for its suppliers.

### 9.3 Stakeholder Exchange and Materiality Analysis

Sunrise maintains an open dialog with various internal and external stakeholders to ensure that their perspectives are aligned with the Company's current CR focus. This exchange serves as a driving force for future projects and activities, and as an important channel for the external communication of the Sunrise perspective on

## Sunrise materiality analysis



individual CR aspects. In 2017, stakeholder discussions focused on topics such as working conditions in the supply chain or reporting of environmental performance indicators.

Materiality analysis is a central CR management tool used to boost the impact of CR activities and to promote a common understanding of CR topics. It also helps better determine improvement potential as well as risk areas. For example, the Company conducted a comprehensive materiality analysis (see diagram on the previous page) during the summer of 2016. The sustainability topics outlined in the analysis were selected by evaluating comparable materiality analyses and were then submitted to decision makers in the Company for approval. These sustainability topics were then assessed for internal relevance during workshops and in consultation with all hierarchy levels, business areas and the CR Steering Committee. The external relevance analysis is based on focus interviews with key stakeholders and an online survey that included responses from several hundred Sunrise customers.

The following sections will primarily look at topics classified in the materiality analysis as highly relevant:

- Customer-related topics: digitalization and innovation (see sections 5.17 Digital Experience and 5.13 Innovative Services on pages 20 et seq. and 19, respectively), information security and data protection (see section 5.16 ISO-Certified Services on page 20), customer needs (see section 3 Customers on page 14), network quality and reliability (see section 7 Network on page 21 et seq.)
- Employee-related topics (see section 10 Employees on page 27 et seq.): employee training and development, active dialog between management and employees, occupational safety and health, employee care management, diversity
- Environmental topics (see section 11 Environment on page 30 et seq.): energy and eco-efficiency, renewable energy and climate protection
- Social engagement (see section 12 Community on page 32): sports sponsorship

Even though Corporate Governance is also regarded as highly relevant, it is not specifically mentioned in the materiality analysis. The topic is discussed in a separate section, Corporate Governance (see page 41 et seq.).

## 10 Employees

As of December 31, 2017, Sunrise had 1,713 employees (1,645 full-time equivalents) throughout Switzerland (a decrease of 0.6% over the previous year). These jobs are located at the Company's headquarters in Zurich, its offices in Prilly, Geneva, Bern, Basel and Lugano, and at some 85 points of sale across the country's different linguistic regions.

Women account for 29.1% of the Sunrise workforce and 15.3% of the Company's leadership. Of the overall workforce, 65.7% work under the Collective Employment Contract. The employee-initiated attrition rate for the year averaged 10.0%. The average age of employees is 38 years, and they stay at Sunrise for an average of 6.4 years. The overall part-time quota is 14.0%, 64.2% of which are women.

### Employee KPIs

In full-time equivalents (FTE) or headcount (heads) as indicated	2017	2016
Total staff (FTE)	1,645	1,656
Total staff <sup>2</sup> (head count)	1,713	1,723
Extended management <sup>1</sup> (head count)	42	33
Women in extended management <sup>1</sup> (head count)	12	6
Men in extended management <sup>1</sup> (head count)	30	27
Women (head count)	498	501
Men (head count)	1,215	1,153
Apprentices (FTE)	122	109
Participants in employee engagement survey (head count) <sup>3</sup>	82.5%	-
<b>Personnel expenditures in CHFk<sup>4</sup></b>	<b>214.6</b>	<b>221.4</b>

<sup>1</sup> Executive Leadership Team and selected Other Top Management.

<sup>2</sup> Including extended management.

<sup>3</sup> Of all employees with a permanent or a fixed-term employment contract.

<sup>4</sup> Wages and salaries, pension expenses and other social security costs.

Sunrise offers first-class products and services with the Swiss promise of quality. Employees from more than 60 nations help the Company succeed with their knowledge, innovative thinking and extraordinary commitment. Sunrise stands not just for Swissness, but for an international, multicultural and open work environment as well. Sunrise firmly believes that, by fostering an environment of diversity and inclusion, it can better meet the varied needs of its customers. Mutual

respect, tolerance toward other cultures and a discrimination-free workplace are part of everyday life at Sunrise.

### **10.1 Employee Representation**

As a responsible employer, Sunrise cultivates an open, constructive dialog with the employee-elected representatives of the Staff Committee. Every three months, the Executive Leadership Team provides Staff Committee delegates with an update on the Company's performance and development, specifically with regard to any strategic decisions that might impact the workforce. Other topics the Staff Committee addresses are issues such as occupational safety and health, accident prevention, occupational illnesses, the workplace environment and employee assistance in the event of a reorganization. An ordinary election was held in November 2016 to reconstitute the nine-person committee for a three-year term.

### **10.2 Trade Union Relationship and Collective Employment Contract**

Sunrise partners actively with the Swiss trade union syndicom, taking part in respectful and honest dialogs, negotiating terms and finding balanced solutions. Progressive employment terms are essential to ensuring employee satisfaction and employer appeal.

Sunrise successfully negotiated a Collective Employment Contract (CEC) with syndicom. The new CEC took effect on January 1, 2018. It guarantees proper working conditions for Sunrise employees and is valid through 2022. The goal of the CEC is to establish a set of binding employment terms that will continue to meet the growing demands placed on a present-day employer. The new CEC strikes a balance between social security for the staff and flexibility for Sunrise. With the signing of the new CEC with syndicom, Sunrise employees will continue to have, in addition to the Staff Committee, a strong partner in all social policy issues. The Staff Committee supports the new employment terms.

Guaranteeing health care and time off for employees is essential in any company today. Sunrise and syndicom have agreed that staff members have the explicit right to be inaccessible outside their contractual work hours. The new CEC contains progressive and family-friendly employment terms. For example, it provides for a higher minimum wage and extends the length of maternity and paternity leave. Sunrise works with an outside provider to support a healthy work-life balance and to give every employee access to adequate professional development (including training and continuing education). The newly negotiated CEC also makes changes to provisions

regarding employment contracts. These provisions govern employment terms for staff members who are not subject to the CEC. The changes also took effect on January 1, 2018.

### **10.3 Employee Development**

Sunrise promotes a culture of excellence and strives to continuously improve the services it offers its customers. Its annual goal-setting and evaluation process is an essential results-oriented leadership tool, as are individual agreements on development objectives and measures. In this context, Sunrise focuses on business strategy, corporate values and management principles. Setting company-wide goals strengthens internal cooperation and increases the synergy between organizational units. Regular, constructive feedback meetings between management and staff shed light on personal performance and provide reference points for individual development. A dedicated Leadership Development team ensures the continuous development of Sunrise managers, guaranteeing their ability to respond to ongoing changes in leadership and teams.

Employees can take part in in-house continuous education courses with access to computer-based learning modules. If the in-house training resources do not meet employee training needs, Sunrise turns to external training programs. Sunrise Academy, the Company's Training and Development group for practical training, is continually developing new learning modules and training courses for practical education. In addition, Management engages in regular discussions with employees, addresses their needs, answers questions and provides responses to staff suggestions submitted in a feedback box.

As a highly engaged and renowned participant in the Swiss apprenticeship market, Sunrise puts great effort into training up-and-coming professionals. Sunrise sees this as part of its responsibility to society while also understanding the importance of systematically developing its own young talent pool.

Sunrise employs a total of 122 apprentices in various professions, making up 6.9% of the employee count, a number well above the legal requirements and the industry benchmark. The Company plans to host 140 apprentices in 2018, further increasing the already high quota. In 2017, 65% of apprenticeship graduates went on to become full-time employees of the company. Sunrise will begin offering apprenticeship positions in Italian-speaking Switzerland in August 2018, making the company a nationwide apprenticeship provider for the

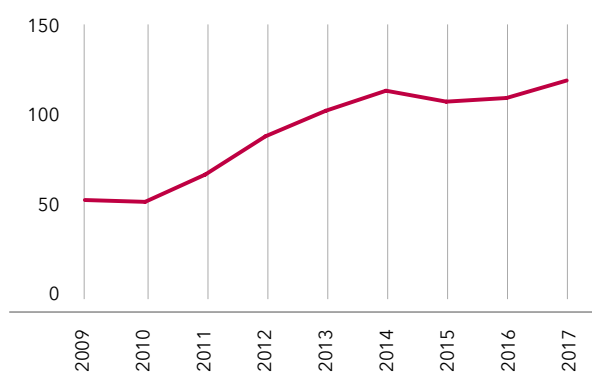
first time. In Western Switzerland, apprenticeship positions in retail are being gradually expanded. The number of jobs in customer service is also being increased. By 2019, the number of positions in this area will be expanded to 42. Sunrise has also been training media and technology specialists since 2016. This multifaceted career, which combines various elements such as multimedia, communications, marketing and IT, falls right in line with the Company's motto of Digital First.

The benefits of an in-depth, diverse and valuable apprenticeship at Sunrise are verified time and again. For example, in 2017, two former retail apprentices were promoted to store managers.

In keeping with the times, the apprenticeship program at Sunrise was rebranded in 2017 (see [www.sunrise.ch/youngtalents](http://www.sunrise.ch/youngtalents)). The Young Talent theme generates greater appeal among young people, guaranteeing a strong talent pipeline both now and in the future. In 2016, the Vocational Training team earned the Headset Award in the Hall of Fame category for its strong commitment and dedication toward young apprentices.

## A growing number of apprentices at Sunrise

Sunrise invests in talent and therefore has a long tradition of training apprentices in various positions.



### 10.4 Employee Survey

Through its partnership with Gallup, Sunrise systematically and periodically measures engagement based on employees' responses to the Q12 survey. The poll consists of actionable workplace elements with proven links to performance outcomes. In 2017, the measures

took place in April and November. In the spring, 78% of employees participated in the survey. With a grand mean score of 4.01 points, Sunrise is placed in the 47<sup>th</sup> percentile of Gallup's overall database. The survey led to improvement measures on all levels. In terms of results implementation, one notable achievement was the company call held in July 2017, which featured presentations by the CEO on important action areas and implementation measures.

At a response rate of 87%, an even higher number of employees participated in the second survey conducted in November 2017. And the overall results are encouraging: employee engagement and attractiveness as a workplace have increased, the grand mean rose from 4.01 to 4.11 points, placing Sunrise in the 54<sup>th</sup> percentile of Gallup's overall database. In 2018, the Company and its teams will define and implement further actions to improve and strengthen workgroup engagement and performance. Furthermore, Sunrise will pursue the employee surveys in 2018.

### 10.5 Occupational Safety and Health

As part of its responsibility as an employer, Sunrise seeks to protect its staff from workplace accidents and health hazards. Based on the company-wide occupational safety plan, Sunrise has taken several steps toward improving workplace safety, such as a series of emergency drills conducted at corporate headquarters with the goal of improving the interaction between emergency teams in the event of an evacuation. The e-learning platforms were also updated and training materials and courses were made digital. Training and education are vital elements of workplace safety. That is why Sunrise trained a total of 79 employees on safety topics such as first aid, working near antennas, etc. in 2017. Safety-related aspects of network and antenna operations remain an important area of focus. Occupational Safety officers from Sunrise and its network partner Huawei meet on a regular basis to evaluate the status of occupational safety at network and antenna locations.

### 10.6 Values and Leadership Principles

Sunrise pursues ambitious goals, and achieving them requires a great deal of exemplary, responsible leadership along with a committed and motivated staff. Clear management principles and firm company values provide guidance and are important factors in fulfilling the Company's promise to its customers.

In addition to a new brand, Sunrise has also adopted a new set of values: bold, intuitive and positive. Bold because the Company believes in blazing new trails and

winning with bold ideas. In rewriting the rules on behalf of the customer and making a difference every day. Intuitive alludes to the Company's firm belief in outstanding quality which is tailored to satisfy its customers' individual needs. Lastly, positive means that Sunrise believes optimists go further: that the Company aspires to create simple and engaging experiences that are beautifully engineered and fit to purpose. That it aims to make every day brighter, one sunrise at a time. That Sunrise employees don't take themselves too seriously, unlike their customers' needs.

The implementation of the new company values is supported through various training and continuing education offers. The new values are also reflected in the personal objectives of each staff member. Regular employee surveys will help further anchor these values.

### 10.7 Workplace Wellbeing

Sunrise offers progressive and competitive employment terms. This contributes to its positive image as an employer. To this end, it offers a wide range of benefits, such as a pension plan exceeding the mandatory requirements, unpaid leave, and a flexible vacation policy, all making it easier for employees to strike a healthy work-life balance. Each employee, for instance, is entitled to up to two additional weeks of unpaid vacation. Sunrise employees also enjoy five weeks of vacation, or six weeks from the age of 50, a 40-hour work week and the option to work from home, thus helping further the Company's digitalization process.

Sunrise offers its employees a supportive work environment during the various phases of their professional careers. Paternity leave following the birth or adoption of a child, for instance, is designed to help both parents get comfortable in their new roles.

In regard to sports, Sunrise encourages its employees to participate in athletic events together. This not only strengthens the team spirit but also encourages physical activity to compensate for time spent in the office.

## 11 Environment

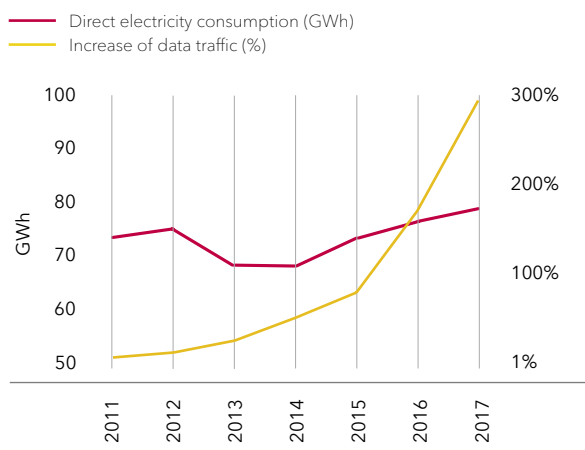
In the environmental sector, Sunrise focuses on energy and energy efficiency and, in doing so, makes a significant contribution to climate protection.

### 11.1 Energy Consumption and Energy Efficiency

As already pointed out in section 9 Corporate Responsibility (see page 25 et seq.), one of the biggest challenges for Sunrise in the environmental area will be uncoupling the rapid rise in data usage, brought about by ongoing digitalization, from increased direct electricity consumption (see chart below). Energy efficiency plays a key role in driving sustainable development with the restrained use of limited resources.

Sunrise assesses its energy efficiency as part of a voluntary energy efficiency target agreement with the Swiss Federal Government and launched several efforts in 2017 to continue to improve its energy efficiency. The biggest source of harmful emissions that Sunrise can directly influence is direct electricity consumption, more than 80% of which is attributable to the network infrastructure. To this end, the Company installed more efficient air conditioning systems and upgraded power supply units at antenna locations to optimize power consumption. To date, these efforts have resulted in total savings of up to 810,000 kWh of electricity per year. Despite the rapid growth in data usage and increased network performance, total direct electricity consumption at Sunrise has risen only slightly over the past five years.

### Direct electricity consumption and data traffic increase





### 11.1.1 Energy Consumption and Efficiency Objectives

By defining energy efficiency objectives, Sunrise seeks to make its environmental protection efforts measurable and assessable. The goal is to increase energy efficiency by at least 13.5% (based on 2012 levels) by 2020 as part of its voluntary efficiency agreement with the Swiss Federal Government. Given that the Company has already increased its energy efficiency by almost 12% in 2017, it is highly likely that it will surpass its original objective set in 2012.

#### Recycling

In today's fast-paced world, take-back and recycling programs can help increase the useful life of electronic devices, resulting in a reduction in both resource consumption and in the negative impact of manufacturing such devices. Since 2015, Sunrise has been active in the recycling sector by offering a take-back program for mobile phones and tablets. The Company continued the program in 2017, taking back a large number of mobile phones and tablets for proper recycling or refurbishment.

### 11.2 Environmental Footprint and Climate Protection

A company's environmental footprint is an important tool that can help determine the impact of its business activities on the climate. 2016 marked the first time Sunrise calculated its environmental footprint. These measurements have now been expanded (see chart 2017 CO<sub>2</sub> equivalent emissions in metric tons on the right). In addition, in 2017 Sunrise made the decision to join the Carbon Disclosure Project as of the next reporting period to continue improving its reporting.

The environmental footprint analysis included the relevant factors that the Company has direct control over: greenhouse gas emissions from fuels and combustibles and direct electricity consumption (Scopes 1 and 2). Not included in the calculations were indirect (Scope 3) emissions, which would also take into consideration the environmental impact of mobile phone production.

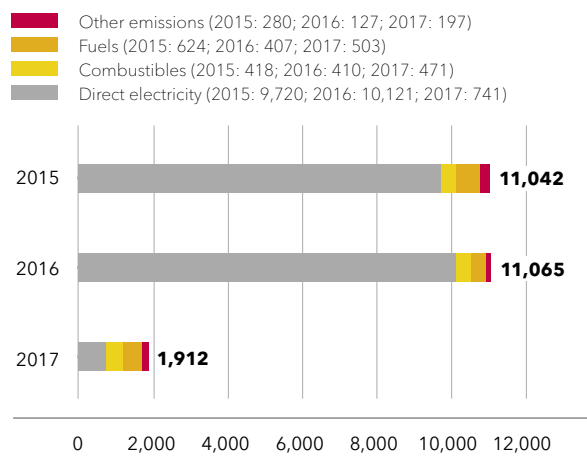
Greenhouse gas emissions from combustible fuels include heat generation for offices and points of sale. Sunrise has a relatively low score in this area, since the

Company's headquarters and other larger buildings use district heating. The opening of several new Sunrise centers has mainly led to an increase in combustible emissions in 2017. Vehicle emissions include the Sunrise vehicle fleet. In 2017, 164 vehicles traveled an average of 25,192 kilometers. The expansion of the B2B sector and its vehicle pool led to an increase in CO<sub>2</sub> emissions. The average CO<sub>2</sub> emission per company car has slightly decreased from 128 g CO<sub>2</sub> per kilometer in 2015 to 122 g CO<sub>2</sub> per kilometer in 2017. The Other emissions category mainly accounts for refrigerant losses in air conditioning systems installed at the Company's network sites. Direct electricity (Scope 2) produces the lion's share of greenhouse gas emissions.

As announced in 2016, Sunrise switched its electricity supply to 100% domestic renewable energy sources in 2017, thus taking an essential step toward climate protection. The selected source was Swiss hydropower, which generates energy with minimal CO<sub>2</sub> emissions compared to other sources and is considered particularly eco-friendly. This climate protection measure had a major impact on the environmental footprint: in 2017, Scope 2 emissions were lowered by 90% to a total of 741 CO<sub>2</sub> equivalents in metric tons.

### 2017 CO<sub>2</sub> equivalent emissions in metric tons

(Scopes 1 & 2)



## 12 Community

Sunrise demonstrates its social engagement by promoting talented athletes and collaborating with the Roger Federer Foundation.

### 12.1 Support for the Roger Federer Foundation

As part of its collaboration with Roger Federer as the Company's brand ambassador, Sunrise is also involved in the activities of the Roger Federer Foundation.

The Roger Federer Foundation supports educational projects in the southern part of Africa and in Switzerland. Young athletes are the main beneficiaries of the support provided through the Stiftung Schweizer Sporthilfe (Swiss Sports Foundation). Sunrise makes an annual donation that benefits these young, up-and-coming athletes.

### 12.2 Promotion of Marginal Sports

In Switzerland, providing professional training conditions to young athletes engaging in marginal sports is often quite difficult. As a result, Sunrise is actively involved in the Swiss Sports Foundation sponsorship program through the support it provides to the Roger Federer Foundation. The foundation promotes talented young athletes pursuing careers in competitive sports in Switzerland, particularly in disciplines and age categories largely neglected by sponsorship arrangements.

Sunrise is currently supporting young athletes between the ages of 10 and 16 in marginal sports including rock climbing, fencing and chess. Wheelchair athletes are usually somewhat older when they first enter competitive sports. Every year, around 500 talented young Swiss athletes receive individual or performance-based funding and are motivated through sponsorship arrangements or awards.

## 13 Major Events

### 13.1 Mobile Termination Rates

Mobile termination rates (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 of January 1, 2017, as communicated on October 20, 2016. At the revenue level, the reduced MTR led 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.

The new MTR are the following:

MTR (Rp./min.)	Sunrise/Salt	Swisscom
MTR 2016	7.35	5.95
New MTR 2017	4.30	3.10
New MTR 2018	3.90	2.95
New MTR 2019	3.50	2.80

### 13.2 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 financial statements:

- One-time increase in 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);
- Positive impact of CHF 25 million on net working capital due to prepaid network service fees to Swiss Towers AG;
- Higher other operating expenses due to network service fees to be paid to Swiss Towers AG.

### 13.3 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 financial statements:

- Negative impact of CHF 450 million on cash flow used in financing activities (repayments of long-term loans and notes);
- Decrease in non-current portion of loans and notes in the consolidated statements of financial position (see Note 23 on page 128);
- Release of CHF 6 million capitalized transactions costs.

## 14 Financial Review

Revenue and adjusted EBITDA for 2017 were in line with the upward revised guidance of August 2017. Revenue increased by 0.3% (MTR adjusted; see section 13.1 Mobile Termination Rates on the left) and was driven by accelerated customer growth. Adjusted EBITDA

declined by 1.6% due to higher network service fees following the disposal of the subsidiary Swiss Towers AG in August 2017. EBITDA adjusted for organic growth rose by 0.8% year-over-year. Equity free cash flow decreased by 4.9%. This was mainly driven by higher Capex to invest into the network and shops. This led to accelerated customer growth and hence supported gross profit stabilization. Capex was partially financed with the proceeds from the sale of Swiss Towers AG.

#### 14.1 Revenue

In the 2017 financial year, total revenue at Sunrise decreased by 2.2%, mainly driven by reduced MTR. The MTR-adjusted underlying revenue remained nearly stable with a slight increase of 0.3%. The continuing decline in mobile prepaid and landline services was offset by growth in mobile postpaid and landline Internet.

##### 14.1.1 Mobile Services

Revenue from mobile services declined by 2.6% to CHF 1,231 million. Adjusted for MTR, mobile services revenue increased by 0.8% due to mobile postpaid growth which offset and even exceeded the decline in mobile prepaid by CHF 2 million.

While the postpaid subscription base increased by 7.3% year-over-year, lower average revenue per user (ARPU) led to a stable total postpaid revenue. Adjusted for MTR, postpaid revenue increased by 4.1% year-over-year.

The year-over-year postpaid ARPU reduction of CHF 2.9 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. In Q4 2017, the secondary data SIM share increased slightly due to the launch of Apple Watches in the Sunrise product portfolio. The postpaid subscription base totaled 1,594 thousand subscribers as of December 31, 2017 (December 31, 2016: 1,485 thousand). The increase in the Group's subscription base was underpinned by

factors such as the continuously highest network quality in Switzerland, customer service excellence, 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.

A decreasing subscription base and lower ARPU caused mobile prepaid revenue to decline by 16.9% MTR adjusted. The year-over-year ARPU reduction of CHF 2.2 in 2017 includes an MTR effect of CHF -0.9. The prepaid subscription base shrank year-over-year by 10.2% to 756 thousand subscribers. The reduction in prepaid ARPU and subscribers was driven by high-value prepaid customers migrating to postpaid, fewer international prepaid calls related to more attractive postpaid offers and increased OTT usage.

Mobile hardware revenue (low margin) had a year-over-year increase of 0.9% to CHF 256 million in 2017. Average hardware prices were higher than in previous years due to the launch of iPhone X in Q4 2017. Hardware revenue depends on handset innovation/launches and volatile sales to retailers.

##### 14.1.2 Landline Services

Landline services revenue decreased by 9.6% to CHF 378 million in 2017, partly due to lower MTR (CHF -7 million). Adjusted for the MTR effect, landline services revenue decreased by 8.1%, driven by lower landline voice revenue.

Landline voice revenue decreased as a result of a 9.5% 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 3.2% in 2017.

##### 14.1.3 Landline Internet and TV

Internet and TV revenue increased by 14.2% to CHF 245 million in 2017.

in CHF million  
January 1 - December 31

	2017	2016
<b>Reported EBITDA</b>	<b>592</b>	<b>599</b>
Prior-year-related events	(6)	(3)
Non-recurring and/or non-operating events	13	14
<i>Thereof restructuring effect, net</i>	-	7
Costs related to share-based payment	2	2
<b>Adjusted EBITDA</b>	<b>601</b>	<b>611</b>

Revenue growth was supported by customer growth, especially in TV bundles, leading to increased blended ARPU of 3.5%. The total Internet subscription base increased by 13.6% year-over-year to 422 thousand subscriptions. The TV product, which can be purchased alongside Internet service, increased its customer base disproportionately by 31.1% year-over-year to 214 thousand subscribers. Customer growth was supported by promotions for the competitive TV bundle, by convergence benefits including the Sunrise One offer, and by enhanced TV sports content.

#### **14.2 Transmission Costs and Cost of Goods Sold**

Transmission costs and cost of goods sold totaled CHF 662 million in 2017: down 6.0% year-over-year driven by the MTR effect.

Gross profit stabilized at CHF 1,193 million, which is an improvement in trend compared to a decline of -4.1% and -5.9% in 2016 and 2015, respectively.

#### **14.3 Adjusted EBITDA**

Adjusted EBITDA for the 2017 financial year amounted to CHF 601 million, showing a year-over-year decrease of 1.6%. Excluding the higher network service fees after the sale of Swiss Towers AG, adjusted EBITDA would have increased by 0.8%. The table below shows one-time adjustments from reported EBITDA to adjusted EBITDA. The biggest adjustments (CHF 13 million) stem from non-recurring/non-operating events and include CHF 7 million in advisory fees related to the set-up/preparation of the Sunrise subsidiary Swiss Towers AG to be available for sale. Costs directly attributable to the sale of Swiss Towers AG are deducted from the gain of disposal of subsidiary and shown below EBITDA in the consolidated statements of income.

#### **14.4 Reported EBITDA**

The Group generated EBITDA of CHF 592 million for the twelve-month period ended December 31, 2017, a year-over-year decrease of CHF 7 million, or 1.1%, from CHF 599 million for the twelve-month period ended December 31, 2016. The year-over-year EBITDA decrease is mainly attributable to higher other operating expenses following the sale of Swiss Towers AG, which could only be partially offset by lower wages, salaries and pension costs.

##### **14.4.1 Other Operating Expenses**

Other operating expenses increased year-over-year by CHF 14 million, or 3.6%, from CHF 382 million to CHF 396 million in 2017. The increase is primarily attributable to higher network service fees after the disposal of

Swiss Towers AG (see section 13. Major Events on page 32).

##### **14.4.2 Wages, Salaries and Pension Costs**

Wages, salaries and pension costs totaled CHF 215 million for the year ended December 31, 2017. This represents a reduction of 3.0% compared to the same period in 2016, which is mainly driven by a lower number of 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 21.9% as of December 31, 2017, according to Swiss GAAP FER 26, the Group reports a net pension liability of CHF 85 million in its consolidated financial statements as of December 31, 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 December 31, 2017, is mainly due to the positive return on plan assets which led to an overall actuarial gain of CHF 22 million. The positive effect was offset by a loss of CHF 5 million due to extended life expectancy.

##### **14.4.3 Other Income and Expenses, Net**

Other income and expenses increased by CHF 1 million in 2017, compared to the same period in the prior year. This is mainly attributable to the sale of assets in the amount of CHF 3 million, partially offset by lower subleases as well as a lower gain related to the reversal of provisions and accruals.

#### **14.5 Net Income**

The Group reported a net income of CHF 505 million for the year ended December 31, 2017, a year-over-year improvement of CHF 418 million from a net income of CHF 87 million in 2016. The main driver behind the increased net income is a one-time gain of CHF 420 million related to the sale of Swiss Towers AG. Furthermore, lower interest expenses as well as lower amortization and depreciation further supported the positive development.

##### **14.5.1 Depreciation and Amortization**

For the year 2017, depreciation and amortization totaled CHF 428 million, of which CHF 126 million related to the amortization of purchased intangibles (CHF 127 million

for 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.

Depreciation and amortization were CHF 31 million lower than in the prior year which was mainly related to the disposal of the subsidiary's assets.

#### **14.5.2 Net Financial Items**

Net financial items decreased by CHF 4 million to CHF 51 million for the year 2017, and mainly consist of interest expenses. A lower debt balance following the repayment of existing term loans (see section 13.3 Repayment and Cancellation of Existing Term Loans on page 32) as well as the repricing transaction at the end of 2016 reduced the cost of debt accordingly.

#### **14.5.3 Gain on Disposal of Subsidiary**

The gain on disposal of subsidiary relates to the sale of Swiss Towers AG. Total consideration of CHF 502 million, less disposal-related expenses as well as the disposal of net assets, resulted in a gain of CHF 420 million.

#### **14.5.4 Income Taxes**

For the year 2017, the net income tax expense of CHF 28 million (2016: net income tax benefit of CHF 3 million) consists of a CHF 54 million tax expense related to current income taxes (2016: CHF 23 million) and a tax benefit of CHF 26 million (2016: CHF 27 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 year 2017. In 2016, Sunrise presented a tax benefit due to a tax-deductible impairment on investments.

#### **14.6 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, long-term trade 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 32.3 million during 2017 is primarily related to an increase in trade and other payables, driven by roaming discounts and payables to handset suppliers and other items related to prepayment of network service fees to Swiss Towers AG. This was partially offset by higher inventories

and trade and other receivables driven by carriers and increased receivables related to iPhone sales.

#### **14.7 Cash Flow**

Cash and cash equivalents totaled CHF 272 million as of December 31, 2017, an increase of CHF 58 million compared to the cash position held as of December 31, 2016. A strong cash flow from operating activities, supported by a positive change in net working capital, overcompensated 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 the subsidiary (CHF 450 million) was fully offset by the repayment and cancellation of the existing term loan of CHF 450 million.

##### **14.7.1 Cash Flow from Operating Activities**

Total cash flow from operating activities for the year 2017 amounted to CHF 553 million. The year-over-year increase of CHF 107 million for the year ended December 31, 2017, is primarily attributable to an improved net working capital of CHF 100 million as well as lower paid interest of CHF 11 million.

##### **14.7.2 Cash Flow from/(Used) in Investing Activities**

The cash flow from/(used) in investing activities for the year 2017 amounted to an inflow of CHF 135 million. This represents an improvement of CHF 347 million compared to the same period of the prior year (outflow of CHF -212 million). The increase is related to net proceeds of CHF 450 million from the sale of Swiss Towers AG and was only partially offset by a CHF 102 million higher purchase of property, plant and equipment as well as intangible assets, mainly related to investments in network, upfront investments in fiber and shop expansions as well as shop upgrades.

##### **14.7.3 Cash Flow Used in Financing Activities**

The cash flow used in financing activities increased by CHF 362 million for the year ended December 31, 2017, compared to the same period of the 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.

#### **14.8 Net Debt**

The Group's consolidated debt position - consisting of a term loan B2 facility, senior secured notes and capital leases - amounted to CHF 1,399 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 1,147 million as of December 31, 2017, resulting in a net debt to adjusted EBITDA leverage ratio of 1.91x (December 31, 2016: 2.72x). The decrease in the net debt to adjusted EBITDA leverage ratio is attributable to the repayment of the term loan B2 facility with the net proceeds of the CHF 450 million by using the net proceeds of the sale of Swiss Towers AG. The net debt to pro forma adjusted EBITDA leverage ratio is 1.97x which takes into account annualized network service fees related to the tower disposal.

#### 14.9 Dividend Proposal and Distribution Policy

The Board of Directors proposes allocating approximately CHF 180 million from the reserves from capital contributions to the dividend reserves to pay a dividend of CHF 4.00 per share (a total of CHF 180 million) in 2018.

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

#### 14.10 Shareholder Return

Sunrise stock price increased by 33% in 2017 and by 31% since the IPO in February 2015. The table below shows the total shareholder return. It takes both stock price performance and dividend payments into account. The total shareholder return on Sunrise stock amounted to 39% in 2017, which surpassed the performance of its peer index.

<b>Total shareholder return</b> (in percent)	<b>2017</b>	2016	IPO 2015
Sunrise	39%	19%	44%
STOXX Europe 600 Telecom Index	1%	-12%	-10%
Swiss Performance Index (SPI)	20%	-1%	2%

Source: Bloomberg; IPO was on February 6, 2015.

Included sell-side brokers, who cover Sunrise stock and publish regular research, are the following as per end of 2017: Barclays, Berenberg, Citi, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, Jefferies, J.P. Morgan, Kepler Cheuvreux, Morgan Stanley, New Street, RBC Capital Markets, Redburn, UBS and Vontobel.

Further information, as well as a comprehensive fact sheet about the Company's financials and KPIs, can be

found on the Sunrise investor relations website [www.sunrise.ch/ir](http://www.sunrise.ch/ir) under Reports and Presentations.

## 15 Risks

### 15.1 Overview

To protect the Company's value, Sunrise operates a centralized risk management system that differentiates between strategic and operational risks. The Company's risk management plan includes risks from all business functions. Competition, uncertainty regarding the regulatory framework, impairment of supply relationships, and the security of and interruptions to network performance are the main risks and uncertainties the Company is facing. All identified risks are quantified (according to their probability of occurrence and impact) and tracked on a risk schedule. This risk schedule is subject to an annual discussion among the Sunrise Group's Board of Directors; the most recent meeting took place on November 8, 2017.

### 15.2 Risk Management Process

The Sunrise risk management system adheres to a comprehensive process that starts with approaching all Executive Leadership Team members. The Executive Leadership Team then works together with the leaders of their subunits to perform an analysis of the internal and external environment as well as any changes that could potentially occur or have already taken place, while also taking into account the risks from previous years. During the subsequent consolidation performed by the central risk management unit, these risks are assigned to one of the following ten risk categories: competition, regulatory framework, business continuity operations, security, supply chain, financial, governance/legal compliance, market consolidation, employees, and innovation/business development. The ensuing discussions with the risk owners result in a detailed description and quantification of each individual risk and the determination of mitigation activities to be implemented, with the objective of preventing the risk from materializing or of limiting the risk exposure to a level that is acceptable to the Company. The risk management and resulting risk clusters are discussed among the Executive Leadership Team; the Audit Committee and the Sunrise Board of Directors are informed annually.

### 15.3 Main Risk Clusters

The following risks clusters are focus areas for Sunrise.

#### 15.3.1 Market Dynamics

Price erosion and a further move by customers toward bundle plans that tend to offer more value for the same price could lead to an erosion in revenue. Additionally, aggressive promotional campaigns by Salt and other operators offering 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 and roaming voice revenue and are impacting the IPTV growth potential which could additionally result from a potential entry of Salt into the landline market. Sunrise actively monitors market developments and offers attractive bundles with flat rate components and promotions to cover customers' needs comprehensively.

#### 15.3.2 Regulatory Framework

Under the current regulations on non-ionizing radiation, the activation of new frequencies requires a reduction in transmission power and thus less coverage and lower capacity, which is at odds with the increase in data traffic and the digitalization needs of customers (see section 8.8 Environmental Protection from Radio Emissions on page 25). The announced allocation of new frequencies in 2018 bears the risk that it will, especially if the distribution is done through auction, tie up investments in frequencies that will not be utilizable without easing NIR thresholds. Sunrise is attempting to mitigate this risk by conducting intensified lobbying activities and by educating all stakeholders about the impact of a non-relaxation of the Swiss Ordinance on Protection against Non-Ionizing Radiation.

#### 15.3.3 Fixnet Access Terms

Since Sunrise does not own a landline access network, and due to the lack of regulations regarding current access technologies, the Company is highly dependent on the access conditions offered by the individual network owners, such as Swisscom and various utility companies. Especially in places where there is only one supplier for last mile access, Sunrise has to rely on long-term collaboration with this supplier. As the suppliers are monopolists and the agreements are always limited in time, there is an imminent risk of the Company no longer being able to offer attractive landline products at attractive rates. Risk-mitigating actions include ongoing engagement with key suppliers regarding long-term strategic collaboration and applying consistent pressure in the regulatory arena regarding access to the landline market.

#### 15.3.4 Cyber Security and Data Protection

Continuous technical innovation and digitalization open up new business opportunities and services for Sunrise customers. At the same time, the rising technical complexity of the solutions requested by customers and the growing volume of available data combined with shorter and shorter innovation cycles increase the complexity of technical implementations. They also entail a broader range of opportunities for attacks on such systems and solutions. Additionally, the power of cybercriminals and the number of attacks committed are increasing year after year.

The Company's mature internal information security framework ensures that Sunrise services meet the standards customers demand and that threats are recognized early enough to allow the implementation of appropriate preventive actions. Sunrise is certified in accordance with the ISO 27001 standard, and the certification covers all personnel, operations processes and technology infrastructure used for the processing, storing and transmission of customer information and communication.

#### 15.3.5 Business Continuity Management

Telecom services are becoming more and more complex, and are thereby heavily dependent on highly sophisticated technological infrastructures. Software or device failures, human error, viruses or hacking can decrease service quality or, in the worst-case scenario, lead to system outages that can have an impact on the reputation and financial performance of the Company. In addition to the ISO 27001 information security management system, measures such as system and geographical redundancy, business continuity plans, deliberate selection of suppliers, and continuous improvement in network operations management and controls ensure that Sunrise is able to deliver the service quality and availability expected by its customers.

#### 15.3.6 Financial Risks

The Company is exposed to a variety of financial risks, namely to market, credit and liquidity risks. A detailed description of the financial risks is provided in Note 24 to the consolidated financial statements on page 129 et seq.

## 16 Additional Disclosures

### 16.1 Material Affiliate Transactions

#### 16.1.1 Change in the Board of Directors

At the Annual General Meeting on April 11, 2017, Lorne Somerville resigned as a member of the Board of Directors. All other board members were re-elected for an additional one-year term.

#### 16.1.2 Changes in the Executive Leadership Team

As of June 12, 2017, Bruno Duarte took over the position of Chief Consumer Officer from Timm Degenhardt, who left the Company at the end of February 2017.

As of September 1, 2017, Robert Wigger took up his position as Chief Business Officer and replaced Massimiliano Nunziata, who resigned in May 2017.

#### 16.1.3 Dividend Payment

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

### 16.2 Material Contractual Arrangements

In January 2017, Sunrise became a partner in the international telecommunications organization FreeMove. Formed in 2003, FreeMove brings together four leading mobile operators, Orange, Telecom Italia, Deutsche Telekom and Telia Company, and collectively serves 400 million customers across the world. Under the agreement, FreeMove will now be able to access the leading mobile network of Sunrise.

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

In August 2017, Sunrise and Swiss Towers AG signed a Master Services Agreement which is a long-term service contract for the provision of tower infrastructure services. Additionally, Sunrise is subcontracted to build new telecom towers according to a built-to-suit agreement with Swiss Towers AG.

### 16.3 Certain Other Contractual Commitments

Total contractual and purchase commitments as of December 31, 2017, amounted to CHF 88 million, consisting of future investments in property, plant and equipment and intangible assets.

### 16.4 Credit Ratings

As of December 31, 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) remained unchanged at BB+, Ba2 and BB+, respectively. The notes and term loan facilities were still rated BBB- by S&P as well as Fitch and Ba2 by Moody's.

### 16.5 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.

### 16.6 Research and Development

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



## 17 Outlook

### 17.1 Impact of the Application of IFRS 15

From 2018 onward, the new standard on revenue recognition (IFRS 15) will be applied. Based on 2017 figures, the Group does not expect any significant impact on revenue but expects a mid-single-digit increase in EBITDA in 2018 because of the capitalization of costs to obtain a contract. The impact becomes immaterial in 2020.

### 17.2 2018 Guidance

2018 revenue and adjusted EBITDA are expected to range from CHF 1,830 million to CHF 1,870 million and CHF 580 million to CHF 595 million, respectively. Adjusted EBITDA guidance includes incremental costs of around CHF 20 million, related to higher network service fees year-over-year following the disposal of Swiss Towers AG in August 2017. Excluding these service fees, adjusted EBITDA guidance represents modest growth. 2018 Capex is expected to be within a range of CHF 283 million to CHF 323 million. This includes a CHF 56 million upfront investment in landline access at utilities. Excluding upfront investments, Capex guidance is expected to be between CHF 227 million and CHF 267 million. This includes a variable amount of CHF 47 million (2017: CHF 44 million) related to customer growth spending, allowing for the capitalization of routers and set-top boxes due to growth in Internet and TV, as well as investments in B2B projects and indoor coverage solutions.

### 17.3 Dividend Policy

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 to 6% dividend progression from 2018 to 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 2018 guidance, Sunrise expects to propose a dividend in the range of CHF 4.15 to CHF 4.25 per share for 2018, paid out of capital contribution reserves in 2019.



# Corporate Governance

Corporate governance at Sunrise Communications Group AG is ensured through the activities of the Board of Directors, the Chief Executive Officer and the Executive Leadership Team in accordance with the Articles of Incorporation and the Organizational Regulations of Sunrise Communications Group AG. Sunrise Communications Group AG complies with all applicable legal requirements and discloses its corporate governance pursuant to the Directive on Information Relating to Corporate Governance of December 13, 2016, issued by SIX Swiss Exchange.

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## **41 Corporate Governance**

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# Corporate Governance

## 1 Group Structure and Shareholders

### 1.1 Group Structure

Sunrise Communications Group AG is organized as a stock corporation with limited liability under Swiss corporate law. It was founded on January 13, 2015, and was registered on January 14, 2015, with the commercial register of the Canton of Zurich under company registration number CHE-343.774.206. The registered office of Sunrise Communications Group AG is located at Binzmühlestrasse 130, 8050 Zurich, Switzerland. Business operations are conducted through the Sunrise group of companies listed in Note 29 to the consolidated financial statements on page 139.

The operational structure of the Sunrise Group follows the segment reporting and reflects the different customer groups to which the Sunrise Group provides its telecommunications products and services: Residential, Business, Wholesale, and Head Office which includes the finance, IT and technology functions of the Sunrise Group. For further details, see Note 6 to the consolidated financial statements on page 106 et seq.

Share capital and voting rights of all Group companies are listed in Note 3.3 to the statutory financial statements on page 153. Sunrise Communications Group AG is the Group's holding company and directly or indirectly owns all Sunrise Group companies. Sunrise Communications AG, based in Zurich, Switzerland, is the main operating entity of the Group.

Sunrise Communications Group AG is the only listed Group company within the Sunrise Group. On December 29, 2017, Sunrise Communications Group AG had a market capitalization of CHF 4,005 million. For further information on the shares and the listing, see section 2.5 Shares on page 43 et seq.

### 1.2 Significant Shareholders

As of December 31, 2017, Sunrise Communications Group AG was notified of the following shareholdings totaling 3% or more of the total share capital of Sunrise Communications Group AG:

Name of shareholder	In % of total share capital
freenet AG, Büdelsdorf	24.56%
Canada Pension Plan Investment Board, Toronto	5.03%
Black Rock, Inc., New York	3.43%
UBS Fund Management (Switzerland) AG, Basel	3.06%

Disclosure notifications of significant shareholdings in Sunrise Communications Group AG that were filed in 2017 with Sunrise Communications Group AG and SIX Swiss Exchange are available from the online publication platform of SIX Swiss Exchange through the following database search page: [www.six-exchange-regulation.com/en/home/publications/significant-shareholders](http://www.six-exchange-regulation.com/en/home/publications/significant-shareholders).

Sunrise Communications Group AG is not aware of any other person or institution which, as of December 31, 2017, directly or indirectly, on its own account or in concert with third parties, may have held 3% or more of the Sunrise Communications Group AG share capital.

### 1.3 Cross Shareholdings

As of December 31, 2017, Sunrise Communications Group AG had no cross shareholdings with any other company exceeding 5% of the capital shareholdings or voting rights.

## 2 Capital Structure

### 2.1 Capital

As of December 31, 2017, the share capital of Sunrise Communications Group AG amounted to CHF 45,000,000 divided into 45,000,000 fully paid-in, registered shares with a nominal value of CHF 1.00 per share.

### 2.2 Authorized Share Capital

Sunrise Communications Group AG has authorized share capital in a total amount of CHF 4,850,000, representing 10.78% of the issued share capital of Sunrise Communications Group AG, under which the Board of Directors is authorized to increase the share capital as follows:

- According to Article 3a of the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)), the Board of Directors is authorized to increase the share capital in an amount not to exceed CHF 4,500,000, through the issuance of up to 4,500,000 fully paid-in, registered shares with a nominal value of CHF 1.00, at any time until April 12, 2019, such authorized share capital representing 10.00% of the issued share capital of Sunrise Communications Group AG. The Board of

Directors determines the date of issue of new shares, the issue price, type of payment, conditions of exercising subscription rights, and the beginning of the dividend entitlement. An increase in partial amounts is permitted. The Board of Directors may issue new shares by means of a firm underwriting or by other means through a banking institution or syndicate with subsequent offer of those shares to current shareholders or third parties. The Board of Directors may allow the expiration of subscription rights which have not been exercised or it may place these rights as well as shares, the subscription rights of which have not been exercised, at market conditions or it may use them for other purposes in the interest of Sunrise Communications Group AG. The Board of Directors is authorized to restrict or withdraw the subscription rights of shareholders and allocate them to third parties or selected shareholders if the shares are to be used for the acquisition of enterprises, parts of enterprises, or participations, for the acquisition of intellectual property rights, licenses or concessions, including concessions for the use of the radio frequency spectrum, for new investments, or for a share placement with one or more investors for the purpose of financing or refinancing such transactions. Subscription and acquisition of the new shares, as well as each subsequent transfer of shares, are subject to the restrictions of Article 5 of the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)).

- According to Article 3b of the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)), the Board of Directors is authorized to increase the share capital of Sunrise Communications Group AG in an amount not exceeding CHF 350,000, through the issuance of up to 350,000 fully paid-in, registered shares with a nominal value of CHF 1.00, at any time until April 12, 2019, such authorized share capital representing 0.78% of the issued share capital of Sunrise Communications Group AG. The registered shares out of such registered share capital are reserved exclusively for the purpose of the participation of employees as well as members of the Board of Directors and the executive management of Sunrise Communications Group AG or its subsidiaries pursuant to one or more regulations adopted by the Board of Directors. The shareholders' preemptive right is excluded. Increases in partial amounts are permitted. Further, an increase through initial subscription of the new shares by Sunrise Communications Group AG is permitted in accordance with Article 659 et seq. of the Swiss Code of Obligations. The Board of Directors determines the date of issue of new shares, their issue price, which may be below the market price, the type of contribution and the time of dividend entitlement.

Any newly registered shares are subject to registration restrictions under Article 5 of the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) following their acquisition.

### **2.3 Conditional Share Capital**

As of December 31, 2017, Sunrise Communications Group AG had no conditional share capital.

### **2.4 Changes in Share Capital**

Sunrise Communications Group AG was founded on January 13, 2015, with an initial issued share capital of CHF 100,000 divided into 100,000 fully paid-in, registered shares with a nominal value of CHF 1.00 per share. On January 23, 2015, the share capital of Sunrise Communications Group AG was increased from CHF 100,000 to CHF 25,000,000. In the capital increase, Sunrise Communications Group AG received by way of a contribution in kind and by way of a contribution to the reserves from capital contributions all 134,553,661 A ordinary shares in Mobile Challenger Intermediate Group S.A., Luxembourg, Grand Duchy of Luxembourg, with a nominal value of CHF 0.01 each pursuant to a contribution agreement dated January 23, 2015, against issuance of 24,900,000 registered shares of Sunrise Communications Group AG with a nominal value of CHF 1.00 per share. On February 5, 2015, the share capital of Sunrise Communications Group AG was increased from CHF 25,000,000 to CHF 45,000,000 in an ordinary capital increase of 20,000,000 registered shares of Sunrise Communications Group AG with a nominal value of CHF 1.00 per share against cash contributions in connection with the initial public offering of Sunrise Communications Group AG on February 6, 2015.

### **2.5 Shares**

The shares of Sunrise Communications Group AG are registered shares with a nominal value of CHF 1.00 per share and are fully paid-in. All registered shares, with the exception of treasury shares held by Sunrise Communications Group AG, are eligible for a dividend. There are no preferential rights. The shares are listed and traded in accordance with the Standard for Equity Securities, Sub-standard International Reporting, of SIX Swiss Exchange (Valor No. 26729122, ISIN CH0267291224, symbol: SRCG). The shares are issued as uncertificated securities (German: Wertrechte) within the meaning of Article 973c of the Swiss Code of Obligations and registered as intermediated securities (German: Bucheffekten) within the meaning of the Swiss Federal Intermediated Securities Act. Shareholders have no right to request the printing and delivery of share certificates or

the conversion of the form in which shares are issued into another form. Shareholders may, however, at any time request from Sunrise Communications Group AG the delivery of an attestation certifying their current shareholdings.

## 2.6 Participation Certificates

As of December 31, 2017, Sunrise Communications Group AG had no participation certificates outstanding.

## 2.7 Profit-Sharing Certificates

As of December 31, 2017, Sunrise Communications Group AG had no profit-sharing certificates outstanding.

## 2.8 Limitations on Transferability and Nominee Registrations

For as long as the shares are in uncertificated form (German: Wertrechte) and registered as intermediated securities (German: Bucheffekten), any transfer and collateralization of shares must be made in accordance with the Swiss Federal Intermediated Securities Act. If uncertificated shares are transferred by assignment, Sunrise Communications Group AG must be notified of the transfer in order for it to be considered valid. Voting rights may be exercised only after a shareholder has been registered in the share register of Sunrise Communications Group AG (German: Aktienbuch) as a shareholder with voting rights. For further information on voting rights, see section 6.1 Voting Rights on page 63. According to Article 5 (3) of the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) as well as Articles 4 and 5 of the Share Register Regulations (see section 6.1 Voting Rights on page 63), the Board of Directors may register nominees as shareholders with voting rights in the share register for up to a maximum of 3% of the total share capital outstanding at the time. Nominees are persons who, in their registration request, do not explicitly declare that they hold the shares for their own account and with whom Sunrise Communications Group AG has entered into a respective agreement. The Board of Directors may register a nominee as a shareholder with voting rights in excess of such registration limitation provided the nominee discloses the names, addresses, nationalities and shareholdings of the persons for whom it holds 0.5% or more of the total share capital outstanding at the time. According to Article 10 (5) of the Articles of Incorporation, changes to the rules regarding limitations on transferability of shares are subject to a quorum of two-thirds of the votes represented at the meeting. For further information on statutory quorum requirements, see section 6.4 Statutory Quorum Requirements on page 64.

As of December 31, 2017, the following nominees were registered in the share register of Sunrise Communications Group AG as shareholders with voting rights in excess of 3% of the total share capital outstanding at the time:

Name of nominee	Voting rights (percentage of total share capital outstanding)	Year of first registration
Chase Nominees Ltd.	More than 3%	2015

## 2.9 Convertible Bonds and Options

As of December 31, 2017, Sunrise Communications Group AG had no convertible bonds or options on its shares outstanding. With respect to share-based compensation (including the right to receive a portion of the short-term incentive in the form of shares and the right to receive Performance Shares), please consult the Compensation Report (section 5 Executive Leadership Team Compensation on page 79 et seq.).

# 3 Board of Directors

## 3.1 Members of the Board of Directors

The Board of Directors currently consists of seven non-executive members. No board member is or has been a member of the management of Sunrise Communications Group AG or any of its subsidiaries throughout the last three financial years ending on December 31, 2017. There are no significant business relationships between any of the members of the Board of Directors and Sunrise Communications Group AG or any of its subsidiaries. The Board of Directors aims to nominate non-executive and independent members within the meaning of the Swiss Code of Best Practice for Corporate Governance to be elected by the Annual General Meeting as members of the Nomination and Compensation Committee. All members of the Board of Directors in 2017 qualify as non-executive and independent members in accordance with these rules. The Board of Directors may nominate members to be elected as members of the Nomination and Compensation Committee who are or represent significant shareholders of Sunrise Communications Group AG. Christoph Vilanek and Joachim Preisig represent freenet AG, which holds 24.56% of the total share capital outstanding of Sunrise Communications Group AG. According to Article 23 of the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)), a member of the Board of Directors may hold no more than four additional

mandates in listed companies and no more than eight mandates in unlisted companies. For the purposes of such provision, the following mandates shall be deemed one mandate outside of the Sunrise Group:

- mandates which a member of the Board of Directors holds in legal entities outside of the Sunrise Group that are under common control
- mandates held by a member of the Board of Directors in his or her capacity as a member of the supreme governing body or of the group management of a legal entity outside of the Sunrise Group
- mandates held by a member of the Board of Directors upon instruction and on behalf of a legal entity outside of the Sunrise Group or legal entities controlled by it.

The following mandates are not subject to these limitations:

- mandates in companies controlled by Sunrise Communications Group AG or which control Sunrise Communications Group AG
- mandates held at the request of Sunrise Communications Group AG or companies controlled by it, whereby no member of the Board of Directors may hold more than ten such mandates
- mandates in associations, charitable organizations, foundations, trusts and employee welfare foundations, whereby no member of the Board of Directors may hold more than six such mandates.

“Mandates” within the meaning of Article 23 of the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) are mandates in the supreme governing body of any legal entity that is required to be entered into the commercial register or corresponding foreign register of companies.

No member of the Board of Directors exceeds any limits for additional mandates.

The composition of the Board of Directors of Sunrise Communications Group AG is designed to ensure effectiveness. The Board of Directors’ main task of supervising, challenging and supporting the CEO and the Executive Leadership Team is best assured when members of the Board of Directors collectively represent an extensive leadership experience as well as knowledge in all relevant areas which are necessary to lead a public company in the area of telecommunications and the broader Swiss business environment, both of which are challenging. The most important skills sought for the Board of Directors of Sunrise Communications Group AG are industry knowledge and experience as well as general management background. Most of the members

of the Board of Directors held, or still hold, important positions in the telecommunications industry in different countries or were involved in this industry as analysts or advisors. All of the members of the Board of Directors held positions in executive management or board positions inter alia in the telecommunications, finance, IT, sports, publishing or advertising industry. Required expert skills encompass a variety of different fields including financial literacy, banking and finance, financial and other communication, HR, legal and compliance, government and regulatory affairs, corporate responsibility and governance; they should also be integrated into the Swiss business environment. With a view to fostering diversity in opinion and business judgement, members of the Board of Directors should be recruited from different cultural, national and gender backgrounds. Also, members of the Board of Directors should be independent in thinking and willing to work in a team focusing exclusively on the interest of the Company and its principal stakeholders. The Board of Directors considers gender diversity an important governance aspect and will continue to take actions both at the executive and board level to foster gender diversity.

The composition of the Board of Directors during 2017 is set out on the following pages.

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## Peter Kurer



**Title and function**  
Chairman of the Board of Directors

Member of the Nomination and Compensation Committee

Member of the Audit Committee (since April 11, 2017)

Non-Executive Member

**Year of birth**  
1949

**Nationality**  
Swiss

### Education

1980: Attorney at Law, admitted to the Zurich bar, Switzerland

1978: Dr. iur., University of Zurich, Switzerland

1976: LLM Law, University of Chicago, USA

1974: lic. iur., University of Zurich, Switzerland

### Professional background

Since 2013: BLR & Partners AG, Thalwil, Switzerland (unlisted), Partner and Executive Member of the Board of Directors

2001 – 2009: UBS, Zurich, Switzerland, Non-Executive Chairman of the Board of Directors; Group General Counsel and Member of the Group Executive Board

1987 – 2002: Non-Executive Member of the Board of Directors of various companies in Switzerland (Unisys Switzerland, Kraft Foods Switzerland Holding, Holcim, Netstal-Machinery, Danzas Holding among others)

1991 – 2001: Homburger, Zurich, Switzerland, Partner and Head of Corporate Transaction Group

1980 – 1990: Baker & McKenzie, Zurich, Switzerland, Partner; Associate

1977 – 1979: District Court of Zurich, Switzerland, Clerkship

### Material other activities and functions

Since 2013: SoftwareONE Holding AG, Stans, Switzerland (unlisted), Non-Executive Member of the Board of Directors and Chairman of the Audit Committee

### Non-material other activities and functions

Since 2014: Kein & Aber AG, Zurich, Switzerland (unlisted), Non-Executive Chairman of the Board of Directors

Since 2012: Accenture AG, Zurich, Switzerland, Member of the Advisory Board (not a supreme governing body)

Since 2010: Schönherr Rechtsanwälte GmbH, Vienna, Austria, Member of the Steering Committee (not a supreme governing body)

Since 2010: Spencer Stuart & Associates B.V., Zurich Branch, Switzerland, Chairman of the Advisory Board (not a supreme governing body)

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## Peter Schöpfer



**Title and function**  
Vice-Chairman of the Board of Directors

Chairman of the Nomination and Compensation Committee

Non-Executive Member

**Year of birth**  
1957

**Nationality**  
Swiss

### Education

2002: International MBA, University of Freiburg, Switzerland

Degree in Engineering and Information Technology, Bern University of Applied Sciences, Switzerland

### Professional background

Since 2006: Avaloq Group AG, Freienbach, Switzerland (unlisted), Group Chief Advisory Officer; Chief Marketing Officer

2000 – 2006: T-Systems, CEO and Country Manager, Brazil; CEO and Country Manager, Switzerland; CEO Multilink

1986 – 2000: Swisscom AG, Bern, Switzerland, Head of Operations, Swisscom International; several other positions

### Other activities and functions

Since 2017: Netrics AG, Lyss, Switzerland (unlisted), Non-Executive Member of the Board of Directors

Since 2011: Avaloq Group AG, Freienbach, Switzerland (unlisted), Executive Member of the Board of Directors



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## Robin Bienenstock

**Title and function**

Member of the Board of Directors

Member of the Audit Committee

Non-Executive Member

**Year of birth**  
1968**Nationality**  
British, Canadian**Education**

1998: MA International Relations, University of Toronto, Canada

1992: MA International Economics and Management, SDA Bocconi, Milan, Italy

1991: BA Politics, Philosophy, Economics, Trinity College, University of Oxford, UK

**Professional background**

Since 2016: RBMP Capital LLP, London, United Kingdom, Partner

2014-2016: Gladwyne Partners (advisor to Marlin Sams Fund), New York, USA, Partner

2007-2014: Sanford C. Bernstein Ltd, London, UK, Senior Analyst European and Latin American Telecommunications

2004-2006: O.S. Consulting, Italy, UK, Management Consultant

1999-2004: McKinsey & Co., Canada, France, UK, Associate Principal

1995-1996: European Union Administration of Mostar (Bosnia and Herzegovina), Loan Fund Manager

1993-1994: Bunting Warburg Inc., Canada, UK, Analyst

**Other activities and functions**

Since 2016: The Linden School, Toronto, Canada (unlisted), Non-Executive Member of the Finance Committee

Since 2016: HotBlack Coffee, Toronto, Canada (unlisted), Partner

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## Michael Krammer

**Title and function**

Member of the Board of Directors

Member of the Nomination and Compensation Committee (since April 11, 2017)

Member of the Audit Committee (until April 11, 2017)

Non-Executive Member

**Year of birth**  
1960**Nationality**  
Austrian**Education**

1983: Master of Military Leadership, Theresian Military Academy, Vienna, Austria

**Professional background**

Since 2013: Ventocom GmbH, Vienna, Austria (unlisted), Founder and Managing Partner

2007-2013: ONE GmbH/Orange Austria Telecommunication GmbH, Vienna, Austria, CEO

2009-2011: Invitel Holdings A/S, Budaörs, Hungary, Non-Executive Member of the Board of Directors

2006-2007: E-Plus Mobilfunk GmbH, Düsseldorf, Germany, CEO

2002-2006: tele.ring Telekom Service GmbH, Vienna, Austria, CEO; CCO (Marketing, Sales, Customer Service)

1998-2002: max.mobil Telekommunikation Service GmbH, Vienna, Austria, Executive Director Business Customers, Member of the Management Board; Director Customer Care

1991-1997: Austrian Automobile Association (ÖAMTC), Vienna, Austria, Director Emergency and Information Services

1983-1990: Austrian Army, Officer

**Other activities and functions**

Since 2016: techbold technology group AG, Vienna, Austria, Non-Executive Member of the Board

Since 2013: Sportklub Rapid Wien, Vienna, Austria (unlisted), President and Chairman of the Board of Directors

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## Jesper Ovesen

**Title and function**

Member of the Board of Directors

Chairman of the Audit Committee

Non-Executive Member

**Year of birth**  
1957**Nationality**  
Danish**Education**

1989: State Authorized Public Accountant, Denmark

1985: MSc in Finance, Copenhagen Business School, Denmark

**Professional background**

2011–2014: Nokia Siemens Network Group, Finland/Germany, Executive Chairman

2008–2011: TDC Group, Denmark, CFO

2007–2008: Kirkbi Group, investment company & owner of the Lego Group, Denmark/Switzerland, CEO

2004–2007: Lego Group, Denmark/Switzerland, CFO

1998–2004: Danske Bank Group, Denmark, CFO

1993–1998: Novo Nordisk Group, Denmark, Finance Director

1992–1993: Baltica Bank (under restructuring), Denmark, CEO

1988–1992: Baltica Holding, Insurance & Finance Group, Denmark, Finance Director

1982–1988: PwC, Denmark, Auditor

**Other activities and functions**

Since 2016: ConvaTec Group PLC, Reading, UK (listed), Independent Non-Executive Member of the Board of Directors, Chairman of the Audit and Risk Committee, Member of the Remuneration and Nomination Committees

Since 2015: Lundbeck A/S, Denmark (listed), Non-Executive Member of the Board of Directors and Chairman of the Audit Committee

Since 2004: Scandinavian Enskilda Bank, Sweden (listed), Non-Executive Vice-Chairman of the Board of Directors, Chairman of the Risk & Capital Committee and Chairman of the Audit and Compliance Committee

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## Joachim Preisig

**Title and function**

Member of the Board of Directors

Member of the Audit Committee

Non-Executive Member

**Year of birth**  
1962**Nationality**  
Swiss**Education**

1987: Business Economist, School of Economics and Business Administration HWV, Zurich, Switzerland

1983: Military Officer, Swiss Army

**Professional background**

Since 2010: freenet AG, Büdelsdorf, Germany, CFO

2008–2010: freenet AG, Büdelsdorf, Germany, Chief Operations & Integration Officer

2006–2008: debitel AG, Stuttgart, Germany, CFO

2003–2006: Deutsche Telekom AG, Bonn, Germany, Head of Central Group Controlling

2002–2003: T-Mobile Deutschland GmbH, Bonn, Germany, CFO

1996–2001: O2 Germany GmbH & Co. KG, Munich, Germany, Managing Director Marketing & Sales, CFO

1992–1995: Steinbeck Global Logistics GmbH, Bremen, Germany, CFO

1991–1992: Steinbeck Holding AG, Zurich, Switzerland, Regional Controller Europe

1989–1990: Vinito AG, Zurich, Switzerland, Head of Finance & Controlling

1987–1989: Price Waterhouse AG, Zurich, Switzerland, Assistant

**Other activities and functions**

Since 2012: William Prym Holding GmbH, Stollberg, Germany, Member of the Advisory Board (not a supreme governing body)

Since 2010: Commerzbank AG, Frankfurt, Germany, Member of the Regional Advisory Board North (not a supreme governing body)

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## Lorne Somerville



**Title and function**  
Member of the Board of Directors (until April 11, 2017)

Member of the Nomination and Compensation Committee  
Non-Executive Member

**Year of birth**  
1963

**Nationality**  
British

**Education**  
1995: MBA, International Institute for Management Development (IMD), Lausanne, Switzerland

1989: MA, Computer Science, University of Cambridge, UK

1986: BA, Computer Science, University of Cambridge, UK

**Professional background**  
Since 2008: CVC Capital Partners, London, UK (unlisted), Partner and Global Head of TMT

2001 - 2008: UBS Investment Bank, Joint Global Head of Telecommunications and Head of the European Communications Group

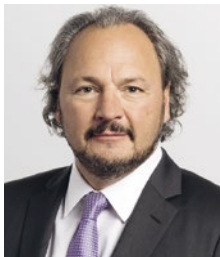
1997 - 2001: Swisscom AG, Head of Swisscom International, Head of International Strategy & Acquisitions

**Other activities and functions**  
Since 2014: Avast, Prague, Czech Republic (unlisted), Member of the Board of Directors, Member of the Nomination and Compensation Committee

Since 2011: PT Link Net Tbk, Jakarta, Indonesia (listed), Member of the Board of Directors

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## Christoph Vilanek



**Title and function**  
Member of the Board of Directors

Member of the Nomination and Compensation Committee  
Non-Executive Member

**Year of birth**  
1968

**Nationality**  
Austrian

**Education**  
1991: Magister Business Administration, University of Innsbruck, Austria

**Professional background**  
Since 2009: freenet AG, Büdelsdorf, Germany, CEO

2005 - 2008: debitel AG, Stuttgart, Germany, Vice President Customer Care, Customer Management

2004 - 2005: iPUBLISH GmbH, Munich, Germany, interim Managing Director

2001 - 2004: McKinsey & Co., Munich, Germany, Zagreb, Croatia, Engagement Manager

2000 - 2001: Ravensburger Interactive Media GmbH, Ravensburg, Germany, Managing Director

1999 - 2000: boo.com GmbH, Munich, Germany, Managing Director

1997 - 1998: Meister Verlag, Munich, Germany, Marketing Director

1995 - 1997: Gräfe und Unzer Verlag, Munich, Germany, Head of Electronic Publishing

1991 - 1995: Time-Life International GmbH, Munich, Germany, and London, UK, Director Business Development

**Other activities and functions**  
Since 2015: EXARING AG, Munich, Germany (unlisted), Non-Executive Chairman of the Board of Directors

Since 2015: gamigo AG, Hamburg, Germany (unlisted), Non-Executive Member of the Board of Directors

Since 2013: Ströer SE, Cologne, Germany (listed), Non-Executive Chairman of the Board of Directors

From 1999 until March 2017: Netzpiloten AG, Hamburg, Germany (unlisted), Non-Executive Member of the Board of Directors

### 3.2 Election and Term of Office

	Year of first election	Year of most recent election	AGM year of end of term
Peter Kurer	2016	2017	2018
Peter Schöpfer	2015	2017	2018
Robin Bienenstock	2016	2017	2018
Michael Krammer	2016	2017	2018
Jesper Ovesen	2015	2017	2018
Joachim Preisig	2016	2017	2018
Lorne Somerville <sup>1</sup>	2015	2016	2017
Christoph Vilanek	2016	2017	2018

<sup>1</sup> Lorne Somerville did not stand for re-election as member of the Board of Directors at the Annual General Meeting 2017 and accordingly resigned from the Board of Directors as of the end of the Annual General Meeting of April 11, 2017.

Article 12 of the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) provides for the Board of Directors to comprise at least four and no more than nine members, including the Chairman of the Board of Directors, and for the Nomination and Compensation Committee to comprise at least three members of the Board of Directors (Article 17 of the Articles of Incorporation). All members of the Board of Directors, the Chairman of the Board of Directors as well as the Chairman and all members of the Nomination and Compensation Committee are elected annually and individually by the Annual General Meeting (AGM) for a term of office of one year until the end of the next Annual General Meeting. Re-election is possible. If the post of Chairman of the Board of Directors or Chairman of the Nomination and Compensation Committee is vacant, the Board of Directors shall appoint a new Chairman of the Board of Directors or Chairman of the Nomination and Compensation Committee for the remaining term of office. The terms of office of the members of the Board of Directors are set out above.

### 3.3 Internal Organizational Structure

#### 3.3.1 Allocation of Tasks within the Board of Directors

The Board of Directors has established a Nomination and Compensation Committee and an Audit Committee through the enactment of Organizational Regulations for the Board of Directors as well as Organizational Regulations for both the Nomination and Compensation Committee and the Audit Committee ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)). In their respective areas, the committees are responsible for establishing policies, periodically reviewing their implementation, supervising business activities and preparing and executing resolutions brought forth by the Board of Directors. Except for

the election of the Chairman of the Board of Directors and the Chairman and members of the Nomination and Compensation Committee by the shareholders' meeting, the Board of Directors organizes itself. It appoints a Vice-Chairman of the Board of Directors, the Secretary and a Chairman as well as members of the Audit Committee following the Annual General Meeting for a term of office of one year until the end of the next Annual General Meeting. Reappointment is possible. Each committee appoints a secretary who needs not to be a member of the Board of Directors. If not determined otherwise by a committee, the Secretary of the Board of Directors acts as the secretary of a committee. The Audit Committee is composed of at least three members of the Board of Directors.

The Chairman of the Board of Directors chairs the shareholders' meetings and presides over the Board of Directors. The Chairman has the following duties and powers: calling meetings of the Board of Directors and setting the agenda; supervising, complying with and implementing the resolutions of the Board of Directors; immediately informing all members of the Board of Directors in case of extraordinary events; handling information requests from other members of the Board of Directors; ensuring that, in urgent business matters where a regular board resolution cannot be reasonably passed within the required time frame, all measures are taken to safeguard the interests of the Sunrise Group; interacting with the CEO and other members of the Executive Leadership Team outside of board meetings; monitoring the implementation of measures decided by the Board of Directors; and representing the Board of Directors internally and externally. The Vice-Chairman assumes the powers and duties of the Chairman in the absence of the Chairman. The Chairman of the Nomina-

tion and Compensation Committee and the Chairman of the Audit Committee chair their respective committees.

The Chairs and the composition of the committees of the Board of Directors during 2017 were as follows:

Chairman and Vice-Chairman	Nomination and Compensation Committee	Audit Committee
Peter Kurer (Chairman)	Peter Schöpfer (Chairman)	Jesper Ovesen (Chairman)
Peter Schöpfer (Vice-Chairman)	Michael Krammerr (Member since April 11, 2017)	Robin Bienenstock (Member)
	Peter Kurer (Member)	Michael Krammer (Member until April 11, 2017))
	Lorne Somerville (Member until April 11, 2017)	Peter Kurer (Member since April 11, 2017)
	Christoph Vilanek (Member)	Joachim Preisig (Member)

### 3.3.2 Tasks and Areas of Responsibility of Each Committee of the Board of Directors

The Nomination and Compensation Committee combines the functions of a nomination committee and a compensation committee and supports the Board of Directors in the fulfilment of its powers and duties as set forth by law, the Articles of Incorporation and the Organizational Regulations ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) with regard to the compensation and personnel policies of the Sunrise Group. The Nomination and Compensation Committee prepares all relevant decisions made by the Board of Directors related to the nomination and compensation of and contracts for the members of the Board of Directors, the CEO and other members of the Executive Leadership Team and defines the compensation and personnel policies of the Sunrise Group. In particular, the Nomination and Compensation Committee has the following powers and duties:

- succession planning, including planning and training for unforeseen and emergency situations
- determining the criteria for the selection of candidates for appointment to the Board of Directors, as Chairman of the Board of Directors or as Chairman or members of the Nomination and Compensation Committee by the shareholders' meeting, taking into account the criteria for the composition of the Board of Directors as set forth in the Swiss Code of Best Practice for Corporate Governance
- preparing the nomination of new members for the Board of Directors to be proposed to the shareholders' meeting for appointment, taking into account each proposed member's experience, independence, compatibility with other members, culture and other commitments in line with the policies for skill and diversity setting (see section 3.1 Members of the Board of Directors on page 44 et seq.)

- preparing the appointment of a Vice-Chairman of the Board of Directors, the Secretary and a Chairman as well as members of the Audit Committee by the Board of Directors following the Annual General Meeting
- evaluating candidates for the position of CEO and, together with the CEO, evaluating candidates for the Executive Leadership Team other than the CEO
- reviewing mandates held by members of the Board of Directors and the Executive Leadership Team outside of the Sunrise Group
- annually reviewing the independence of the members of the Board of Directors and its committees
- annually reviewing and evaluating the corporate governance and the performance of the Board of Directors
- submitting proposals, in line with the maximum aggregate compensation limits approved by the shareholders' meeting, for the individual compensation of the members of the Board of Directors based on their responsibilities and functions, of the CEO and, based on the CEO's proposal, of the other members of the Executive Leadership Team along with respective performance metrics for the CEO, to the Board of Directors for approval
- on an annual basis, reviewing the performance of the CEO and assessing the performance of the other members of the Executive Leadership Team as proposed by the CEO and, based on the evaluation, submitting proposals for respective individual compensation to the Board of Directors for approval
- proposing, on an annual basis, the maximum aggregate compensation amount in relation to each of the members of the Board of Directors and the Executive Leadership Team to be proposed to the Annual General Meeting for approval

- establishing the Sunrise Group’s compensation and personnel policies and performance criteria related to compensation with the goal of finding, encouraging and retaining employees of the Sunrise Group and, by so doing, ensuring the competitiveness and long-term success of the Sunrise Group
- periodically reviewing the implementation of the compensation and personnel policies
- assessing the effectiveness, attractiveness and competitiveness of variable compensation, share compensation and pension plans and evaluating appropriate insurance plans for the members of the Board of Directors and the Executive Leadership Team at least every two years
- submitting compensation proposals for the Head of Internal Audit to the Board of Directors for approval
- reviewing the draft of the annual compensation report submitted by the Executive Leadership Team
- reviewing the independence of the Internal Audit department from the Executive Leadership Team and the units to be audited
- reviewing and approving the guidelines, activities, budget, organizational structure and qualifications of the Internal Audit organization
- submitting proposals concerning the appointment, replacement and dismissal of the Head of Internal Audit to the Board of Directors for approval
- reviewing processes implemented by management to monitor significant risks and the respective reports on risk assessment and risk management submitted by management
- assessing and further developing the internal control system and the compliance functions

### 3.3.3 Working Methods of the Board of Directors and its Committees

The Audit Committee supports the Board of Directors and the Nomination and Compensation Committee in the fulfilment of its powers and duties as set forth by law, the Articles of Incorporation and the Organizational Regulations ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) with regard to financial controls (monitoring of financial reporting, supervision of internal and external auditing), as well as supervision of persons entrusted with the management of the Sunrise Group (internal control system). The Audit Committee has the following powers and duties in particular:

- assessing and proposing to the Board of Directors the consolidated financial statements, statutory financial statements and management report of Sunrise Communications Group AG to be proposed to the Annual General Meeting for approval
- reviewing the integrity of the financial reporting processes
- reviewing significant financial risk exposures and measures taken by management to monitor, control and report such exposures
- determining the audit plan for a period of several years as well as the scope of the internal and external audits
- discussing audit reports with internal and external auditors and management and monitoring the implementation of the auditors’ findings
- assessing the performance and collaboration of internal and external auditors
- preparing the nomination of external auditors to be proposed to the Annual General Meeting for election
- annually reviewing the fees and independence of external auditors

According to the Organizational Regulations ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)), the Board of Directors convenes upon invitation by the Chairman or, in his/her absence, by the Vice-Chairman whenever required by business, ordinarily six times per year. Meetings may also be called at the request of a member of the Board of Directors, the CEO or another member of the Executive Leadership Team accompanied by an explanation of the reason(s) for the request. The Board of Directors may pass resolutions if the majority of its members are in attendance. Attendance may also take place by telephone, video conference or other electronic media. No quorum is required if only resolutions regarding the implementation of a capital increase and subsequent amendments to the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) are to be passed. Except as provided by the Organizational Regulations, the Board of Directors passes resolutions with the majority of the votes cast. In the event of a tie, the chairman of the meeting casts the deciding vote. Resolutions may also be passed by circular resolution, whether in writing, by facsimile or by e-mail, provided that no member requests deliberations in a meeting. Members of the Board of Directors abstain from voting on matters or transactions which affect their own interests or the interests of individuals or entities connected with or close to them. In order to enhance an open and diversity-oriented discussion and decision-making, the Board of Directors has agreed on internal guidelines assuring such things as proper presentations by the executive management, clear and meaningful documentation, a culture of open debate, crisp and swift decision-making and committee work which is both effective and transparent to all members of the Board of Directors.

The Board of Directors met and passed written resolutions in 2017 with the participation of individual board members as set out on the following page.

The Nomination and Compensation Committee meets whenever required by business, but at least three times per year. The Nomination and Compensation Committee met and passed written resolutions in 2017 with the participation of individual board members as set out on the following page.

The Audit Committee meets whenever required by business, but at least four times per year. The Audit Committee met and passed written resolutions in 2017 with the participation of individual board members as set out on the following page.

## Meetings - Board of Directors

	Meetings in attendance	Average duration	Meetings by phone	Average duration	Circular resolutions
<b>Total number</b>	<b>7</b>	<b>4.95 hours</b>	<b>2</b>	<b>0.79 hours</b>	<b>2</b>
Peter Kurer	7		2		2
Peter Schöpfer	7 <sup>1</sup>		2		2
Robin Bienenstock	6		2		2
Michael Krammer	6 <sup>1</sup>		0		2
Jesper Ovesen	6		2		2
Joachim Preisig	5 <sup>1</sup>		2		2
Lorne Somerville (until April 11, 2017)	2 <sup>1</sup>		0		2
Christoph Vilanek	4		2		2

<sup>1</sup> Thereof one attendance by phone.

## Meetings - Nomination and Compensation Committee

	Meetings in attendance	Average duration	Meetings by phone	Average duration	Circular resolutions
<b>Total number</b>	<b>5</b>	<b>2.6 hours</b>	<b>0</b>		<b>0</b>
Peter Schöpfer	5 <sup>2</sup>				
Michael Krammer (since April 11, 2017)	4 <sup>3</sup>				
Peter Kurer	5				
Lorne Somerville (until April 11, 2017)	1 <sup>1</sup>				
Christoph Vilanek	5 <sup>3</sup>				

<sup>1</sup> Thereof one attendance by phone.

<sup>2</sup> Thereof two attendances by phone.

<sup>3</sup> Thereof four attendances by phone.

## Meetings - Audit Committee

	Meetings in attendance	Average duration	Meetings by phone	Average duration	Circular resolutions
<b>Total number</b>	<b>5</b>	<b>2.82 hours</b>	<b>0</b>		<b>0</b>
Jesper Ovesen	5				
Robin Bienenstock	5 <sup>2</sup>				
Michael Krammer (until April 11, 2017)	2 <sup>1</sup>				
Peter Kurer (since April 11, 2017)	3				
Joachim Preisig	5 <sup>1</sup>				

<sup>1</sup> Thereof two attendances by phone.

<sup>2</sup> Thereof four attendances by phone.



The meetings of the Nomination and Compensation Committee and the Audit Committee are called by the Chairman of the respective committee or, in his/her absence, by the most senior member of the committee. Meetings may also be called at the request of a member of the committee with explanation of the reason(s) for the request. A committee may pass resolutions if the majority of its members are in attendance. Attendance may also take place by telephone, video conferencing or other electronic media. Resolutions are passed by a majority of the votes cast. In the event of a tie, the Chairman of the meeting casts the deciding vote. Resolutions may also be passed by circular resolution, whether in writing, by facsimile or by e-mail, provided that no member requests deliberations in a meeting.

The CEO, the CFO and other members of the Executive Leadership Team may be invited by the respective Chairman to participate in meetings of the Board of Directors, the Nomination and Compensation Committee and the Audit Committee on a consultative basis. However, the CEO and other members of the Executive Leadership Team must not be present when the Nomination and Compensation Committee reviews the compensation or other aspects of the employment of the respective person. Likewise, the Chairman of the Board of Directors and the Chairman of the Nomination and Compensation Committee must also not be present when the Nomination and Compensation Committee reviews the compensation of the respective person. The Audit Committee may hold meetings exclusively with representatives of the internal and external auditors.

The Nomination and Compensation Committee reports to the board on its activities on a regular basis and submits the necessary proposals and recommendations to the Board of Directors. It assists the Board of Directors in conducting an annual review and evaluation of the performance of the Board of Directors and its committees. The Audit Committee reports to the Board of Directors at each meeting of the Board of Directors on its activities and on matters that are within its area of responsibility and submits the necessary proposals and recommendations to the Board of Directors.

The Nomination and Compensation Committee reports to the Board of Directors at least once per year on succession planning, including planning and training for unforeseen and emergency situations, and on management development for members of the Executive Leadership Team.

Newly elected members of the Board of Directors receive orientation training appropriate to their functions. Existing members of the Board of Directors receive regular training with respect to their responsibilities as members of the Board of Directors and its committees.

### **3.4 Definition of Areas of Responsibility between the Board of Directors and Executive Management**

The Board of Directors has delegated the executive management of the Company, unless otherwise provided by law, the Articles of Incorporation and the Organizational Regulations ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)), to the CEO. As part of the executive management duties delegated to the CEO pursuant to the Organizational Regulations, the CEO is responsible for the overall business and affairs of Sunrise Communications Group AG and has final authority in all management matters not reserved for the Board of Directors by law, the Articles of Incorporation and the Organizational Regulations. The CEO is responsible for implementing all resolutions of the Board of Directors and supervising all management levels in the Company. The CEO must ensure the successful long-term market- and value-oriented management and development of the Sunrise Group. The CEO acts as the head of the other members of the Executive Leadership Team, who are appointed and removed by the Board of Directors at the recommendation of the CEO and the Nomination and Compensation Committee. Within the Executive Leadership Team, the CEO is the contact person for the Chairman and the other members of the Board of Directors. He represents and coordinates the positions of the Executive Leadership Team vis-à-vis the Board of Directors. In matters requiring approval by the Board of Directors, the CEO submits corresponding proposals to the board and ensures the implementation of the resolutions passed. The CEO provides information to the other members of the Executive Leadership Team concerning the resolutions, suggestions and wishes of the Board of Directors. The CEO represents the Sunrise Group, both internally and externally. A table listing the allocation of powers and duties between the Board of Directors, the committees and the CEO is set out in Article 4 of the Organizational Regulations of the Board of Directors ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)).

### **3.5 Information and Control Instruments vis-à-vis the Executive Management**

The Board of Directors ensures the continued contact with the CEO and the other members of the Executive Leadership Team in accordance with the Organizational Regulations ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) in order to be informed at all times about all important developments of the business and affairs of Sunrise Communications Group AG and its subsidiaries. In each meeting of the Board of Directors, the Board of Directors is informed by the CEO, the CFO and other members of the Executive Leadership Team of the current state of the business, financial results, material developments and important business transactions affecting the Company. This includes, but is not limited to, consolidated annual budgets, quarterly reports with budget comparison, profit and loss forecasts, quarterly financial projections, monthly key performance index reports and strategic risk management and compliance assessment reports (annually with quarterly updates to the Audit Committee). The risks registered in the risk management system and measures taken to mitigate such risks are described in section 15 Operational and Financial Review – Risks on page 36 et seq. The Audit Committee receives, and the Board of Directors approves, the quarterly financial results. The Audit Committee receives quarterly compliance (including whistleblowing), legal, regulatory, information security and data privacy reports. Once a year, the Nomination and Compensation Committee receives information on the implementation of compensation and personnel policies by the Executive Leadership Team as well as information on personnel development and corresponding measures at management levels below the Executive Leadership Team. The Audit Committee has direct access to the Internal Audit department and may obtain information required by it within the Sunrise Group and question the responsible employees. The board carries out an annual review of the principles of compliance applicable to the Board of Directors, its committees, the Executive Leadership Team and the Sunrise Group to determine whether such principles are sufficiently well known and consistently followed.

### **3.6 Internal Audit**

The Internal Audit department provides the Audit Committee in particular and the Board of Directors and Executive Leadership Team of Sunrise Communications Group AG in general with an independent review of the business processes and controls necessary to manage

the risks of Sunrise Communications Group AG. It is an independent assurance function that examines and evaluates the adequacy and effectiveness of internal controls in line with the Internal Audit Charter approved by the Board of Directors. To ensure its independence, the Head of Internal Audit reports administratively to the Chief Financial Officer and functionally to the Chairman of the Audit Committee.

Internal Audit provides an objective and effective value-added internal audit service through a systematic and disciplined approach by assisting management in controlling risks, monitoring compliance and improving the efficiency and effectiveness of internal control systems and governance processes. As part of its duties, it prepares an annual plan approved by the Audit Committee, carries out all the necessary activities to ensure that audits are conducted in an effective and professional manner, documents audit findings and monitors the implementation of corrective measures. Regular reports highlighting significant audit findings and recommendations as well as summarizing internal audit activities are provided to the management teams and Audit Committee meetings at least on a quarterly basis.

To achieve maximum assurance and avoid duplication of audit efforts, Internal Audit coordinates its annual audit plan and activities with those of the external auditors. External auditors have unrestricted access to the audit reports of Internal Audit.

Internal Audit adheres to standards of best professional practice such as the International Standards for the Professional Practice of Internal Auditing.

## 4 Executive Leadership Team

The composition of the Executive Leadership Team during 2017 is set out on the following pages.

The Executive Leadership Team conducts weekly meetings to decide on selling, general and administrative expenses as well as other operating expenses, to review and manage the sales, product marketing, customer service and network as well as financial performance. The Executive Leadership Team further reviews projects, the work force, compliance, risk, as well as regulatory- and communication-related topics and decides on capital expenditures and updates the strategy on a regular basis. The CEO and the CFO, together with the responsible members of the Executive Leadership Team, conduct additional weekly reviews of customer service and product roadmaps as well as further bi-weekly and monthly reviews of infrastructure operations, key business segments and partnerships. On a quarterly basis, the performance development of each unit is reviewed by the CEO and CFO as part of the financial planning. A bi-weekly investment committee chaired by the CFO and CTO decides on the prioritization of projects for capital expenditures

No member of the Executive Leadership Team carried out any tasks for Sunrise Communications Group AG or any of its subsidiaries before having been appointed as a member of the Executive Leadership Team, except for previous employment of individual members of the Executive Leadership Team as set out in the respective *curricula vitae*.

According to Article 23 of the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)), no member of the Executive Leadership Team may hold more than one additional mandate in a listed company and more than five mandates in unlisted companies.

For the purposes of such provision, the following mandates shall be deemed one mandate outside of the Sunrise Group:

- mandates which a member of the Executive Leadership Team holds in legal entities outside of the Sunrise Group that are under common control
- mandates held by a member of the Executive Leadership Team in his or her capacity as a member of the supreme governing body or of the group management of a legal entity outside of the Sunrise Group
- mandates held by a member of the Executive Leadership Team upon instruction and on behalf of a legal entity outside of the Sunrise Group or legal entities controlled by it.

The following mandates are not subject to these limitations:

- mandates in companies controlled by Sunrise Communications Group AG or which control Sunrise Communications Group AG
- mandates held at the request of Sunrise Communications Group AG or companies controlled by it, whereby no member of the Executive Leadership Team may hold more than ten such mandates and
- mandates in associations, charitable organizations, foundations, trusts and employee welfare foundations, whereby no member of the Executive Leadership Team may hold more than six such mandates.

“Mandates” within the meaning of Article 23 of the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) are mandates in the supreme governing body of any legal entity that is required to be entered in the commercial register or corresponding foreign register of companies. Any mandate held by a member of the Executive Leadership Team in a legal entity outside of the Sunrise Group is subject to prior approval by the Board of Directors of Sunrise Communications Group AG, or, if delegated to it, the Nomination and Compensation Committee.

No member of the Executive Leadership Team of Sunrise Communications Group AG exceeds any limits for additional mandates.

As of December 31, 2017, Sunrise Communications Group AG had not entered into any management contracts with companies (or natural persons) not belonging to the Sunrise Group.

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## Olaf Swantee



**Title and function**  
Chief Executive Officer (CEO)  
since 2016

**Year of birth**  
1966

**Nationality**  
Dutch, Swiss

### Education

1990: European MBA, European School of Management, Paris, France

1987: 2 years of Economics, University of Amsterdam (UvA), Netherlands

### Professional background

2011–2016: EE Limited, Hatfield, UK, CEO

2010–2011: Orange-FT, Paris, France, Executive Vice President Europe and Purchasing WW, Member of the Global Management Committee

2007–2010: Orange-FT, Paris, France, Executive Vice President Europe and Mobile WW, Member of the Global Management Committee

2002–2007: Hewlett-Packard (Schweiz) GmbH, Dubendorf, Switzerland, Senior Vice President Technology Solutions Group Sales and Software EMEA; Managing Director General Western Europe; Vice President Enterprise Sales Group EMEA, Vice President Network Storage Solutions EMEA

1998–2002: Compaq Computer (Schweiz) AG, Dubendorf, Switzerland, Vice President Enterprise Storage Group EMEA; Director Sales and Marketing

1994–1998: Digital Equipment, Boston, USA, and Geneva, Switzerland, Executive Assistant to the Chairman and CEO of Digital Equipment; Marketing Director PC Business Europe; Manager Desktop Business Line

1990–1993: Compaq Computer EMA, Munich, Germany, District Sales Manager Export Markets; Product Manager Export Markets

### Other activities and functions

Since 2016: TeliaSonera AB, Stockholm, Sweden (listed), Non-Executive Member of the Board of Directors

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## André Krause



**Title and function**  
Chief Financial Officer (CFO)  
since 2011

**Year of birth**  
1970

**Nationality**  
German

### Education

1996: BA in Economics, Bielefeld University, Germany

1992: Follmann GmbH & Co. KG, Minden, Germany, Industrial Management Training, SAP Implementation Project

### Professional background

2011–2015: Sunrise Communications AG, Zurich, Switzerland, CFO

2006–2011: O2 Germany GmbH, Munich, Germany, CFO

2004–2006: O2 Germany GmbH, Munich, Germany, Vice President, Strategy & Consulting

1999–2004: McKinsey & Company, Inc., Düsseldorf, Germany, Associate Principal and member of the TIME (Telecom, IT, Media) practice

1997–1999: Arthur Andersen, Düsseldorf, Germany, Assistant, Computer Risk Management and Auditing

### Other activities and functions

Since 2014: Tele Columbus, Berlin, Germany (listed), Member of the Board of Directors and Chairman of the Audit Committee

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## Françoise Clemes



**Title and function**  
Chief Services Officer  
(CSO)  
since 2016

**Year of birth**  
1967

**Nationality**  
French, Spanish

### Education

1992: MA in Ergonomics and Human Factors Engineering, Paris Descartes University, France

1991: MA in Experimental Psychology/Information Systems, Paris Descartes University, France

### Professional background

2013-2016: EE Limited, Hatfield, UK  
Chief Customer Services

2011-2013: EE Limited, Hatfield, UK  
Chief of HR

2007-2011: Orange-FT, Paris, France,  
VP HR Orange Europe

1997-2007: Orange-FT, Paris, France,  
Deputy HR Director Orange Business Services; Deputy HR Director Paris/East; Recruitment Business Division

1992-1997: Orange-FT, Paris, France,  
Corporate Sales, Network Security

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## Timm Degenhardt



**Title and function**  
Chief Consumer Officer  
(CCO)  
until February 28, 2017

**Year of birth**  
1969

**Nationality**  
German, Swiss

### Education

1997: MSc in Marketing Management, Nottingham Business School, UK

1995: Diploma in Marketing, Chartered Institute of Marketing, London, UK

### Professional background

2015-2016: Sunrise Communications Group AG, Zurich, Switzerland, Chief Commercial Officer, Chief Marketing Officer

2013-2015: Sunrise Communications AG, Zurich, Switzerland, Chief Marketing Officer

2010-2011: Aizo Group AG, Schlieren, Switzerland, CEO

2007-2010: E.ON AG, Düsseldorf, Germany, Senior Vice President, Marketing & Sales

2004-2007: Orange Communications SA, Renens, Switzerland, Vice President, Marketing & Solutions, Vice President, Marketing & Communication

1995-2004: American Express Switzerland, Chief Marketing Officer Swisscard, Zurich, Switzerland; Director, Marketing & Advertising, Global Network Services, New York, USA; Senior Marketing Manager, Cardmember Acquisition Europe, London, UK

### Other activities and functions

Since 2013: iMusician Digital AG, Zurich, Switzerland (unlisted), Member of the Board of Directors

Since 2004: Tessaro AG, Kilchberg ZH, Switzerland (unlisted), Member of the Board of Directors

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## Bruno Duarte



**Title and function**  
Chief Consumer Officer (CCO) (since June 12, 2017)

**Year of birth**  
1966

**Nationality**  
French

### Education

1995: MBA, INSEAD, Fontainebleau, France

1990: Bachelor's Degree (Diplôme d'Ingénieur), Supélec, Gif-sur-Yvette, France

### Professional background

2006–2017: EE Limited, Hatfield, UK, Managing Director, Operations, Pricing & Strategy

2014–2016: EE Limited, Hatfield, UK, VP Consumer-Pay Monthly

2010–2014: EE Limited, Hatfield, UK, VP Fixed & Mobile Broadband

2007–2010: EE Limited, Hatfield, UK, VP Strategy

2005–2006: Hutchison 3G UK Limited, Maidenhead, UK, UK Strategy Director

2000–2005: Arthur D. Little, Paris, France, Partner, TMT Practice

1997–2000: Arthur D. Little, Paris, France, Manager / Senior Manager, TMT Practice

1995–1997: Arthur D. Little, Cambridge, MA, USA, Consultant

1993–1994: Arthur D. Little, Paris, France, Analyst

1992–1993: Andersen Consulting, Paris, France, Consultant

1990–1992: Schlumberger Industries, Farnborough, UK, Marketing and Sales Manager

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## Elmar Grasser



**Title and function**  
Chief Technology Officer (CTO) (since May 12, 2016)

**Year of birth**  
1965

**Nationality**  
Italian

### Education

1992: Graduate degree (Dipl. Ing.) in Computer Science, Vienna University of Technology, Austria

### Professional background

2013–2016: Sunrise Communications Group AG (since 2015), Sunrise Communications AG, Zurich, Switzerland, COO

2008–2013: Orange Austria Telecommunication GmbH, CTO

2006–2007: E-Plus Mobilfunk GmbH & Co. KG, Düsseldorf, Germany, KPN Mobile International, Brussels, Belgium, CTO

2004–2006: tele.ring Telekom Service GmbH, Vienna, Austria, CTO

2000–2004: O2 Limited London/O2 Germany, Munich, Germany, Vice President, Product Development

1996–2000: Iridium Communications Germany, GmbH, Düsseldorf, Germany; Iridium Services Europe GmbH & Co. KG, Executive Director, Engineering

1995: European Telecommunication Standardization Institute, Sophia Antipolis, France, Technical Expert, ETSI GSM Standardization, Project Team 12

1993–1994: Siemens Stromberg Carlsson, Boca Raton, FL, USA, Siemens representative in the TIA (Telecommunications Industry Association) and ANSI (American National Standards Institute)

1992–1993: Siemens AG, Vienna, Austria, Program and Systems Engineering, GSM Mobile Division

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## Massimiliano Nunziata



**Title and function**  
Chief Business Officer (CBO) (until May 11, 2017)

**Year of birth**  
1969

**Nationality**  
Italian

### Education

1992: MSc in Electrotechnical Engineering with specialization in Telecommunications, Swiss Federal Institute of Technology (ETH), Zurich, Switzerland

### Professional background

2015-2016: Sunrise Communications Group AG, Zurich, Switzerland, Chief Customer Experience Officer

2013-2015: Sunrise Communications AG, Zurich, Switzerland, Chief Customer Experience Officer

2013: Meridiana Fly, Milan, Italy, Chief Integration Officer

2005-2012: GE Capital, Milan, Italy, Managing Director, Equipment Financing & Fleet Services

2002-2005: GE Capital Equipment Financing, London, UK, Program Manager (Vendor Finance) - Europe

2000-2001: GE Capital Equipment Financing, London, UK, Director of Operations - Europe

1998-2000: GE Capital Equipment Financing, London, UK, Quality (Six Sigma) Leader - Europe

1996-1998: GE Capital, London, UK and Tokyo, Japan, Director of Business Development (M&A)

1995-1996: GE Corporate, Stamford, CT, USA, Associate Auditor, Corporate Audit Staff

1992-1995: Procter & Gamble, European Technical Center, Brussels, Belgium, Project Manager

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## Dominik Rubli



**Title and function**  
Chief Administrative Officer (CAO) since 2016

Secretary of the Board of Directors

**Year of birth**  
1971

**Nationality**  
Swiss

### Education

2009: Dr. iur., University of Zurich, Switzerland

2000: Attorney at Law, admitted to the Zurich bar, Switzerland

1996: lic. iur., University of St. Gallen, Switzerland

### Professional background

2010-2016: Sunrise Communications Group AG (since 2015), Sunrise Communications AG, Zurich, Switzerland, General Counsel, Head of Legal & Corporate Affairs/Regulatory, Corporate Security & Compliance, Secretary of the Board of Directors

2006-2010: Sunrise Communications AG, Zurich, Switzerland, Senior Legal Counsel

2002-2006: Korach Simonius Hayer, Zurich, Switzerland, Associate

2000-2001: Department of Business and Management, Zurich University of Applied Sciences Winterthur, Switzerland, Legal Research Associate

1998: District Court of Dielsdorf, Switzerland, Clerkship

1996-1997: Winterthur Rechtsschutzversicherungsgesellschaft, Winterthur, Switzerland, Legal Counsel

### Other activities and functions

Since 2015: Dispute Resolution Net Neutrality, Zurich, Switzerland (unlisted), Member of the Board of Directors

Since 2008: Swisststream, Zurich, Switzerland (unlisted), Member of the Board of Directors

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## Karin Schmidt



**Title and function**  
Chief Human Resources Officer (CHRO) since 2016

**Year of birth**  
1973

**Nationality**  
Swiss

**Education**  
2016: CAS in HR Value Creation, University of St.Gallen, Switzerland  
2014: Executive MBA ZFH General Management, HWZ University of Applied Sciences, Zurich, Switzerland  
2002: Management Diploma AKAD-Senior Level, AKAD, Zurich, Switzerland  
2001: Diploma in Business Administration, BVS Business School, Zurich, Switzerland

**Professional background**  
2013–2016: Sunrise Communications AG, Zurich, Switzerland, Head HR Operations Commercial/Finance  
2011–2012: Charles Voegelé Switzerland, Pfäffikon SZ, Switzerland, Group Head Human Resources

2008–2010: UBS AG, Wealth Management & Swiss Bank, Zurich, Switzerland, Head Human Resources & Education CFO, Management Functions, Pension Funds UBS

1998–2007: UBS AG, Wealth Management & Swiss Bank, Zurich, Switzerland, Deputy Head HR CFO, Management Functions; Senior HR Client Relationship Manager, Credit Risk Control & Pension Fund UBS

1994–1998: UBS AG, Wealth Management & Swiss Bank, Zurich, Switzerland, Personal Assistant to Head Next Generation & Topic Owner HR Administration

**Other activities and functions**  
Since 2006: profawo, Zurich, Switzerland (unlisted), Member of the Board of Directors

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## Robert Wigger



**Title and function**  
Chief Business Officer (CBO) (since September 1, 2017)

**Year of birth**  
1967

**Nationality**  
Swiss

**Education**  
2008: Executive Leadership & Management, St.Gallen Management Institute, St.Gallen, Switzerland  
2000: Advanced Marketing and Sales, INSEAD, Singapore  
1990: Swiss Marketing & Management Diploma, Furrer Marketing and Management Institute, Zurich, Switzerland

**Professional background**  
2012–2017: Hewlett-Packard Enterprise, Dübendorf, Switzerland, Vice President Service Provider Business for Europe, Middle East and Africa (EMEA)  
2009–2012: Hewlett-Packard (Schweiz) GmbH, Dübendorf, Switzerland, Country Manager for the Enterprise Servers, Storage & Networking Business in Switzerland

2003–2009: Hewlett-Packard (Schweiz) GmbH, Dübendorf, Switzerland, Business Unit Manager Storage Division Switzerland

2002–2003: Hewlett-Packard International Sarl GmbH, Dübendorf, Switzerland, Enterprise Marketing Manager, Storage and Server for Europe, Middle East and Africa (EMEA)

1998–2002: Compaq Schweiz AG, Dübendorf, Switzerland, Business Unit Manager Deskbound Computing

1995–1997: Macrotron (Ingram) Switzerland AG, Rotkreuz, Switzerland, Business Unit Manager Software

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## 5 Compensation, Shareholdings and Loans

For information regarding compensation, shareholdings and loans relating to members of the Board of Directors and the Executive Leadership Team, please consult the Compensation Report on page 77 et seq., page 79 et seq. and page 82.

## 6 Shareholders' Participation Rights

### 6.1 Voting Rights

Each share of Sunrise Communications Group AG carries one vote at a shareholders' meeting. Voting rights may be exercised only after a shareholder has been registered in the share register of Sunrise Communications Group AG (German: Aktienbuch) as a shareholder with voting rights. Acquirers of shares are, upon request and presentation of evidence of the transfer, registered as shareholders with voting rights in the share register only if they explicitly declare that they hold the shares in their own name and for their own account. For this purpose, Article 5 of the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) requires that Sunrise Communications Group AG maintain a share register listing the owners, usufructuaries and nominees of registered shares, including name, address and nationality (in the case of companies with registered offices). The Board of Directors has adopted Share Register Regulations concerning the registration of shareholders and maintenance of the share register of Sunrise Communications Group AG ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) in accordance with Article 5 (5) of the Articles of Incorporation. The regulations set out in detail the rules governing the recognition and registration of acquirers of shares and nominees as shareholders with voting rights, the powers and duties in relation to and the maintenance of the share register as well as the monitoring of the shareholdings registered in the share register. The persons listed in the share register are deemed to be shareholders, usufructuaries or nominees in relation to Sunrise Communications Group AG. Sunrise Communications Group AG recognizes only one proxy per share. The Board of Directors has the power to delete entries in the share register retroactively as of the date of the entry if the entry was made on the basis of false information. Before deleting an entry, it may give the shareholder or nominee in question the opportunity to argue against

the deletion. The shareholder or nominee in question will be informed of the deletion without delay. As a rule, the share register is closed three trading days before the date of the Annual General Meeting, up to and including the day of the meeting. Nonetheless, deletions from the share register may be made during the period that the share register is closed. The Board of Directors may under certain circumstances register nominees as shareholders with voting rights in the share register. For further information regarding the registration of nominees, see section 2.8 Limitations on Transferability and Nominee Registrations on page 44.

### 6.2 Convocation of the Meeting of Shareholders

Shareholders' meetings of Sunrise Communications Group AG are announced by the Board of Directors through official publication in the Swiss Official Gazette of Commerce (German: Schweizerisches Handelsamtsblatt) no less than twenty days prior to the date of the meeting. Notices may also be mailed to the shareholders listed in the share register. One or more shareholders of Sunrise Communications Group AG, together representing at least 3% of the total share capital outstanding at the time, may request an extraordinary shareholders' meeting in writing to the Board of Directors including indication of the agenda items and associated motions. Shareholders representing at least 1% of the total share capital outstanding at the time may request that items be included in the agenda. Such requests must be made at least 30 days prior to the meeting in writing and include a list of the items to be added to the agenda and the associated motions. The invitation to the shareholders' meeting states the day, time and place of the meeting, the agenda items as well as the motions made by the Board of Directors and the shareholders who requested the shareholders' meeting or the inclusion of an item in the agenda.

### 6.3 Representation at the Meeting of Shareholders

At shareholders' meetings of Sunrise Communications Group AG, shareholders may be represented by their statutory proxy, another shareholder with voting rights or the independent proxy elected by the Annual General Meeting. Shareholders may grant proxies electronically and instruct the independent proxy on both

- agenda items included in the invitation to the shareholders' meeting and
- new motions not disclosed in the invitation to the shareholders' meeting.

The independent proxy may only exercise the voting rights granted by the shareholder in accordance with the shareholder's instructions. Absent voting instructions, the independent proxy is required to abstain from voting. The independent proxy is elected annually by the Annual General Meeting for a term of office of one year until the end of the next Annual General Meeting.

#### **6.4 Statutory Quorum Requirements**

The shareholders' meeting passes resolutions and carries out elections by absolute majority of the votes cast, excluding any abstentions, blank or invalid votes. However, in accordance with the specific quorum requirements of the Swiss Code of Obligations and Article 10 (5) of the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)), the following actions require the approval of shareholders holding at least two thirds of the votes represented at such meetings:

- changes to the Company's purpose
- creation of shares with privileged voting rights
- restriction to the transferability of registered shares
- authorized or conditional capital increases
- increase of capital out of equity (German: Kapitalerhöhung aus Eigenkapital), against contributions in kind (German: Sacheinlage) or for the purpose of acquiring assets (German: Sachübernahme) and granting special benefits (German: Gewährung besonderer Vorteile)
- limitation or withdrawal of preemptive rights
- a change of registered offices of the Company and
- dissolution of the Company

The Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) do not provide for stronger majority requirements than envisioned by law.

#### **6.5 Entries in the Share Register**

The deadline for the entry of registered shareholders in the share register of Sunrise Communications Group AG is the third working day prior to the Annual General Meeting.

## **7 Change of Control Provision**

#### **7.1 No Opting Out, No Opting Up**

Pursuant to the applicable provisions of the Federal Act on Financial Market Infrastructure and Market Conduct in Securities and Derivatives Trading (Financial Market Infrastructure Act, FMIA), if a person acquires shares of a company listed on the SIX Swiss Exchange, whether directly or indirectly or acting in concert with third

parties, which, when added to the shares already held by such person, exceed the threshold of one third of the voting rights (whether exercisable or not) of such company, that person must make a bid to acquire all of the listed shares of such company. A company's articles of incorporation may either eliminate this provision of the SESTA/FMIA or may raise the relevant threshold to 49% ("opting out" or "opting up", respectively). The Articles of Incorporation of Sunrise Communications Group AG ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) do not contain opting-out or opting-up provisions.

#### **7.2 Change of Control**

There are no change-of-control clauses benefiting members of the Board of Directors, members of the Executive Leadership Team or other members of the management of Sunrise Communications Group AG. Employment contracts given to members of the Executive Leadership Team do not provide notice periods exceeding 12 months, commissions for the acquisition or transfer of enterprises or severance payments.

## **8 Auditor**

#### **8.1 Duration of the Mandate and Term of Office of the Lead Auditor**

The Sunrise Group's financial statements for the fiscal year ended December 31, 2017, have been audited by Ernst & Young AG, Zurich (since the incorporation of Sunrise Communications Group AG in 2015). The auditor is elected annually by the Annual General Meeting of Sunrise Communications Group AG. The lead auditor has been Willy Hofstetter since 2016. The lead auditor is rotated every seven years in accordance with Swiss law.

#### **8.2 Audit Fees**

The total audit fees for the fiscal year 2017 amount to CHF 707,000 (2016: CHF 753,000).

#### **8.3 Additional Fees**

The additional fees for audit-related services totaling CHF 117,500 for the fiscal year 2017 (2016: CHF 21,500) primarily comprise services in connection with changes in the consolidation perimeter and the implementation of new IFRS standards. The additional fees for non-audit services totaling CHF 1,021,000 (2016: CHF 700,600) are related to tax and advisory services in connection with the sale of Swiss Towers AG (CHF 847,000), as well as tax and advisory services for compliance and regulatory purposes (CHF 174,000). Without the extraordinary

effect of the sale of Swiss Tower AG, the non-audit fees would amount to less than 25% of the audit fees. For 2018, the Audit Committee has decided to implement a policy to limit the non-audit fees to 70% of the yearly audit fees over a three-year period.

#### **8.4 Supervisory and Control Instruments Pertaining to Audits**

The Board of Directors of Sunrise Communications Group AG meets with the auditor on a regular basis (at least four times a year) during the Audit Committee meetings. Once a year, the auditor presents to the Audit Committee a detailed report on the financial statement audit, including findings of significant financial accounting, reporting and internal control system issues. The auditor also confirms its independence from the Sunrise Group in that report. Each year, the Audit Committee reviews the appropriateness of retaining Ernst & Young as the Sunrise Group's auditor prior to proposing the re-election of Ernst & Young to the Annual General Meeting. Audit fees are ultimately approved by the Audit Committee. To ensure independence throughout the year, any additional and audit-related services provided by the auditor require the approval of the Audit Committee. The Audit Committee assesses the performance of the auditor and the fees paid for the audit services in accordance with Swiss law and based on its understanding of the Group's business, control environment, accounting and reporting issues, together with the way in which matters significant at Group level or in the statutory accounts are identified and resolved.

## **9 Information Policy**

Sunrise Communications Group AG engages in transparent, open and regular communication with its shareholders, the capital market and the general public. Throughout the year, Sunrise Communications Group AG publishes its annual results and interim reports (semi-annually and quarterly) on the dates listed in the financial calendar published on the Sunrise Investor Relations website at [www.sunrise.ch/ir](http://www.sunrise.ch/ir). Press releases and ad-hoc publications containing potentially price-sensitive information are published regularly and in accordance with the rules of SIX Swiss Exchange. All interim reports ([www.sunrise.ch/reports](http://www.sunrise.ch/reports)), company press releases ([www.sunrise.ch/press-releases](http://www.sunrise.ch/press-releases)) and ad-hoc publications ([www.sunrise.ch/ad-hoc](http://www.sunrise.ch/ad-hoc)) are also available on the Sunrise website, as are push subscription services for all such publications ([www.sunrise.ch/alert-service](http://www.sunrise.ch/alert-service)). Ad-hoc publications are distributed electronically to

at least two electronic information systems widely used by professional market participants (inter alia Bloomberg, Reuters) and to at least two relevant Swiss newspapers of national importance (inter alia Neue Zürcher Zeitung, Le Temps). Official publications of Sunrise Communications Group AG are made in the Swiss Official Gazette of Commerce (German: Schweizerisches Handelsamtsblatt). Notices to shareholders may also be made in writing to the addresses of the shareholders recorded in the share register. Printed annual reports are available upon request. For further information please contact the Investor Relations department by calling +41 58 777 96 86 or sending an e-mail to [investor.relations@sunrise.net](mailto:investor.relations@sunrise.net). For media enquiries please contact Corporate Communications by calling 0800 333 000 (+41 58 777 76 66 from outside of Switzerland) or sending an e-mail to [media@sunrise.net](mailto:media@sunrise.net). The registered office of Sunrise Communications Group AG is located at Binzmühlestrasse 130, 8050 Zurich, Switzerland.

#### **Important dates for 2018**

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Publication of the 2017 annual financial results: March 1, 2018

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Annual General Meeting: April 11, 2018

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Publication of the 2018 half-year report: August 23, 2018

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## **10 Subsequent Events after December 31, 2017**

On February 9, 2018, Sunrise Communications Group AG resolved on a capital increase out of authorized capital in the amount of CHF 69,028 by issuance of 69,028 registered shares with a nominal value of CHF 1 each. The capital increase was registered with the Commercial Register of the Canton of Zurich on February 12, 2018, and following this capital increase, the Company's issued share capital amounts to CHF 45,069,028, divided into 45,069,028 registered shares with a nominal value of CHF 1. The newly created shares were allocated to selected eligible employees of the Company pursuant to the terms of the Company's pre-IPO Management Long Term Investment Program.

On February 27, 2018, Sunrise Communications Group AG filed with SIX Swiss Exchange that Norges Bank (the Central Bank of Norway), Oslo, Norway, had increased its shareholding to 3.12% of the total share capital (0.62% thereof held as collateral via securities lending).

On February 27, 2018, Sunrise Communications Group AG filed with SIX Swiss Exchange that Black Rock Inc., New York, U.S.A., had decreased its shareholding to below 3% of the total share capital.

On March 1, 2018, Sunrise Communications Group AG announced that the Board of Directors will, among other things, propose to the Annual General Meeting on April 11, 2018, the following:

- Re-election of all members of the Board of Directors, the Chairman of the Board of Directors as well as the members and the Chairman of the Nomination and Compensation Committee.
- Election of Ingrid Deltre as member of the Board of Directors and member of the Nomination and Compensation Committee.
- Adoption of an amendment to the Company's Articles of Incorporation, pursuant to which, going forward, the shareholders' meeting shall reach a decision regarding the delisting of the shares of the Company from SIX Swiss Exchange or its successor, whereby such a decision is subject to a qualified quorum as stipulated under Article 704 (1) CO and Article 10 (5) of the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)).
- Adoption of amendments to the Company's Articles of Incorporation, reducing the number of mandates permitted to be held by members of the Board of Directors of the Sunrise Group in unlisted companies outside the Sunrise Group from the eight mandates currently permitted to six mandates, and allowing members of the Board of Directors and the Executive Leadership Team to temporarily exceed the permitted numbers of mandate outside of the Sunrise Group in order to enable smooth transitions.

# Compensation Report

The Sunrise compensation framework encourages employees to focus on the new Sunrise company values of bold, intuitive and positive, and is aligned with the Company's strategy and financial goals. The Compensation Report is compliant with the Directive on Information Relating to Corporate Governance issued by SIX Swiss Exchange along with the Ordinance against Excessive Compensation in Public Companies and the Swiss Code of Best Practice for Corporate Governance.

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## **67 Compensation Report**

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# Compensation Report

## 1 Introduction

The Sunrise compensation framework encourages employees to focus on the new Sunrise Company values of bold, intuitive and positive, and is aligned with the Company's strategy and financial goals. It applies to all employees, including the Executive Leadership Team, and is aimed at attracting, motivating and retaining talent. It rewards short- and long-term success, both in terms of the performance of the Company as a whole as well as the individual's contributions to the business, thus fostering a culture of high performance. Compensation is subject to a formal annual performance management process with the purpose of aligning organizational, team and individual targets.

Sunrise has an ongoing focus on providing incentive programs that balance short- and long-term commitment and compensation while aligning the interests of management and employees, shareholders and other stakeholders.

For 2017, Sunrise decided to amend the company bonus plan by assigning different weightings to company versus individual targets based on job grades. As a result, and in order to strengthen the focus on achieving the Company's overall goals, the target achievements of the CEO and the members of the Executive Leadership Team are weighted more heavily with respect to company targets than to individual targets. Sunrise also conducted a detailed review of the Management Long-Term Investment Program (MLTIP) launched in 2015 and decided to continue this plan on an amended basis. The vesting of the Performance Shares for the Executive Leadership Team is linked to the performance metric of a three-year cumulative equity free cash flow (EFCF) for the purpose of more strongly aligning the plan with the overall business strategy of Sunrise and the interests of its shareholders.

For the 2018 financial year, Sunrise also decided to amend the Management Long-Term Investment Program for Executives (MLTIPE) introduced in 2016. The MLTIPE provides newly appointed Executive Leadership Team members with the opportunity to invest privately and purchase shares on a one-time basis. The plan continues to include a performance element which will be aligned with the performance criteria of the MLTIP Revised, since the characteristics and mechanism are similar.

The 2017 Compensation Report will be submitted for an advisory vote by the shareholders at the Annual General Meeting on April 11, 2018. Shareholders will thus have the opportunity to express their opinion on how the Board of Directors has determined actual payouts for the 2017 business year. While Sunrise believes that it has a well-balanced compensation system in place, the Company will carefully take into account any feedback received from shareholders as part of this advisory vote.

At the 2018 Annual General Meeting, shareholders will also be asked to approve the future compensation of the Board of Directors for the period prior to the 2019 Annual General Meeting as well as the maximum compensation amount for the Executive Leadership Team for the business year ending December 31, 2019. Sunrise is committed to providing shareholders with a real say-on-pay. Therefore, shareholders determine compensation budgets for future years and can retrospectively voice their opinions every year on the use of these budgets in an advisory capacity.

The Compensation Report is subject to and compliant with the Directive on Information Relating to Corporate Governance, its annex (Corporate Governance Directive) and the commentary issued by SIX Swiss Exchange, along with the Ordinance against Excessive Compensation in Public Companies (Compensation Ordinance) and the Swiss Code of Best Practice for Corporate Governance.

## 2 Compensation Governance

### 2.1 Rules Regarding Compensation in the Articles of Incorporation

The Sunrise Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) contain provisions regarding the approval of compensation by the General Meeting (Article 8), the powers and duties of the Nomination and Compensation Committee (Article 17), general principles of compensation (Article 20), approval of maximum compensation for the members of the Board of Directors and the Executive Leadership Team (Article 21), additional amounts for new members of the Executive Leadership Team (Article 22), agreements with members of the Board of Directors and the Executive Leadership Team (Article 24) and loans and credits to members of the Board of Directors and the Executive Leadership Team (Article 25).

### 2.2 Nomination and Compensation Committee

The Nomination and Compensation Committee (NCC) is entrusted with the supervision and governance of the Sunrise compensation programs and policies, compensation of the Executive Leadership Team as well as the evaluation of new Executive Leadership Team members as set out under section 3.3.2 Corporate Governance – Tasks and Areas of Responsibility of Each Committee of the Board of Directors on page 51 et seq.

The NCC consists of at least three members of the Board of Directors. The members of the NCC and the Chairman of the NCC are elected individually each year by the respective Annual General Meeting in accordance with Swiss law and the Articles of Incorporation.

The powers and duties of the NCC related to compensation are outlined in the Organizational Regulations of the Board of Directors ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)), the Organizational Regulations of the NCC ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)), and are defined therein in accordance with the Articles of Incorporation, Article 17 ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)).

In compliance with the Organizational Regulations of the Board of Directors ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)), decision-making powers regarding the compensation of the members of the Board of Directors and the Executive Leadership Team are outlined in the table below.

At the 2017 Annual General Meeting, Michael Krammer was elected as a new member of the NCC while Peter Schöpfer was re-elected as Chairman of the NCC. Peter Kurer and Christoph Vilanek were re-elected as members of the NCC. Lorne Somerville did not stand for re-election as a member of the Board of Directors nor of the NCC.

Subject	Nomination and Compensation Committee	Board of Directors	General Meeting
Compensation Report	A	E	E (consultative)
Compensation of the Board of Directors	A	A	E
Compensation of the Executive Leadership Team	A	A	E
Additional amounts for new members of the Executive Leadership Team	A	E	
Decision on individual compensation of the members of the Board of Directors (subject to approval of the total compensation amount by the General Meeting)	A	E	
Decision on individual compensation of the CEO and other members of the Executive Leadership Team (subject to approval of the total compensation amount by the General Meeting)	A	E	

Legend: A = Applicant, E = Decision

### 2.3 Process for Determining Compensation

In general, the NCC evaluates and prepares the compensation guidelines and applicable performance criteria for compensation and submits corresponding proposals to the Board of Directors. The NCC also regularly informs the Board of Directors of its activities. The NCC assesses the effectiveness, attractiveness and competitiveness of compensation plans at least every two years.

In accordance with these compensation guidelines, the NCC recommends remuneration for the Board of Directors for the period prior to the following year's Annual General Meeting and for the Executive Leadership Team for the following business year, in line with the maximum aggregate compensation and subject to approval by the Annual General Meeting. Article 22 of the Articles of Incorporation ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) provides for additional amounts for compensating members of the Executive Leadership Team who are appointed after the maximum aggregate compensation is approved by the Annual General Meeting.

Discussions and decisions by the Board of Directors or the NCC regarding the compensation of Executive Leadership Team members are resolved in the presence of the CEO and the Chief HR Officer, who do not have voting rights. However, the CEO and the Chief HR Officer may not be present when the Board of Directors or the NCC reviews their respective compensation. Likewise, the Chairman of the Board of Directors and the Chairman of the NCC are not present when the NCC reviews their compensation. The Chairman of the Board of Directors abstains from voting on his Base Compensation when the Board of Directors takes resolutions concerning the compensation of its members.

### 2.4 NCC Meetings

In 2017, the NCC supported the Board of Directors in its tasks of reviewing and setting the individual compensation amounts and performance criteria related to compensation for the members of the Executive Leadership Team and the Board of Directors as required by law, the Articles of Incorporation and the Organizational Regulations ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)) as detailed under section 3.3.2 Corporate Governance - Tasks and Areas of Responsibility of Each Committee of the Board of Directors on page 51 et seq. The NCC held five physical meetings. In a meeting on

January 24, 2017, the NCC finalized its recommendation regarding 2016 target achievement, maximum aggregate compensations and the board members' nomination for decision by the 2017 Annual General Meeting. Further, the NCC reviewed the draft of the 2016 Compensation Report, and approved the proposed CEO and Executive Leadership Team base salary compensation as well as the revised Management Long-term Investment Program (MLTIP Revised) for decision by the Board of Directors. In a meeting on May 2, 2017, the NCC evaluated the proposed candidates for the positions of Chief Consumer Officer (CCO) and Chief Business Officer (CBO) as well as their proposed total compensations. In a meeting on June 16, 2017, the NCC decided on an internal board performance evaluation as well as an independent assessment to be performed by an external consultant. It also decided on the approach regarding the Executive Leadership Team mid-year performance review. Further, the NCC reviewed the MLTIPE and decided on the proposals for amendments to the Board of Directors. In a meeting on August 8, 2017, the NCC was informed about the outcomes of negotiations with the trade union syndicom regarding a new collective employment contract and reviewed the regular succession planning for the Executive Leadership Team, the Board of Directors and higher management levels. In a meeting on October 25, 2017, the NCC reviewed the pension plan, the D&O policy, the personnel policies and the Sunrise compensation framework including the proposal to the Board of Directors for a company-wide individual salary increase for 2018. The NCC has been given a mandate to evaluate the potential introduction of an employee share-based purchase program. The proposal was discussed in this meeting and the NCC decided against implementing it at the present time. Moreover, the NCC was informed about the expected company target achievement in 2017, the framework proposal of Executive Leadership Team and company target setting for 2018. It also reviewed the corporate governance practices of the Company and the external mandates of the members of the Board of Directors. Further, the NCC decided on the mandate to be given for an external board performance assessment.



### 3 Compensation System

#### 3.1 Principles

Sunrise benchmarks compensation levels and structures on a regular basis, whereby the median compensation of relevant comparison groups is used as the target benchmark.

In general, the compensation of the Board of Directors and Executive Leadership Team is reviewed and evaluated every second year by an external consultant. To this end, Sunrise obtained advice and benchmark data from PricewaterhouseCoopers on companies in the Swiss Market Index SMIM in 2016. A subset of particularly relevant companies was selected from the SMIM. This subset of SMIM companies, along with a direct competitor in the Swiss telecom market (see list in the footnote), is considered most comparable to Sunrise in terms of size, complexity and labor market.<sup>1</sup>

<sup>1</sup> ams AG; Bâloise Holding AG; Georg Fischer AG; Logitech International AG; OC Oerlikon Corp AG; PSP Swiss Property AG; Sonova Holding AG; Straumann Holding AG; Swiss Prime Site AG; Temenos Group AG; Swisscom AG.

Sunrise is mindful of the fact that pay level comparisons must also take into account differences in compensation structure. While SMIM companies generally differ in terms of their compensation structures, Sunrise considered their pay structures similar enough to allow for meaningful pay level benchmarking.

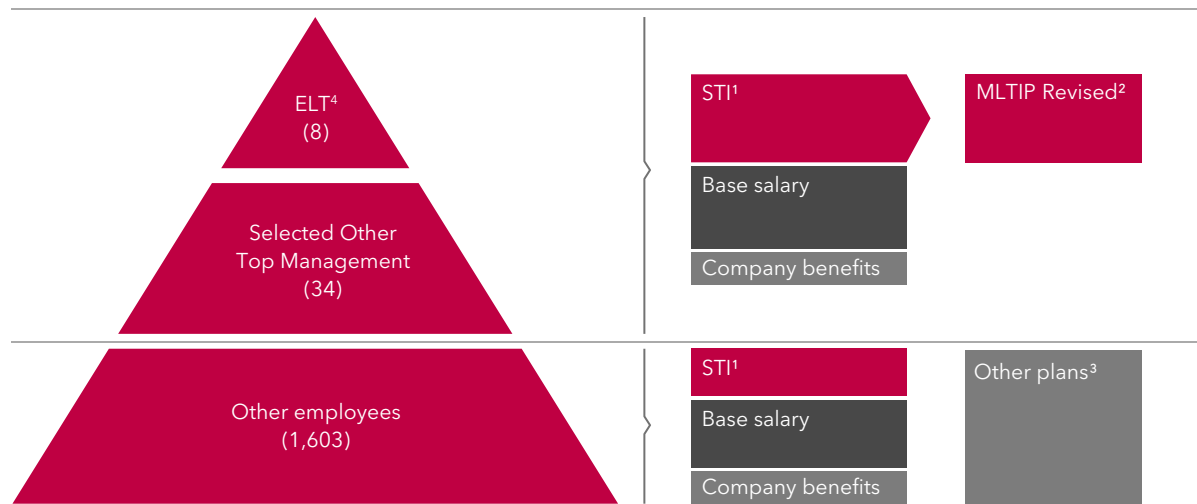
#### 3.2 Elements

General compensation principles for the Board of Directors and the Executive Leadership Team of Sunrise are described in the Articles of Incorporation (Article 20) ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)).

As shown in the Compensation Framework chart below, total compensation at Sunrise is based on:

- Fixed compensation - base salary
- Variable compensation - short- and long-term incentive plans
- Company benefit programs (company pension plans, insured benefits and other fringe benefits)

#### Compensation framework 2017



<sup>1</sup> Short-term incentive: annually, rewarding past performance

<sup>2</sup> Management Long-Term Investment Program (MLTIP Revised): linked to STI and participation on a voluntary basis

<sup>3</sup> Plans for selected employee groups: Sales Plan and Customer Service Frontline Incentive Plan

<sup>4</sup> One-time, voluntary opportunity for newly appointed members of the Executive Leadership Team (ELT) to invest privately in order to align long-term interests of the ELT and shareholders (Investment and Performance Shares)

### 3.2.1 Total Compensation Overview 2017

	Chairman of the Board	Members of the Board	Executive Leadership Team (ELT)	Selected Other Top Management (OTM)	All regular employees	Remarks
<b>Fixed compensation</b>						
Fixed compensation	•	•	•	•	•	
Board of Directors Share Plan	•	•				
<b>Variable compensation</b>						
Short-Term Incentive (Company Bonus Plan)			•	•	•	Based on the achievement of company targets and individual targets, ELT and OTM members can opt to invest part of their Short-Term Incentive in the MLTIP Revised
Management Long-Term Investment Program (MLTIP Revised)			•	•		
Management Long-Term Investment Program for Executives (MLTIPE)			•			Only for newly appointed ELT members on a voluntary and one-time basis
Sales Plan				•	•	Only for sales employees, based on quotas
Customer Service Frontline Incentive Plan					•	Only for employees within Customer Service who have customer advisory duties
<b>Company benefits</b>						
(Base plus additional pension plan, base plus additional accident insurance, sick pay insurance, etc.)			•	•	•	1. Members of the Board of Directors are not in a pension plan 2. Bel-Etage Pension Plan for ELT members

#### 3.2.2 Fixed Compensation: Cash

Generally speaking, fixed compensation is paid in cash on a monthly basis and takes into account the size and scope of the position as well as external market data. Potential increases in base pay are evaluated on an annual basis.

##### 3.2.2.1 Fixed Compensation: Board of Directors Share Plan

In order to ensure the independence of the Board of Directors in its supervisory role over the Executive Leadership Team, the members of the Board of Directors do not receive variable compensation linked to the performance of the Company. Base compensation for Board of Directors membership consists of a cash component plus a payment in the form of Sunrise shares targeted at one third of the base compensation for the Chairman and 50% of base compensation for all other members of the Board of Directors. These shares are subject to a blocking period of three years to ensure long-term interest. To avoid any conflicts of interest, no Performance Shares are granted in addition to these blocked Sunrise shares. The number of shares to be

allocated is calculated based on the 10-day average of the closing prices prior to the Annual General Meeting. More detailed information regarding the amounts and the actual payments in 2017 are described in section 4 Board of Directors Compensation on page 77 et seq.

#### 3.2.3 Variable Compensation

Variable compensation is based on annually defined objectives that are linked to the key drivers behind the Sunrise strategy (see Operational and Financial Review – 2 Sunrise Strategy on page 12 et seq.). These targets can be of a financial nature, customer-related or derived from key project milestones.

From a principle point of view, for Executive Leadership Team members other than the CEO, the ratio of variable performance-related compensation (Short-Term Incentive and MLTIP Revised) to fixed compensation (base salary, other benefits/cash allowances and retirement benefits) ranges from 0% (no targets achieved) to 112% (maximum targets achieved). If targets are achieved at 100%, the ratio is 52%.

Applying the same calculation methodology to the CEO, the ratio of variable performance-related compensation to fixed compensation ranges from 0% (no targets achieved) to 133% (maximum targets achieved). If targets are achieved at 100%, the ratio is 75%.

### 3.2.3.1 Annual Short-Term Incentive (Company Bonus Plan)

The short-term incentive arrangement aims at rewarding all employees on an annual basis for their contribution to reaching company targets that foster the success of Sunrise as well as for the achievement of individual targets. For that purpose, there is a defined target-setting and performance management process in place. Company targets and the individual targets of the Executive Leadership Team are subject to approval by the Board of Directors. Individual targets for each employee are defined using a top-down approach to ensure alignment within Sunrise and across the departments. To support the process and ensure transparency in line with the Sunrise values, employees are informed on a quarterly basis of the status of company target achievement in an indicative way. Financial company target achievement is assessed at the end of the year against the audited financial results. Final company target achievement and individual Executive Leadership Team target achievement are subject to approval by the Board of Directors.

The short-term incentive is accrued on a monthly basis assuming 100% target achievement. Any major deviations from the expected target achievement will be reflected in the accrual.

The key features of the company bonus plan are outlined below:

- The target short-term incentive for members of the Executive Leadership Team is expressed as a percentage of base salary and amounts to 50%. For the CEO, the target incentive is 60%. Overachievement is possible up to 200% of the target incentive, but in any case not higher than the base salary.
- The weightings of the two target categories, company and individual targets, differ according to job grades. For the CEO and members of the Executive Leadership Team, the company targets are weighted more heavily than the individual targets (see section 5 Executive Leadership Team Compensation on page 79 et seq.). For all other employees, the two categories are either weighted equally or individual targets are weighted more heavily than company targets.

- Company targets consist of three elements: adjusted EBITDA for short-term financial success; customer base growth for future economic benefit and B2B gross profit as the strategic focus topic for the year 2017. The strategic focus topic changes every year.
- Individual targets consist of a maximum of three quantitative/qualitative targets for all employees in the Company Bonus Plan and a maximum of four quantitative/qualitative targets for managers. The Executive Leadership Team members are measured on two individual targets (Sunrise Performance Scorecard and Peer Comparison), whereas the CEO is measured on one discretionary target focusing on the Sunrise Performance Scorecard.
- In principle, payout of the short-term cash bonus takes place in March of the year following the performance period and is subject to final sign-off by the Board of Directors for Executive Leadership Team members and by the CEO for all other employees. Variable compensation is paid in cash to all employees in the Company Bonus Plan. The Executive Leadership Team and selected Other Top Management members can elect to receive a portion of their short-term incentive in shares (see next section 3.2.3.2 Management Long-Term Investment Program).

### 3.2.3.2 Management Long-Term Investment Program

The Management Long-Term Investment Program (MLTIP) was implemented in 2015 with the completion of the IPO. The purpose of this program is to generate an ownership interest and to provide the Executive Leadership Team and selected Other Top Management members with the opportunity to participate in the future success of Sunrise as well as to align their interests with those of Sunrise shareholders.

For 2017, Sunrise has conducted a detailed review of the MLTIP launched in 2015 and has decided to continue the plan on an amended basis. In order to more strongly align the MLTIP (in the following referred to as MLTIP Revised) with the overall business strategy of Sunrise and the interests of its shareholders, the vesting of the Performance Shares for the Executive Leadership Team is no longer based on Sunrise total shareholder return as compared to two peer groups, but instead linked to the performance metric of a three-year cumulative equity free cash flow. Additionally, Performance Share vesting is lowered from a maximum of 1.5 to a maximum of 1.2 shares for each Investment Share acquired. For selected Other Top Management members, the MLTIP Revised offers one Matching Share for each Investment Share acquired. Vesting of Performance and Matching

Shares are subject to three years service conditions. Good and bad leaver provisions apply under the MLTIP Revised (see definition in footnote to section B. Performance Shares for Members of the Executive Leadership Team on the right). The other key elements and terms of the MLTIP introduced in 2015 remain in principle unchanged.

### A. Investment Shares

The MLTIP Revised provides Executive Leadership Team and selected Other Top Management members with the opportunity to annually invest part of their short-term incentive in the plan. The key parameters of the MLTIP Revised are as follows:

- Participation in the MLTIP Revised is voluntary, as the program represents a personal investment by each Executive Leadership Team member and selected Other Top Management member. If there is no participation, the short-term incentive is fully paid out in cash.
- Executive Leadership Team members and selected Other Top Management members may elect to receive a portion of their actual annual short-term incentive – between 25% and 50% – in the form of shares subject to a three-year blocking period (Investment Shares). Per the plan rules, the relevant share price for the allocation of Investment Shares is based on the average closing price of the shares on the SIX Swiss Exchange in the ten trading days immediately preceding the payout date (as a rule March 25) of the corresponding short-term incentive.
- The following only applies to 2017: the election windows take place in either November 2017 or in March 2018, depending on share trading restrictions applicable to specific groups of participants. The relevant share price for the allocation of Investment Shares is based on the average closing price of the shares on the SIX Swiss Exchange in the ten trading days immediately preceding the payout date of the March 2018 salary (as a rule the 25<sup>th</sup> of the month).

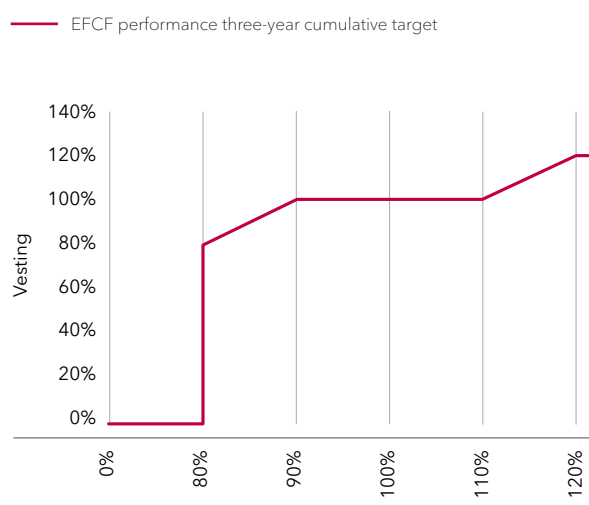
### B. Performance Shares for Members of the Executive Leadership Team

- At the end of the three-year vesting period, participants are entitled to receive, if any, a certain number of Performance Shares based on the achievement of a defined target.
- The number of Performance Shares depends on the Sunrise target equity free cash flow defined as the cumulative equity free cash flow of the last approved budget for three consecutive years.
- The number of Performance Shares ranges from 0 to 1.2 shares per Investment Share. Performance Shares

are allocated in accordance with the graph below. As indicated, a straight-line allocation applies between the threshold and –10% of target equity free cash flow as well as between +10% of target equity free cash flow and maximum performance achievement.

### Performance Shares

for Executive Leadership Team



- An equity free cash flow performance achievement of below 80% of the target results in 0% vesting, whereas vesting is capped at a maximum of 120% for target achievement above 120%.
- As a general rule, the right to receive Performance Shares lapses with immediate effect at the relevant termination date. In the event that the good leaver<sup>1</sup> provision applies, awards in form of Performance Shares vest immediately pro rata of the expired performance period but will only be allocated at the end of that period.

<sup>1</sup>The participant is considered a good leaver if he or she (i) ceases to be employed as a result of his or her death, (ii) becomes permanently disabled for health reasons, (iii) is dismissed or removed from office without good cause, or (iv) resigns for good cause.

### C. Matching Shares for Selected Other Top Management Members

- At the end of the three-year vesting period, Matching Shares are allocated subject to continued employment.
- Participants are eligible to obtain one Matching Share for each Investment Share that the participant holds during the blocking period.

- As a general rule, the right to receive Matching Shares lapses with immediate effect at the relevant termination date. In the event that the good leaver provision applies, Matching Shares are immediately allocated on a pro rata basis for the duration of employment until the relevant termination date.

### 3.2.3.3 Management Long-Term Investment Program for Executives

The Management Long-Term Investment Program for Executives (MLTIPE) was introduced in March 2016. The purpose of the MLTIPE is to provide newly appointed Executive Leadership Team members (with the exception of one selected Other Top Management member joining the plan in 2016) with a one-time opportunity to participate in the future success of Sunrise. Further, the plan aims to align the participants' interests with those of Sunrise shareholders and to reward leadership, innovation and performance. The MLTIPE has a prospective and long-term view that is aligned with the overall business strategy of Sunrise. It is tied to equity performance, settled in shares, and the vesting of Performance Shares is subject to service and company performance conditions. This plan's objective is to generate an ownership interest among the newly appointed Executive Leadership Team members.

#### A. Investment Shares

The MLTIPE provides newly appointed Executive Leadership Team members with the opportunity to make a private investment in the MLTIPE and to purchase Investment Shares. The key parameters of the MLTIPE are as follows:

- Participation in the MLTIPE is voluntary for the Executive Leadership Team members; however, members are given only one opportunity to join the program at the time of execution of the employment contract.
- The minimum and maximum amounts that newly appointed Executive Leadership Team members can invest in the plan are determined by the Board of Directors on a case-by-case basis.
- Purchased Investment Shares are subject to a three-year blocking period.
- Per the plan rules, the relevant share price for the purchase of Investment Shares is based on the average closing price of the shares on the SIX Swiss Exchange during the ten trading days after the public announcement of the participant's appointment to the Executive Leadership Team. There is no discount on the share purchase price.
- Upon termination of employment for any reason, the blocking period on the Investment Shares will lapse

with immediate effect on the effective date of termination.

#### B. Performance Shares

- At the end of the three-year vesting period, participants are entitled to receive, if any, a certain number of Performance Shares based on the achievement of predefined targets.
- The number of Performance Shares depends on Sunrise total shareholder return (TSR) as compared to two peer groups, A and B, and ranges from 0 to 1.5 shares per Investment Share.
- Currently applicable to the CEO only: good and bad leaver provisions apply (see definition in footnote to chart Performance Shares for Executive Leadership Team on page 74).

#### Peer Group A

50% of the award will be based on Sunrise TSR relative to SMIM constituents (see footnote to section 3.1 Principles on page 71). Performance Shares will be awarded in accordance with the table below.

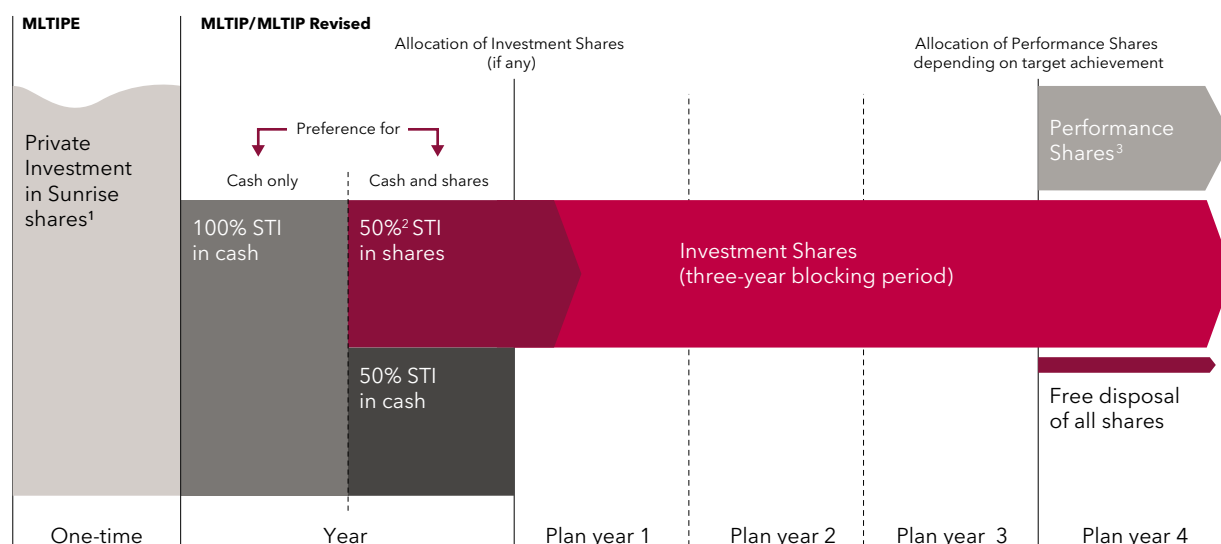
Sunrise TSR performance compared to the median TSR of SMIM constituents	Number of Performance Shares awarded for each Investment Share held
Above 150% of median	0.75 shares
Between 50% and 150% of median	0.25 shares - 0.75 shares (straight-line basis)
Below 50% of median	0 shares

#### Peer Group B

The remaining 50% of the award will be based on Sunrise TSR relative to a peer group of international telecom companies. This peer group includes Swisscom, O2 Germany, Elisa and Tele2 Sweden. Performance Shares will be awarded in accordance with the table below:

Rank of Sunrise TSR compared to peers	Number of Performance Shares awarded for each Investment Share held
First	0.75 shares
Second	0.75 shares
Third	0.5 shares
Fourth	0.25 shares
Fifth	0 shares

## Variable compensation for Executive Leadership Team



<sup>1</sup> Only for newly appointed members of the Executive Leadership Team (voluntary and one-time participation). The amount that can be invested in Investment shares of the MLTIPE is determined by the Board of Directors on a case-by-case basis.

<sup>2</sup> Participant may choose a portion ranging from 25% to 50% to invest into shares.

<sup>3</sup> Depending on meeting certain performance targets, the number of Performance Shares under MLTIPE and MLTIP ranges from 0 to 1.5 shares per Investment Share, whereas for the MLTIP Revised the number of Performance Shares ranges from 0 to 1.2 shares per Investment Share.

As stated before, all variable compensation at Sunrise is performance-related. While the short-term incentive rewards past performance throughout the year, the Management Long-Term Investment Programs are designed to provide a prospective incentive (Performance Shares) that is closely tied to the future success of the Company through its share price development (long-term value creation for Sunrise shareholders). Furthermore, as the Executive Leadership Team and selected Other Top Management members are encouraged to invest part of their short-term incentive in shares (Investment Shares), the plan offers immediate ownership interest (“skin in the game”). This not only serves to strengthen the managers’ long-term commitment to Sunrise, it also promotes prudent risk management and reinforces their alignment with the shareholders.

### 3.2.3.4 Outlook 2018

For the year 2018, Sunrise also decided to amend the Management Long-Term Investment Program for Executives (MLTIPE) introduced in 2016. The performance criteria of the MLTIPE will be aligned with those of MLTIP Revised (see section 3.2.3.2 B. Performance Shares for Members of the Executive Leadership Team on page 74), since the characteristics and mechanism are similar. Thus, the vesting of the Performance Shares for

newly appointed members of the Executive Leadership Team will no longer be based on Sunrise total shareholder return (TSR) as compared to two peer groups, but instead it will be linked to the performance metric of the three-year cumulative equity free cash flow. Additionally, Performance Share vesting will be lowered from a maximum of 1.5 to a maximum of 1.2 shares for each Investment Share acquired. The performance criteria will not be changed retrospectively and hence only apply to newly appointed Executive Leadership Team members as of 2018. The other key elements and terms of the MLTIPE will in principle remain unchanged.

### 3.2.4 Benefits

Sunrise offers a competitive benefits package including health management, retirement plans, disability and life insurance and other fringe benefits in line with market practices in the industry.

Executive Leadership Team members receive a monthly flat-rate expense allowance as well as a Bel-Etage Pension Plan. Contributions are fully paid by Sunrise. Members also receive either a company car or a monthly cash allowance for vehicle use.

## 4 Board of Directors Compensation

### 4.1 General

Compensation for members of the Board of Directors includes a fixed component for membership as well as additional amounts based on individual roles as shown in the table below. In order to ensure the independence of the Board of Directors in its supervisory role over the Executive Leadership Team, the members of the Board of Directors do not receive variable compensation linked to the performance of the Company.

Base compensation consists of a cash component plus a payment in the form of Sunrise shares (targeted at 1/3 of base compensation for the Chairman and 50% of base compensation for all other members of the Board of Directors). These shares are subject to a blocking period of three years to ensure long-term interest. To avoid any conflict of interest, no Performance Shares will be granted in addition to these blocked Sunrise shares. Any additional amounts for the committee chairperson position or committee membership are paid solely in cash. The amounts below are gross values before deduction of employee social security and taxes. Board fees for the 2017 financial year were paid out in cash in quarterly installments (payment months: April 2017, July 2017, October 2017 and January 2018) as well as in the form of shares (share allocation date: April 12, 2017).

Role	Amount in cash CHFk	Amount in shares CHFk
<b>Base compensation</b>		
Chairman of the Board	200	100
Member of the Board	50	50
<b>Committee membership fees</b>		
Chairman of the AC	60	
Chairman of the NCC	50	
Member of committee	30	

The members of the Board of Directors are reimbursed for travel and other related expenses associated with their responsibilities as members of the Sunrise Board of Directors.

### 4.2 Board of Directors Compensation in 2017

The compensation paid to individual members of the Board of Directors for the 2016 and 2017 financial years is shown at the end of this section. The footnotes contain

explanatory information on the amounts indicated and specific compensation details for the Board of Directors. The accrual principle is applied.

For the 2017 financial year, members of the Board of Directors received total compensation of CHF 1.266 million in the form of cash and shares plus employer-paid social security contributions. The level of base compensation and committee membership fees did not change in 2017.

The increase in total compensation from CHF 1.190 million in 2016 to CHF 1.266 million in 2017 is due to the fact that base compensation and committee membership fees for newly appointed members of the Board of Directors in 2016 were reported on an 8.5-month basis. Since there were no newly appointed members of the Board of Directors in 2017, base compensation and committee membership fees are reported on a 12-month basis. As of April 2017, the total compensation of the Chairman of the Board includes a membership fee for the Nomination and Compensation Committee in addition to the membership fee for the Audit Committee.

### Maximum Overall Compensation for the 2017/2018 Term of Office

The Annual General Meeting approves the maximum aggregate compensation of the Board of Directors for its term of office, i.e., from the Annual General Meeting (each April) until the next Annual General Meeting (the following April). The present Compensation Report refers to the financial year and therefore takes December 31, 2017, as its cut-off date for all compensation information disclosed (see footnotes in the table Total Board of Directors compensation 2017 on the next page for more details).

The 2017 Annual General Meeting approved the maximum aggregate compensation of CHF 1.40 million for the members of the Board of Directors for the period until the next Annual General Meeting in 2018. The total compensation paid to the members of the Board of Directors (mid-April to December 2017) plus amounts yet to be paid in 2018 (January to mid-April 2018) are within the maximum aggregate compensation approved by the 2017 Annual General Meeting.

## Total Board of Directors compensation 2017

CHFk	Base compensation/ committee membership in cash	Base compensation in shares	Employer-paid social security	<b>Total 2017</b>
Peter Kurer, Chairman <sup>1,3</sup>	253	100	21	374
Peter Schöpfer, Vice-Chairman <sup>2</sup>	100	50	11	161
Robin Bienenstock, Board Member <sup>3</sup>	80	50	10	140
Michael Krammer, Board Member <sup>1</sup>	80	50	0	130
Jesper Ovesen, Board Member <sup>4</sup>	110	50	5	165
Joachim Preisig, Board Member <sup>3</sup>	80	50	0	130
Christoph Vilanek, Board Member <sup>1</sup>	80	50	0	130
<b>Total Compensation paid to members of the Board of Directors</b>	<b>783</b>	<b>400</b>	<b>47</b>	<b>1,230</b>
Lorne Somerville, Board Member	33	0	3	36
<b>Total Compensation paid to members of the Board of Directors leaving the board in April 2017</b>	<b>33</b>	<b>0</b>	<b>3</b>	<b>36</b>
<b>Total Compensation paid to members of the Board of Directors plus Total Compensation paid to members of the Board of Directors leaving the board in April 2017</b>	<b>816</b>	<b>400</b>	<b>50</b>	<b>1,266</b>

– All base compensation, committee membership fees and shares are gross values before the deduction of applicable tax and employee social security. Sunrise cost for social security contributions is stated separately.

– Sunrise share purchase price as of April 12, 2017: CHF 75.94 per share.

– For Michael Krammer, Joachim Preisig and Christoph Vilanek there is no employer social security to be paid. In 2017, an adjustment was made retrospectively for Joachim Preisig and Christoph Vilanek for the 2016 financial year. However, the Total Board of Directors compensation 2016 table shown on the next page remains unchanged.

– Members of the Board of Directors are not on a Sunrise pension plan.

– As per the Articles of Incorporation (Art. 25) ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)), no loans or credits are granted to the Board of Directors.

– The Compensation Report for the 2018 financial year will show the overall compensation paid to the members of the Board of Directors in 2017 and 2018.

<sup>1</sup> Member of the Nomination and Compensation Committee.

<sup>2</sup> Chairman of the Nomination and Compensation Committee.

<sup>3</sup> Member of the Audit Committee.

<sup>4</sup> Chairman of the Audit Committee.



## Total Board of Directors compensation 2016

CHFk	Base compensation/ committee membership in cash	Base compensation in shares	Employer- paid social security	<b>Total 2016</b>
Peter Kurer, Chairman <sup>1</sup> - new	163	100	16	<b>279</b>
Peter Schöpfer, Vice-Chairman <sup>2</sup>	114	50	9	<b>173</b>
Robin Bienenstock, Board Member <sup>3</sup> - new	57	50	8	<b>115</b>
Michael Krammer, Board Member <sup>3</sup> - new	57	50	0	<b>107</b>
Jesper Ovesen, Board Member <sup>4</sup>	133	50	4	<b>187</b>
Joachim Preisig, Board Member <sup>3</sup> - new	57	50	5	<b>112</b>
Lorne Somerville, Board Member/former Chairman <sup>1</sup>	92	0	13	<b>105</b>
Christoph Vilanek, Board Member <sup>1</sup> - new	57	50	5	<b>112</b>
<b>Total Compensation paid to the members of the Board of Directors</b>	<b>730</b>	<b>400</b>	<b>60</b>	<b>1,190</b>
Siddharth Patel, Board Member	0	0	0	<b>0</b>
Daniel Pindur, Board Member	0	0	0	<b>0</b>
<b>Total Compensation paid to the members of the Board of Directors leaving the board in April 2016</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

- All base compensation, committee membership fees and shares are gross values before the deduction of applicable tax and employee social security. Sunrise cost for social security contributions is stated separately.
- Base compensation/committee membership in cash for newly appointed members of the Board of Directors is reported on an 8.5-month basis. Base compensation in shares is reported in its entirety at the time of allocation (12-month basis).
- Sunrise share purchase price as of April 18, 2016: CHF 64.48 per share.
- The following Board of Directors members have signed a board fee waiver agreement and did not receive any Board of Directors compensation in 2016: Siddharth Patel and Daniel Pindur; Lorne Somerville (only until the Annual General Meeting (AGM) in April 2016).
- Lorne Somerville donated his Board of Directors compensation after the AGM in April 2016 and therefore no shares were purchased.
- For Peter Schöpfer, no social security contributions were paid until the AGM in April 2016 (payment through invoice).
- For Michael Krammer, there is no employer social security to be paid.
- Members of the Board of Directors are not on a Sunrise pension plan.
- As per the Articles of Incorporation (Art. 25) ([www.sunrise.ch/governance/principles](http://www.sunrise.ch/governance/principles)), no loans or credits are granted to the Board of Directors.

<sup>1</sup> Member of the Nomination and Compensation Committee.

<sup>2</sup> Chairman of the Nomination and Compensation Committee.

<sup>3</sup> Member of the Audit Committee.

<sup>4</sup> Chairman of the Audit Committee.

## 5 Executive Leadership Team Compensation

The general principles and elements of Executive Leadership Team compensation are described in the preceding sections of the Compensation Report.

### Achievement of 2017 Company Targets and Short-Term Incentive Payout

Both business and individual performance impact the actual variable compensation paid to all employees including the members of the Executive Leadership Team. As stated in section 3. Compensation System on page 71 et seq., the weightings of the two target categories, company and individual targets, differ according to job grades. For the CEO, the company targets are assigned a weight of 80% and individual

targets are weighted at 20%, whereas for the members of the Executive Leadership Team, company targets are weighted at 70% and individual targets at 30%.

A new Sunrise company targets model was introduced in 2017. This new model comprises three targets:

- Total company EBITDA
- Customer growth
- Strategic focus topic: B2B growth

Gross profit stabilization combined with cost consciousness generated an EBITDA at the top end of the 2017 guidance. In 2017, Sunrise built up strong momentum in commercial trading in the main focus areas of Postpaid, Internet and TV. This momentum was partially offset by the churn in the customer base, which still has room for improvement. Sunrise saw a strong increase in its order volume in the B2B segment, especially during the

second half of 2017. In this segment, however, longer order and migration cycles translate to a time lag between order placement and the impact of those order volumes on the top line. The combination of these trends resulted in an overall target achievement of 111%. Overall target achievement was 118.8% for the CEO and between 100.0% and 118.2% for the other Executive Leadership Team members.

### Total Compensation

The table Total Executive Leadership Team compensation 2017/2016 on page 81 shows the total compensation paid to the Executive Leadership Team for the 2017 and 2016 financial years, broken down into individual compensation elements, including the highest amount paid to one individual. The footnotes contain explanatory information on the amounts indicated. The accrual principle is applied to all compensation elements except Performance Shares, which were evaluated based on their fair value on the grant date according to IFRS2 (including grossed-up employer social security). In addition, the table shows the fair value of other benefits/cash allowances as well as retirement benefits.

### Compensation in 2017

The individual base salary of two Executive Leadership Team members increased by CHF 0.05 million within the scope of the annual performance management process and the corresponding salary review. The individual base salaries of the CEO did not change in 2017.

The total short-term incentive amounted to CHF 1.950 million for the Executive Leadership Team (of which CHF 0.606 million was for CEO Olaf Swantee).

Performance Shares were granted under MLTIP Revised at a target value of CHF 0.498 million for the Executive Leadership Team (of which CHF 0.159 million was for the CEO).

As described in section 3.2.3.3 Management Long-Term Investment Program for Executives on page 75 et seq., newly appointed Executive Leadership Team members were offered the opportunity to invest private funds into Sunrise shares on a one-time voluntary basis (MLTIPE). In relation to these private investments, a one-time grant of Performance Shares was made to newly appointed members of the Executive Leadership Team at a target value of CHF 0.679 million. All newly appointed members of the Executive Leadership Team opted to invest in the MLTIPE.

Taking into account other benefits/cash allowances, employer social security contributions and retirement benefits, total compensation of the Executive Leadership Team in 2017 came to CHF 8.086 million (thereof CHF 1.909 million for Olaf Swantee). Including the compensation paid to the members stepping down from the Executive Leadership Team, total compensation amounted to CHF 9.248 million.

### Compensation in 2017 Compared to 2016

As a result of overall target achievement in 2017, the individual short-term incentives paid to the members of the Executive Leadership Team decreased from CHF 2.098 million in 2016 to CHF 1.950 million in 2017.

Compared to 2016, the total compensation paid to members of the Executive Leadership Team decreased from CHF 11.197 million to CHF 9.248 million (in 2017 including compensation paid to individuals stepping down from the Executive Leadership team). The main reasons for this were:

- More members joined the Executive Leadership Team (including the CEO) in 2016 compared to 2017. Thus overall, members invested a significantly higher amount in MLTIPE in 2016 (CHF 2.445 million) than in 2017 (CHF 0.679 million).
- Overall, base salaries decreased from CHF 3.391 million to CHF 3.219 million in 2017 due to the slightly lower base salaries of new members joining the Executive Leadership Team and pro-rata base salaries of members joining/stepping down from the Executive Leadership Team.

Of the 2016 MLTIP Performance Shares with a target value of CHF 0.439 million, a portion equal to CHF 0.283 million will not vest because of service conditions that will not be met.

Sunrise is committed to disclosing the target of MLTIP Revised 2017 at the end of the three-year performance period (2019 Compensation Report). This will allow shareholders to assess the link between company performance (equity free cash flow) and compensation of the Executive Leadership Team members. The retrospective approach is the most reasonable since disclosing the future target before the end of the relevant performance period would give substantial insight into the confidential, future strategies of Sunrise. This could lead to a competitive disadvantage.

## Total Executive Leadership Team compensation 2017/2016

CHFk	2017		2016	
	Total Executive Leadership Team	Thereof Olaf Swantee (CEO)	Total Executive Leadership Team	Thereof Olaf Swantee (CEO)
Base salary	3,219	850	3,391	548
Short-term Incentive (STI) to be paid in March of the following year	1,950	606	2,098	384
MLTIP: Performance Shares (relating to STI of the prior year)			439	
MLTIP Revised: Performance Shares (relating to STI of the prior year)	498	159		
Other benefits/cash allowances	267	14	352	25
Social security	453	120	481	71
Retirement benefits	831	160	869	104
<b>Compensation 2017/2016</b>	<b>7,218</b>	<b>1,909</b>	<b>7,630</b>	<b>1,132</b>
MLTIP Revised: special grant made for buyout for new ELT member (Investment Shares and Performance Shares) <sup>1</sup>	132			
Social security on MLTIP Revised – special grant for buyout	9			
One-time MLTIPE Performance Shares	679		2,445	1,597
Social security on MLTIPE	48		173	113
<b>Total compensation to members of the Executive Leadership Team<sup>2</sup></b>	<b>8,086</b>	<b>1,909</b>	<b>10,248</b>	<b>2,842</b>
Compensation paid to member(s) of the Executive Leadership Team after stepping down from the Executive Leadership Team in the current year <sup>3</sup>	812		629	
Compensation paid to former member(s) of the Executive Leadership Team after stepping down from the Executive Leadership Team in the previous year <sup>4</sup>	350		320	
<b>Total compensation to members of the Executive Leadership Team plus compensation paid to those members stepping down from the Executive Leadership Team</b>	<b>9,248</b>		<b>11,197</b>	
Ratio of performance-related variable compensation to fixed compensation (excluding the MLTIPE)	56.71%	74.71%	55.01%	56.72%
Ratio of performance-related variable compensation to fixed compensation (including the MLTIPE)	72.43%		108.02%	292.61%

### Footnotes refer to 2017 unless other years are indicated

- All base salary, short-term incentive and Performance Share amounts are gross values before deduction of applicable tax, employee social security and other statutory charges.
- Sunrise cost for social security and retirement benefit contributions is stated separately.
- For the MLTIPE, MLTIP and MLTIP Revised, the figures are based on 100% target achievement (1 Performance Share for 1 Investment Share).
- Performance Share valuation method for MLTIP and MLTIPE: Monte Carlo.
- Performance Share valuation method for MLTIP Revised: fair value at grant date minus present value of dividends during the three-year vesting period.
- Fair value per share on grant date, in CHF for MLTIP Revised June 2017 PSU: 64.02.
- Fair value per share on grant date, in CHF for MLTIPE June 2017 PSU: 85.35.
- Fair value per share on grant date, in CHF for MLTIPE July 2017 PSU: 77.35.
- The ratio calculation does not include social security as this is essentially distributed proportionately between variable and fixed compensation.

<sup>1</sup> One-off grant for new ELT member was made in September 2017. The total market value of the Investment Shares amounted to CHFk 66 (market value per Investment share on grant date in CHF: 81.40). The corresponding Performance Shares allocated are subject to the normal three-year vesting and performance conditions. Total market value of the Performance Shares is CHFk 66 (fair value per share on grant date in CHF PSU: 81.40).

<sup>2</sup> Includes the compensation of the eight Executive Leadership Team (ELT) members plus the compensation of two ELT members stepping down from the ELT in 2017. The compensation paid to these two members amounts to CHF 0.422 million and is paid for the period from January 1, 2017, until the day of release from the ELT. The amount includes the pro-rata company bonus consistent with the plan rules. For 2016: Includes the compensation of the eight ELT members plus the compensation of three ELT members stepping down from the ELT in 2016.

<sup>3</sup> The amount includes compensation after the day of release from ELT duty up to the end of the reporting year including employer-paid social security, retirement benefits, cash allowances, etc. The amount includes the pro-rata company bonus consistent with the plan rules.

<sup>4</sup> The amount includes compensation from January 1, 2017, up to the end of the notice period in 2017 including employer-paid social security, retirement benefits, cash allowances, etc. The amount includes the pro-rata company bonus consistent with the plan rules.

### Maximum Overall Compensation for the 2017 Financial Year

The 2016 Annual General Meeting approved the maximum aggregate compensation of CHF 11.00 million for the Executive Leadership Team. The total compensation of CHF 8.086 million paid to the members of the Executive Leadership Team for the 2017 financial year is within the maximum aggregate compensation resolved at the Annual General Meeting on April 15, 2016.

### Additional Information

No loans or credits are granted to the members of the Executive Leadership Team, and their maximum termination period is six months.

MLTIP Revised foresees a partial deferral of the cash short-term incentive instead of an additional share-based compensation element and is therefore not governed by a mandatory shareholding policy. In 2017, all six eligible Executive Leadership Team members invested a portion of their short-term incentive in Investment Shares. The average investment in shares is 46%, whereas the CEO opted to invest the maximum amount of 50%.

The table below illustrates the granting of Performance Shares at target under MLTIP Revised. It is assumed that all eight members of the Executive Leadership Team (ELT) will opt to invest the maximum of 50% of their short-term incentive in Investment Shares in March 2018 and that the total short-term incentive will amount to CHF 1.840 million.

CHFk	2017 short-term incentive in cash	2017 short-term incentive in Investment Shares	Corresponding 2018 grant of Performance Shares at target
Total ELT	920	920	920

## 6 Shareholdings of the Board of Directors and Executive Leadership Team

As of December 31, 2017, the members of the Board of Directors held the shares listed in the following table. No related parties held any shares.

### Number of shares held by the members of the Board of Directors

	2017	2016
Peter Kurer, Chairman	6,466	5,150
Peter Schöpfer, Vice-Chairman	1,433	775
Robin Bienenstock, Board Member	1,433	775
Michael Krammer, Board Member	1,433	775
Jesper Ovesen, Board Member	6,263	775
Joachim Preisig, Board Member	1,433	775
Christoph Vilanek, Board Member	1,433	775
<b>Total</b>	<b>19,894</b>	<b>9,800</b>

As of December 31, 2017, the members of the Executive Leadership Team held the shares listed in the following table. No related parties held any shares.

### Number of shares held by the members of the Executive Leadership Team

	2017	2016
Olaf Swantee, CEO	25,441	22,960
André Krause	34,575	59,385
Françoise Clèmes	7,395	6,522
Elmar Grasser	25,674	23,957
Dominik Rubli	10,307	12,389
Karin Schmidt	3,998	3,334
Bruno Duarte <sup>1</sup>	4,364	0
Robert Wigger <sup>1</sup>	4,766	0
<b>Total</b>	<b>116,520</b>	<b>128,547</b>

<sup>1</sup> Members joining the Executive Leadership Team in 2017.



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

Zurich, February 27, 2018

## Report of the statutory auditor on the compensation report

We have audited the compensation report of Sunrise Communications Group AG for the year ended 31 December 2017. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in sections “4 Board of Directors Compensation” and section “5 Executive Leadership Team Compensation” on pages 77 to 82 of the compensation report.



### Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance. The Board of Directors is also responsible for designing the compensation system and defining individual compensation packages.



### Auditor's responsibility

Our responsibility is to express an opinion on the compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of compensation, as well as assessing the overall presentation of the compensation report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



**Opinion**

In our opinion, the compensation report for the year ended 31 December 2017 of Sunrise Communications Group AG complies with Swiss law and articles 14-16 of the Ordinance.

Ernst & Young Ltd

Willy Hofstetter  
Licensed audit expert  
(Auditor in charge)

Tobias Meyer  
Licensed audit expert

# Consolidated Financial Statements

Sunrise Communications Group AG

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## **85 Consolidated Financial Statements**

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# Consolidated Statements of Income

CHFk January 1 – December 31	Note	2017	2016
<b>Revenue</b>	<b>6, 7</b>	<b>1,854,175</b>	<b>1,896,673</b>
Transmission costs and costs of goods sold		(661,549)	(703,974)
Other operating expenses		(395,839)	(382,198)
Wages, salaries and pension costs	8	(214,604)	(221,353)
Other income	9	10,436	10,591
Other expenses		(286)	(1,051)
<b>Income before depreciation and amortization, net financial items and income taxes</b>		<b>592,333</b>	<b>598,688</b>
Amortization	14	(253,484)	(252,266)
Depreciation and impairment losses	15	(174,660)	(207,302)
<b>Operating income</b>		<b>164,189</b>	<b>139,120</b>
Foreign currency gains, net		1,162	1,321
Financial income		105	2,124
Financial expenses		(52,431)	(58,708)
<b>Net financial items</b>	<b>10</b>	<b>(51,164)</b>	<b>(55,263)</b>
Gain on disposal of subsidiary	11	419,589	-
<b>Income before income taxes</b>		<b>532,614</b>	<b>83,857</b>
Income taxes	12	(27,822)	3,236
<b>Net income</b>		<b>504,792</b>	<b>87,093</b>
<b>Net income attributable to equity holders of the parent company</b>		<b>504,792</b>	<b>87,093</b>
<b>Basic earnings per share (in CHF)</b>	<b>13</b>	<b>11.22</b>	<b>1.93</b>
<b>Diluted earnings per share (in CHF)</b>	<b>13</b>	<b>11.18</b>	<b>1.93</b>

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



# Consolidated Statements of Comprehensive Income

CHFk  
January 1 - December 31

	2017	2016
<b>Net income</b>	<b>504,792</b>	<b>87,093</b>
Actuarial gain related to defined benefit pension plans	20,743	18,891
Income tax effect	(4,233)	(4,494)
<b>Net other comprehensive income not to be reclassified to profit and loss in subsequent periods</b>	<b>16,510</b>	<b>14,397</b>
<b>Other comprehensive income, net of tax</b>	<b>16,510</b>	<b>14,397</b>
<b>Total comprehensive income</b>	<b>521,302</b>	<b>101,490</b>
<b>Comprehensive income attributable to equity holders of the parent company</b>	<b>521,302</b>	<b>101,490</b>

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

# Consolidated Statements of Financial Position

## Assets

CHFk	Note	December 31, 2017	December 31, 2016
<b>Non-current assets</b>			
Intangible assets	14	2,210,359	2,348,900
Property, plant and equipment	15	795,576	883,792
Non-current portion of trade and other receivables	16	58,206	55,830
Non-current portion of prepaid expenses	17	248	583
Deferred tax assets	12	-	433
<b>Total non-current assets</b>		<b>3,064,389</b>	<b>3,289,538</b>
<b>Current assets</b>			
Inventories	18	57,474	28,741
Current portion of trade and other receivables	16	435,217	393,856
Current portion of prepaid expenses	17	6,481	7,916
Cash and cash equivalents	19	272,486	214,175
<b>Total current assets</b>		<b>771,658</b>	<b>644,688</b>
<b>Total assets</b>		<b>3,836,047</b>	<b>3,934,226</b>

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

## Equity and liabilities

CHFk	Note	December 31, 2017	December 31, 2016
<b>Equity</b>			
Common shares		45,000	45,000
Share premium		2,342,653	2,489,962
Other reserves		(776,143)	(776,143)
Accumulated deficit		(101,229)	(622,531)
<b>Total equity</b>	<b>20</b>	<b>1,510,281</b>	<b>1,136,288</b>
<b>Non-current liabilities</b>			
Non-current portion of loans and notes	23	1,389,956	1,828,327
Non-current portion of financial leases	23	4,597	9,236
Non-current portion of trade and other payables	25	5,308	16,043
Deferred tax liabilities	12	160,691	184,881
Non-current portion of provisions	26	70,892	118,222
Employee benefit obligations	22	84,769	102,234
Non-current portion of deferred income	27	9,136	10,409
<b>Total non-current liabilities</b>		<b>1,725,349</b>	<b>2,269,352</b>
<b>Current liabilities</b>			
Current portion of financial leases	23	4,899	7,597
Current portion of trade and other payables	25	540,989	476,271
Income tax payable	12	23,886	3,873
Current portion of provisions	26	3,574	6,146
Current portion of deferred income	27	26,984	33,710
Other current liabilities		85	989
<b>Total current liabilities</b>		<b>600,417</b>	<b>528,586</b>
<b>Total liabilities</b>		<b>2,325,766</b>	<b>2,797,938</b>
<b>Total equity and liabilities</b>		<b>3,836,047</b>	<b>3,934,226</b>

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

# Consolidated Statements of Cash Flow

CHFK January 1 – December 31	Note	2017	2016
<b>Income before income taxes</b>		<b>532,614</b>	<b>83,857</b>
Amortization	14	253,484	252,266
Depreciation and impairment losses	15	174,660	207,302
Gain on disposal of property, plant and equipment		(3,532)	(84)
Gain on disposal of subsidiary	11	(419,589)	-
Movement in pension		3,481	4,670
Movement in provisions		(3,877)	(9,192)
Change in net working capital	28	32,317	(67,924)
<b>Cash flow from operating activities before net financial items and tax</b>		<b>569,558</b>	<b>470,895</b>
Financial income	10	(105)	(2,124)
Financial expense	10	52,431	58,708
Foreign currency gains, net		1,967	(1,321)
Interest received		96	45
Interest paid		(39,454)	(50,577)
Corporate income and withholding tax paid		(31,185)	(29,609)
<b>Total cash flow from operating activities</b>		<b>553,308</b>	<b>446,017</b>
Purchase of property, plant and equipment	15	(207,471)	(141,392)
Purchase of intangible assets	14	(107,545)	(71,206)
Sale of property, plant and equipment		18	120
Net proceeds from subsidiary disposal	11	449,502	-
<b>Total cash flow from/(used) in investing activities</b>		<b>134,504</b>	<b>(212,478)</b>
Proceeds from long-term loans and notes		(321)	(240)
Repayments of long-term loans and notes	23	(450,000)	-
Fees in connection with repricing and extension of credit facilities		-	(7,640)
Repayments of capital leases	23	(7,337)	(6,266)
Payment of 3 <sup>rd</sup> installment of mobile spectrum license		-	(108,308)
Dividend payment		(149,850)	(135,000)
Other financing activities		(20,026)	(7,616)
<b>Total cash flow used in financing activities</b>		<b>(627,534)</b>	<b>(265,070)</b>
<b>Total cash flow</b>		<b>60,278</b>	<b>(31,531)</b>
Cash and cash equivalents as of January 1		214,175	244,388
Foreign currency impact on cash	10	(1,967)	1,318
<b>Cash and cash equivalents as of December 31</b>		<b>272,486</b>	<b>214,175</b>

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

# Consolidated Statements of Changes in Equity

CHFk	Common shares	Share premium	Other reserves	Valuation reserve	Accumulated deficit	<b>Total</b>
<b>Equity as of January 1, 2016</b>	<b>45,000</b>	<b>2,623,723</b>	<b>(776,143)</b>	<b>(23)</b>	<b>(724,021)</b>	<b>1,168,536</b>
Net income for the period	-	-	-	-	87,093	87,093
Other comprehensive income	-	-	-	-	14,397	14,397
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>101,490</b>	<b>101,490</b>
Share-based payment	-	1,239	-	-	-	1,239
Dividend payment	-	(135,000)	-	-	-	(135,000)
Other	-	-	-	23	-	23
<b>Equity as of December 31, 2016</b>	<b>45,000</b>	<b>2,489,962</b>	<b>(776,143)</b>	<b>-</b>	<b>(622,531)</b>	<b>1,136,288</b>
<b>Equity as of January 1, 2017</b>	<b>45,000</b>	<b>2,489,962</b>	<b>(776,143)</b>	<b>-</b>	<b>(622,531)</b>	<b>1,136,288</b>
Net income for the period	-	-	-	-	504,792	504,792
Other comprehensive income	-	-	-	-	16,510	16,510
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>521,302</b>	<b>521,302</b>
Share-based payment	-	2,541	-	-	-	2,541
Dividend payment	-	(149,850)	-	-	-	(149,850)
<b>Equity as of December 31, 2017</b>	<b>45,000</b>	<b>2,342,653</b>	<b>(776,143)</b>	<b>-</b>	<b>(101,229)</b>	<b>1,510,281</b>

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

# Notes to the Consolidated Financial Statements

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**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 consolidated financial statements for the year ended December 31, 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/GPRS/EDGE/UMTS/HSPA and 4G/4G+ technologies. In connection with the services it provides, Sunrise also resells handsets manufactured by third party suppliers.

These consolidated financial statements were authorized for issue by the Group's Board of Directors on February 27, 2018, and are subject to shareholder approval at the Annual General Meeting to be held on April 11, 2018.

**NOTE 2****Basis of preparation**

The consolidated financial statements of the Group as of and for the year ended December 31, 2017, have been prepared in accordance with IFRS as issued by the International Accounting Standards Board.

The consolidated financial statements have been prepared on a historical cost basis. The preparation of these consolidated 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 on page 101 et seq.

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.

## Significant accounting policies

### Principles of consolidation

#### Subsidiaries

Subsidiaries are all companies over which the Group has control. Control is achieved when the Group is exposed or has the right to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. Gains and losses related to divestment of subsidiaries are recognized as the difference between the fair value of the proceeds (less divestment expenses) and the carrying value of net assets (including goodwill).

The balance sheet date for all consolidated subsidiaries is December 31, 2017.

#### Business combination

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit and loss.

#### 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 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	
	December 31, 2017	December 31, 2016	January 1 - December 31, 2017	January 1 - December 31, 2016
CHF				
Euro	1.1703	1.0721	1.1131	1.1020
US Dollar	0.9743	1.0190	0.9979	0.9932

### Revenue recognition

Revenue comprises goods and services provided during the year after deduction of VAT and rebates relating directly to sales. Significant sources of revenue are recognized in the statement of income as follows:

- Revenue from telephony is recognized at the time the call is made
- Revenue from the sale of prepaid services is deferred and revenue is recognized at the time of use
- Wholesale revenue from voice carrier services is recognized at the time of use
- Revenue from leased lines is recognized over the rental period
- Revenue from subscription and flat-rate service fees is recognized over the subscription period
- Revenue from non-refundable up-front connection fees is deferred and amortized over the agreed minimum contract term
- Revenue from the sale of handsets is recognized upon delivery
- Revenue from the maintenance of equipment is recognized over the contract period

Revenue is allocated to each component of multi-element arrangements, including undelivered elements and other performance conditions, based on fair value. The revenue related to each element is recorded in accordance with the accounting policies stated above.

Revenue is recognized gross when the Group acts as a principal in a transaction. For content-based services and the resale of services from content providers where the Group acts as an agent, revenue is recognized net of direct costs.

### Other income and other expenses

Other income and other expenses primarily include significant amounts that cannot be attributed to the normal course of operations, such as net collectible fees raised from early termination of contracts, revenue from subleases, disposal of property, plant and equipment as well as restructuring expenses, including any reversals of such items.

### Intangible assets

Goodwill is recognized at cost less accumulated impairment losses. Goodwill is allocated from the acquisition date to cash-generating units for the purpose of impairment testing. The carrying value of goodwill is tested for impairment annually in the fourth quarter. If there is any indication during the year that goodwill may be impaired, the cash-generating unit is tested for impairment at that time. Goodwill is subsequently written down to the recoverable amount through the statement of income if the recoverable amount is exceeded by the carrying value. Impairment losses on goodwill are not reversed.

**NOTE 3**

## Significant accounting policies

Brands, subscriber base, licenses, proprietary rights, patents, etc., are measured at cost less accumulated amortization and impairment losses and are amortized on a straight-line basis over their estimated useful lives.

Development projects, including costs of computer software purchased or developed for internal use, are recognized as intangible assets if the costs can be calculated reliably and if they are expected to generate future economic benefits. Costs of development projects include wages and external charges. Development projects that do not meet the criteria for recognition in the statement of financial position are expensed as incurred in the statement of income. Subscriber acquisition and retention costs are expensed in the statement of income.

The main amortization periods are as follows:

UMTS and spectrum licenses	6 - 16 years
Subscriber base	5 - 11 years
Brands	4 - 10 years
Other rights	2 - 10 years
Development projects/software	3 years

Development projects in process are tested for impairment at least annually and written down to their recoverable amount in the statement of income if their recoverable amount is exceeded by their carrying value.

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated write-down for impairment.

General borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the costs of those assets until such assets are substantially ready for their intended use or sale.

**Property, plant and equipment**

Property, plant and equipment are measured at cost less accumulated depreciation and write-down for impairment.

Cost comprises purchase price and costs directly attributable to the acquisition until the date on which the asset is ready for use, as well as the estimated costs of dismantling and restoring the site. The costs of self-constructed assets includes directly attributable payroll costs, materials, parts purchased and services rendered by sub-suppliers during the construction period. Costs also include estimated asset retirement costs on a discounted basis if the related obligation meets the conditions for recognition as a provision.

The depreciation base is measured at cost less residual value and any write-downs. Depreciation is provided on a straight-line basis over the estimated useful life of the assets as follows:

Cable installations	20 years
Exchange installations and base stations	10-15 years
Leasehold improvements	10 years <sup>1</sup>
Other telecommunications installations	3-7 years
Computer equipment	3-5 years
Other installations	5-7 years
Customer premises equipment	3 years <sup>1</sup>

<sup>1</sup> Or shorter if the contract period is shorter.

Property, plant and equipment that have been disposed of or scrapped are eliminated from accumulated costs and accumulated depreciation. Gains and losses arising from the sale of property, plant and equipment are measured as the difference between the sales price less selling expenses and the carrying value at the time of sale. The resulting gain or loss is recognized in the statement of income under Other income and expenses.

Software that is an integral part of a tangible asset (e.g., telephone exchange installations) is presented together with the related tangible assets.

Leased property, plant and equipment that qualify as finance leases are recognized as assets acquired. The costs of finance leases are measured at the lower of the assets' fair value and the present value of future minimum lease payments. Lease payments on operating leases are accrued and expensed on a straight-line basis over the term of the lease.

If indications exist that the value of an asset may be impaired, the recoverable amount of the asset is determined. If the recoverable amount of the asset, which is the higher of the fair value less costs to sell and the value in use, is less than its carrying amount, the carrying amount is reduced to the recoverable amount.

**NOTE 3**

Significant accounting policies

**Financial assets****Loans and receivables**

Included in loans and receivables are interest-bearing term deposits held with financial institutions for periods of more than 3 months. They are included in current assets, except for deposits with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. After their initial recognition at amortized cost, loans and receivables are measured using the effective interest method. Foreign exchange gains and losses are recognized in the statement of income.

**Inventories**

Inventories are measured at the lower of cost and net realizable value. The costs of merchandise include purchase price and delivery costs. The costs of work in progress comprise direct costs of merchandise, direct labor, other direct costs and related production overheads. The costs of inventories are determined using the standard costing method. The difference between standard costs and the sale price of handsets sold as part of a subscriber arrangement is recognized as subscriber acquisition or retention costs and shown in Other operating expenses upon completion of the sale.

**Trade receivables and other receivables**

Receivables are measured at amortized cost net of an allowance for uncollectible amounts. An allowance is established when there is objective evidence that the Group will not be able to collect all amounts due to the original terms of the receivable. Allowances for anticipated uncollectible amounts are based on individual assessments of major receivables and historically experienced losses on uniform groups of other receivables. This allowance is equal to the difference between the carrying amount and the present value of the amounts expected to be recovered. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of income within Other operating expenses.

When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against Other operating expenses in the statement of income.

**Income taxes**

Income taxes include all current and deferred taxes based on the taxable profits of the Group. Other taxes not based on income such as property or capital taxes are recorded as other operating expenses.

**Current income tax**

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustments to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Current tax assets and liabilities are offset only if certain criteria are met.

### **Deferred taxes**

Deferred tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements at the reporting date, except for temporary differences arising from the initial recognition of goodwill and other items in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit. Deferred tax expenses are measured on the basis of tax rates enacted or substantively enacted at the end of the reporting period.

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available, against which temporary differences or unused tax losses can be utilized.

Deferred tax is charged or credited in the statement of income, except when it relates to items recognized in other comprehensive income, in which case the deferred tax is treated accordingly.

### **Provisions**

Provisions are recognized when – as a consequence of an event occurring before or on the reporting date – the Group has a present obligation (legal or constructive), it is probable that economic benefits will be sacrificed to settle the obligation, and the amount of the obligation can be estimated reliably.

Restructuring provisions are recognized when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected and a detailed estimate of the associated costs, and an appropriate timeline has been established. Furthermore, the affected employees must have been notified of the plan's main features.

An asset retirement obligation is recognized when the Group has a legal or constructive obligation to remove the asset and restore the site where the asset was used at the end of the lease term. The Group has estimated and capitalized the net present value of the obligations and increased the carrying amount of the asset by the respective amount. The estimated cash flows are discounted using a risk-adjusted interest rate and recognized as a provision. Subsequently, the unwinding of the discount is expensed in Net financial items. The capitalized amount is amortized over the expected lease period, including the potential extension option if this is expected to be exercised. Provisions are measured at management's best estimate of the amount at which the liability is expected to be settled. If the timing of the settlement has a significant impact on the measurement of the liability, such liability is discounted.

### **Pensions**

The Group's pension plans comprise defined benefit plans established under Swiss pension legislation.

Obligations are determined quarterly by independent qualified actuaries using the Projected Unit Credit Method assuming that each year of service gives rise to an additional unit of benefit entitlement and each unit is measured separately to build up the final obligations.

The Group recognizes in the statement of income a gain or loss on curtailment when a commitment is made to significantly reduce the number of employees, generally as a result of a restructuring or disposal/discontinuation of part of the business or the outsourcing of business activities. Gains or losses on curtailment or settlement of pension benefits are recognized in the statement of income when the curtailment or settlement occurs.

**NOTE 3**

## Significant accounting policies

Differences between projected and realized changes in pension assets and pension obligations are referred to as actuarial gains and losses and are recognized in other comprehensive income when such gains and losses occur.

In case of changes in benefits relating to employees' previous service periods, a change in the estimated present value of the pension obligations will be immediately recognized.

The present value of the pension obligation is measured using a discount rate based on the interest rate on high quality corporate bonds where the currency and terms of the corporate bonds are consistent with the currency and estimated terms of the defined benefit obligation.

**Financial liabilities**

Interest-bearing loans issued by Sunrise are recognized initially at the proceeds received net of debt issuance expenses incurred. In subsequent periods, loans are measured at amortized cost using the effective interest method. Other financial liabilities are measured at amortized cost.

**Deferred income**

Deferred income comprises payments for services to be rendered in subsequent periods. Deferred income comprises, for example, deferred sales related to prepaid services and leased lines. See also Revenue recognition on page 95.

**Leases**

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

### **Statements of cash flow, cash and cash equivalents**

Cash flow from operating activities is presented under the indirect method and is based on income before income taxes and adjusted for amortization, depreciation, non-cash operating items, cash-flow-related changes in net working capital, financial income and expenses, interest received and paid as well as income taxes paid.

Cash flow from investing activities comprises acquisition and divestment of subsidiaries; purchase and sale of intangible assets, property, plant and equipment as well as other non-current assets; and purchase and sale of securities that are not recognized as cash and cash equivalents. Cash flows from acquired subsidiaries are recognized from the time of acquisition, while cash flows from subsidiaries divested are recognized up to the time of divestment.

Cash flow from financing activities comprises repayments and proceeds from loans and notes, settlement of derivative instruments including related costs such as early redemption costs, repayments of capital leases and issuance and/or redemption of share capital.

Cash and cash equivalents are readily convertible into a known amount of cash within original maturities of three months or less. For the purpose of the statement of cash flow, cash and cash equivalents comprise cash at banks and in hand, deposits held on call with banks and other short-term highly liquid investments, net of bank overdrafts.

### **Share capital**

Ordinary shares are classified as equity. The share premium consists of additional paid-in capital net of transaction costs that are incremental and directly attributable to the issuance of new shares and share-based payment.

#### **NOTE 4**

### **Critical accounting estimates and judgments**

The preparation of the Group's consolidated financial statements requires management to make assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the fiscal period. These estimates are based on management's best knowledge of current events and actions that the Group may undertake in the future. However, actual results could differ from those estimates and judgments.

The following estimates and judgments are considered important when portraying the Group's financial position:

- Useful life of intangible assets and property, plant and equipment as shown in Note 3 on page 94 et seq. is assigned based on periodic studies of the actual useful life and intended use of those assets. Such studies are completed or updated whenever new events occur with the potential to impact the way the useful life of the asset is determined, such as events or circumstances that indicate that the carrying value of the asset may not be recoverable and should therefore be tested for impairment. Any change in the estimated useful life of these assets is recognized in the financial statements as soon as any such change is determined. For details, see Notes 14 and 15 on pages 115 et seq. and 118 et seq., respectively.
- Intangible assets comprise a significant portion of the Group's total assets. Impairment tests on goodwill are performed at least annually and, if necessary, whenever events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. The measurement of intangibles is a complex process that requires significant management judgment in determining various assumptions, such as cash flow projections, discount rate and terminal growth rates. The sensitivity of the estimated measurement to

**NOTE 4**

## Critical accounting estimates and judgments

these assumptions, combined or individually, can be significant. Furthermore, the use of different estimates or assumptions when determining the fair value of such assets may result in different values and could result in impairment charges. For details, see Note 14 on page 115 et seq.

- Net periodic pension cost for defined benefit plans is estimated based on certain actuarial assumptions, the most significant of which relate to discount rate and future salary increases. As shown in Note 22 on page 125 et seq., the assumed discount rate reflects changes in market conditions. The Group believes these assumptions illustrate current market conditions.
- Estimates of deferred taxes and significant items giving rise to deferred assets and liabilities are shown in Note 12 on page 112 et seq. These reflect the assessment of future taxes to be paid on items in the financial statements, giving consideration to both the timing and probability of these estimates. In addition, such estimates reflect expectations about the amount of future taxable income and, where applicable, tax planning strategies. Actual income taxes and income for the period may vary from these estimates as a result of changes in expectations about future taxable income, future changes in income tax law or the final review of tax returns by tax authorities.
- Provisions for asset retirement obligations are made for costs incurred in connection with the future dismantling of mobile stations and restoration of property owned by third parties. These provisions are primarily based on estimates of future costs for dismantling and restoration and the timing of the dismantling. See Note 26 on page 137.
- Revenue, as shown in Note 7 on page 108, is recognized when realized or realizable and earned. Revenue from non-refundable up-front connection fees is deferred and recognized as income over the expected term of the related customer relationship. The term is estimated using historical customer churn rates. A change in management estimates may have a significant impact on the amount and timing of the revenue for any period.
- In the context of the sale of one subsidiary to a third party (see Note 11 on page 111) Sunrise entered into a service level agreement and a transitional service agreement for the use of the towers sold to the third party. Management concluded that the transaction qualifies as a service as the criteria for a lease agreement are not fulfilled.



**NOTE 5****Standards issued but not yet effective**

A number of new standards are effective for annual periods beginning after January 1, 2017, which were adopted by the Group; however, they have no material impact on the Group's financial statements.

At the date of these consolidated Group financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective. As a result these standards and interpretations do not impact these consolidated financial statements.

**IFRS 9 Financial Instruments**

IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment of financial assets, accrued income/credit notes and contract assets regarding IFRS 15 as well as new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Whereas the revised guidance on classification and measurement on financial instruments as well as the new general hedge accounting requirements have no impact on the Group's financial statements, the new expected credit loss model will increase the loss allowance.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic indicators affect ECLs. For the Group, accounts receivables, accrued income/credit notes and contract assets are considered for the impairment requirements according to IFRS 9. The Group will use the simplified approach with lifetime ECLs which is allowed for trade receivables. During 2017, the Group has performed a detailed impact assessment for impairment of financial assets. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018. The Group expects to book a net tax effect amount between CHF 1.2 million and CHF 2.0 million in accumulated deficit as of January 1, 2018. Furthermore, the Group assessed the potential IFRS 9 impact for cash and cash equivalents. The Group has a money market account amounting CHF 30.0 million which can be cancelled at any time with a withdrawal time of 35 days as well as rent deposits accounts of CHF 1.4 million. They are all handled by Swiss banks with strong credit ratings. Therefore, the IFRS 9 impact is considered as not material for both kinds of deposits.

The Group adopted IFRS 9 on the required effective date as of January 1, 2018.

**NOTE 5**

Standards issued but not yet effective

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs.

IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Group will adopt the new standard on the required effective date using the partial retrospective method through a corresponding adjustment to equity as of January 1, 2018 (cumulative method).

According to IFRS 15 Revenue from Contracts with Customers, revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard provides for a single, principles-based, five-step model which is to be applied to all contracts with customers and where the transaction price is generally allocated to each separate performance obligation in proportion to the stand-alone selling prices. Also, revenue is recognized when the customer obtains control of the promised goods or services, whereas the current standard focuses on transfer of risks and rewards.

For multi-component contracts (mobile subscription with subsidized mobile device), revenue must be reallocated to the already delivered components (mobile device) meaning that revenue is recognized earlier. In the balance sheet, this leads to the recognition of a contract asset, i.e., a legally not yet entitled right to consideration from a contract with a customer. In contrast, activation fees lead to the recognition of a contract liability, i.e., the obligation to transfer goods or services to a customer for which the entity has received consideration from the customer. Assets and liabilities related to rights and obligations in a contract are recorded net in the statement of financial position.

While the revenue amount remains unchanged over the contractual term, the revenue from hardware sales will increase and the revenue from services will be reduced accordingly.

In addition, incremental costs of obtaining and fulfilling a contract are capitalized under certain conditions. Commission paid to retailers or employees (costs of obtaining a contract) are capitalized and recognized as expenses over the contractual term.

In order to help the users of financial statements understand the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, the new standard requires additional information to be disclosed in the Notes.

For the implementation of IFRS 15, the Group created three different workstreams corresponding to the Residential (fixed and mobile), Business (fixed and mobile) and Wholesale segments. In the Residential segment and for some part of its Business Customers, the Group applied the Contract by Contract method. The most significant adjustments on revenue relate to the timing of recognition (i.e., one-time fees), the amount of revenue to be recognized (uneven discounts) and its allocation to the various performance obligations. In the remaining part of the Business segment, the portfolio approach was applied for which the most significant adjustments reallocate a portion of the revenue to be received over the contract duration related to mobile devices delivered at contract inception. In the Wholesale segment, the Group came to the conclusion that no significant adjustments have to be recognized.

Based on the current progress of the implementation project and for all contracts active as per the transition date, the Group expects to increase equity by booking approximately

CHF 45.0 million before tax in accumulated deficit as of January 1, 2018, for the cumulative effects of the changes resulting mainly from the one-off effect of:

- Recognition of activation fees and uneven discounts
- Reallocation of revenue to hardware sales
- Capitalization of costs to obtain a contract – major part of the impact

Based on 2017 figures, the Group does not expect any significant change in revenue but expects a mid-single digit increase of the EBITDA in 2018 because of the capitalization of costs to obtain a contract. The impact becomes immaterial in 2020.

### **IFRS 16 Leasing**

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e., the customer (lessee) and the supplier (lessor). IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related Interpretations. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted but only if IFRS 15 Revenue from Contracts with Customers is applied as well.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items.

In 2017, the Group completed an initial assessment of the potential impacts of IFRS 16 but has not yet completed its detailed assessment. So far the Group has clustered its leases into

- leases related to facilities such as office buildings, parking spaces and printers
- leases related to retail, which consist of the shops rentals
- leases related to network, such as network sites and fiber cables.

The clusters will be used to analyze the different kinds of contracts and to extrapolate the financial impact per class. As the contracts in the first two clusters are rather standardized and less complex, the focus will mainly be on the third cluster.

As of December 31, 2017, the Group's future minimum lease payments under non-cancellable operating leases for those three main groups amounted to CHF 237.5 million on an undiscounted basis.

The actual impact of applying IFRS 16 on the consolidated financial statements in the period of initial application will depend on future economic conditions, including the borrowing rate of the Group as of January 1, 2019, the composition of the lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options, and the extent to which the Group chooses to use practical expedients and recognition exemptions.

The Group plans to apply IFRS 16 initially as of January 1, 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of accumulated deficit as of January 1, 2019, with no restatement of comparative information. When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

**NOTE 5**

Standards issued but not yet effective

**Other standards**

The following new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements:

- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2), effective as of January 1, 2018
- Annual Improvements to IFRSs 2014-2016 Cycle - various standards (Amendments to IFRS 1 and IAS 28), effective as of January 1, 2018
- IFRIC 22 Foreign Currency Transactions and Advance Consideration, effective as of January 1, 2018
- IFRIC 23 Uncertainty over Income Tax Treatments, effective as of January 1, 2018

**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-sized 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.

## Activities

CHFk January 1 - December 31	RESIDENTIAL		BUSINESS		WHOLESALE <sup>1</sup>		HEAD OFFICE ACTIVITIES		TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<b>Revenue</b>										
External customers	1,317,198	1,337,192	267,570	284,249	230,538	239,292	38,869	35,940	1,854,175	1,896,673
Inter-segment revenue <sup>2</sup>	-	-	-	-	1,232	40,528	-	-	1,232	40,528
<b>Total</b>	<b>1,317,198</b>	<b>1,337,192</b>	<b>267,570</b>	<b>284,249</b>	<b>231,770</b>	<b>279,820</b>	<b>38,869</b>	<b>35,940</b>	<b>1,855,407</b>	<b>1,937,201</b>
<b>Transmission costs and costs of goods sold</b>										
External customers	(421,285)	(428,383)	(87,031)	(91,700)	(153,233)	(183,486)	-	(405)	(661,549)	(703,974)
Inter-segment costs <sup>2</sup>	(1,232)	(40,528)	-	-	-	-	-	-	(1,232)	(40,528)
<b>Total</b>	<b>(422,517)</b>	<b>(468,911)</b>	<b>(87,031)</b>	<b>(91,700)</b>	<b>(153,233)</b>	<b>(183,486)</b>	<b>-</b>	<b>(405)</b>	<b>(662,781)</b>	<b>(744,502)</b>
Other operating expenses	(139,733)	(134,918)	(18,562)	(15,248)	(4,549)	(4,565)	(232,995)	(227,467)	(395,839)	(382,198)
Wages, salaries and pension costs	(59,991)	(59,414)	(39,308)	(35,323)	(4,576)	(4,465)	(110,729)	(122,151)	(214,604)	(221,353)
Other income	296	51	-	-	-	-	10,140	10,540	10,436	10,591
Other expenses	-	(543)	-	-	-	-	(286)	(508)	(286)	(1,051)
<b>EBITDA<sup>2</sup></b>	<b>695,253</b>	<b>673,457</b>	<b>122,669</b>	<b>141,978</b>	<b>69,412</b>	<b>87,304</b>	<b>(295,001)</b>	<b>(304,051)</b>	<b>592,333</b>	<b>598,688</b>

<sup>1</sup> Including hubbing revenue of CHF 128.3 million generated in 2017 and CHF 132.4 million generated in 2016.

<sup>2</sup> 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, inter-segment revenue and costs decreased because of the merger in the current year.

**NOTE 6**

Segment reporting

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

CHFk January 1 - December 31	2017	2016
<b>EBITDA from reportable segments</b>	<b>592,333</b>	<b>598,688</b>
Unallocated:		
– Amortization	(253,484)	(252,266)
– Depreciation	(174,660)	(207,302)
– Net financial items	(51,164)	(55,263)
– Gain on disposal	419,589	-
<b>Income before income taxes</b>	<b>532,614</b>	<b>83,857</b>

**NOTE 7****Revenue**

CHFk January 1 - December 31	2017	2016
Mobile services	1,231,048	1,263,727
Landline services	378,275	418,592
<i>Thereof hubbing</i>	128,252	132,439
Landline Internet and TV	244,852	214,354
<b>Total</b>	<b>1,854,175</b>	<b>1,896,673</b>

CHFk January 1 - December 31	2017	2016
Sales of goods	298,833	302,606
Sales of services	1,555,342	1,594,067
<b>Total</b>	<b>1,854,175</b>	<b>1,896,673</b>

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 PSTN/ISDN and Voice over Internet Protocol 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 telecommunications products in the e-business sector as well as installation, operation and maintenance services for these products.

**NOTE 8****Wages, salaries and pension costs**

CHFk January 1 - December 31	2017	2016
Wages and salaries	(197,048)	(201,499)
Pension expenses	(20,221)	(21,997)
Other social security costs	(16,132)	(16,947)
<b>Total</b>	<b>(233,401)</b>	<b>(240,443)</b>
<i>Thereof capitalized as non-current assets</i>	18,797	19,090
<b>Total</b>	<b>(214,604)</b>	<b>(221,353)</b>

Remuneration for the Executive Leadership Team and the Board of Directors is shown below:

**Remuneration for the Executive Leadership Team and the Board of Directors**

CHFk January 1 - December 31	EXECUTIVE LEADERSHIP TEAM		BOARD OF DIRECTORS	
	2017	2016	2017	2016
Wages and salaries	(5,464)	(5,846)	(1,174)	(848)
Pension expenses	(837)	(905)	-	-
Other social security costs	(422)	(451)	(44)	(30)
<b>Total</b>	<b>(6,723)</b>	<b>(7,202)</b>	<b>(1,218)</b>	<b>(878)</b>

**NOTE 9****Other income**

CHFk January 1 - December 31	2017	2016
<b>Other income</b>		
Early termination fees	2,133	1,925
Sub-leases	3,597	4,790
Reversal of provision and accruals	1,404	3,156
Gain on disposal of property, plant and equipment	3,236	111
Other	66	609
<b>Total</b>	<b>10,436</b>	<b>10,591</b>

**NOTE 10**
**Net financial items**

CHFk January 1 - December 31, 2017	Interest	Total financial income/ (expenses) before foreign currency	Net foreign currency gains/(losses)	Total
<b>Income</b>				
Cash and cash equivalents	1	1	-	1
Other	104	104	3,129	3,233
<b>Total</b>	<b>105</b>	<b>105</b>	<b>3,129</b>	<b>3,234</b>
<b>Expenses</b>				
Cash and cash equivalents	-	-	(1,967)	(1,967)
Financial liabilities measured at amortized cost	(47,512)	(47,512)	-	(47,512)
Other	(4,919)	(4,919)	-	(4,919)
<b>Total</b>	<b>(52,431)</b>	<b>(52,431)</b>	<b>(1,967)</b>	<b>(54,398)</b>
<b>Net financial items</b>	<b>(52,326)</b>	<b>(52,326)</b>	<b>1,162</b>	<b>(51,164)</b>

CHFk January 1 - December 31, 2016	Interest	Total financial income/ (expenses) before foreign currency	Net foreign currency gains/(losses)	Total
<b>Income</b>				
Cash and cash equivalents	-	-	1,318	1,318
Other	2,124	2,124	3	2,127
<b>Total</b>	<b>2,124</b>	<b>2,124</b>	<b>1,321</b>	<b>3,445</b>
<b>Expenses</b>				
Financial liabilities measured at amortized cost	(51,781)	(51,781)	-	(51,781)
Other	(6,927)	(6,927)	-	(6,927)
<b>Total</b>	<b>(58,708)</b>	<b>(58,708)</b>	<b>-</b>	<b>(58,708)</b>
<b>Net financial items</b>	<b>(56,584)</b>	<b>(56,584)</b>	<b>1,321</b>	<b>(55,263)</b>



**NOTE 11****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 a gain on disposal in the consolidated 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 see Note 23 on page 128).

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

CHFk January 1 - December 31	<b>2017</b>
Total sales proceeds	502,250
Disposal-related expenses	(5,548)
Forgiveness of loan	(4,196)
Disposal of net assets	(72,917)
<b>Gain on disposal of subsidiary</b>	<b>419,589</b>
Disposal of net assets	72,917
Disposal of cash and cash equivalents	(43,004)
<b>Net cash flow from disposal of subsidiary</b>	<b>449,502</b>

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

CHFk	<b>August 3, 2017</b>
<b>Assets</b>	
Property, plant and equipment	113,835
Current portion of prepaid expenses	8,581
Cash and cash equivalents	43,004
<b>Total assets</b>	<b>165,420</b>
<b>Liabilities</b>	
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
<b>Total liabilities</b>	<b>92,503</b>
<b>Net assets disposed</b>	<b>72,917</b>

**NOTE 12****Income taxes****Analysis of income taxes**

CHFk January 1 - December 31	<b>2017</b>	2016
Current income tax expense	(53,960)	(23,015)
Adjustments recognized for current tax of prior periods	287	(363)
Deferred tax income	25,851	26,614
<b>Total income tax (expense)/income recognized in statement of income</b>	<b>(27,822)</b>	<b>3,236</b>
Income before income taxes	532,614	83,857
Expected tax expense at applicable tax rate of 20.8% (2016: 20.9%) <sup>1</sup>	(110,784)	(17,526)
Effect of income taxed at differing tax rates than 20.8% (2016: 20.9%) <sup>2</sup>	(26,085)	973
Non-deductible items	(3,288)	(5,268)
Additional tax deductions <sup>3</sup>	1,617	20,218
Tax exempt disposal of subsidiary <sup>2</sup>	115,219	-
Tax effects of unrecognized tax losses	(5,333)	(832)
Adjustments to deferred tax balances arising from tax rate changes	908	5,951
Adjustments recognized for current tax of prior periods	287	(363)
Other effects	(363)	83
<b>Total income tax (expense)/income recognized in statement of income</b>	<b>(27,822)</b>	<b>3,236</b>

<sup>1</sup> The applicable income tax rate of 20.8% corresponds to the applicable tax rate of the main operating company Sunrise Communications AG in the current period.

<sup>2</sup> Related to the tax exempt disposal of Swiss Towers AG on August 3, 2017, by Group companies in Luxembourg.

<sup>3</sup> Substantial effect in 2016: Tax-deductible impairment of investments.

As of December 31, 2017, tax liabilities for income taxes totaling CHF 23.9 million (December 31, 2016: CHF 3.9 million) are recorded as "Income tax payable". Income tax receivables are recorded within "Current portion of trade and other receivables" and total CHF 0.1 million as of December 31, 2017 (December 31, 2016: CHF nil million).

**Deferred tax assets and liabilities**

Deferred tax assets are recognized in the statement of financial position in non-current assets. Deferred tax liabilities are recognized in the statement of financial position in non-current liabilities.

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to offset current tax assets and current tax liabilities, and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

### Analysis of deferred tax assets and liabilities

CHFk December 31, 2017	Assets	Liabilities	Net amount
Intangible assets	-	(183,515)	(183,515)
Property, plant and equipment	-	(1,814)	(1,814)
Customer acquisition costs	9,263	-	9,263
Tax loss carryforwards	921	-	921
Deferred income	2,032	(575)	1,457
Employee benefit obligations	17,209	-	17,209
Transaction fees	-	(4,102)	(4,102)
Other	-	(110)	(110)
<b>Total</b>	<b>29,425</b>	<b>(190,116)</b>	<b>(160,691)</b>
<i>Thereof deferred tax assets</i>			-
<i>Thereof deferred tax liabilities</i>			(160,691)

CHFk December 31, 2016	Assets	Liabilities	Net amount
Intangible assets	-	(211,659)	(211,659)
Property, plant and equipment	-	(2,849)	(2,849)
Customer acquisition costs	10,885	-	10,885
Tax loss carryforwards	2,901	-	2,901
Deferred income	2,371	(748)	1,623
Employee benefit obligations	20,873	-	20,873
Transaction fees	-	(6,203)	(6,203)
Other	15	(34)	(19)
<b>Total</b>	<b>37,045</b>	<b>(221,493)</b>	<b>(184,448)</b>
<i>Thereof deferred tax assets</i>			433
<i>Thereof deferred tax liabilities</i>			(184,881)

As of December 31, 2017, no (net) deferred tax assets were recognized for Group companies which incurred a loss in the current period (December 31, 2016: CHF 0.4 million).

### Unrecognized deferred tax assets

Deferred tax assets relating to tax loss carryforwards or deductible temporary differences are recognized when it is probable that such tax deductions can be utilized in the future. As of December 31, 2017, the Group has the following unused tax loss carryforwards and deductible temporary differences for which no deferred tax assets are recognized.

**NOTE 12**

Income taxes

**Unrecognized tax loss carryforwards/temporary differences**

CHFk December 31	2017	2016
Due to expire within 1 year	-	-
Due to expire within 2 to 5 years	10,299	3,309
Due to expire within 6 to 10 years	239	7,453
Due to expire within 10 to 20 years	19,961	-
Amount not due to expire	723,318	719,065
<b>Total</b>	<b>753,817</b>	<b>729,827</b>

Of these amounts, CHF 4.8 million relate to operating companies (2016: CHF 3.3 million) and CHF 749.0 million relate to holding and financing companies (2016: CHF 726.5 million).

**Specification of deferred taxes**

CHFk 2017	Deferred tax assets/ (liabilities) net, January 1	Deferred tax (expense)/ income	Deferred tax through OCI	Change in consolidation scope due to disposal of subsidiary <sup>2</sup>	Deferred tax assets/ (liabilities) net, December 31
Intangible assets <sup>1</sup>	(211,659)	28,144	-	-	(183,515)
Property, plant and equipment	(2,849)	(1,300)	-	2,335	(1,814)
Customer acquisition costs	10,885	(1,622)	-	-	9,263
Tax loss carryforwards	2,901	(1,980)	-	-	921
Deferred income	1,623	(166)	-	-	1,457
Employee benefit obligations	20,873	765	(4,233)	(196)	17,209
Transaction fees	(6,203)	2,101	-	-	(4,102)
Other	(19)	(91)	-	-	(110)
<b>Total</b>	<b>(184,448)</b>	<b>25,851</b>	<b>(4,233)</b>	<b>2,139</b>	<b>(160,691)</b>

<sup>1</sup> This deferred tax liability arises primarily from intangible assets recognized during the purchase price allocation (PPA) of Sunrise Communications AG, such as customer base and brands.

<sup>2</sup> Related to the disposal of Swiss Towers AG on August 3, 2017.

CHFk 2016	Deferred tax assets/ (liabilities) net, January 1	Deferred tax (expense)/ income	Deferred tax through OCI	Change in consolidation scope due to disposal of subsidiary	Deferred tax assets/ (liabilities) net, December 31
Intangible assets <sup>1</sup>	(242,537)	30,878	-	-	(211,659)
Property, plant and equipment	(3,148)	299	-	-	(2,849)
Customer acquisition costs	15,697	(4,812)	-	-	10,885
Tax loss carryforwards	2,896	5	-	-	2,901
Deferred income	1,982	(359)	-	-	1,623
Employee benefit obligations	24,228	1,139	(4,494)	-	20,873
Transaction fees	(5,712)	(491)	-	-	(6,203)
Other	26	(45)	-	-	(19)
<b>Total</b>	<b>(206,568)</b>	<b>26,614</b>	<b>(4,494)</b>	<b>-</b>	<b>(184,448)</b>

<sup>1</sup> This deferred tax liability arises primarily from intangible assets recognized during the PPA of Sunrise Communications AG, such as customer base and brands.

**NOTE 13****Earnings per Share**

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

January 1 – December 31	2017	2016
<b>Basic earnings per share</b>		
Net income attributable to equity holders of SCG (CHFk)	504,792	87,093
Weighted average number of shares outstanding	45,000,000	45,000,000
<b>Basic earnings per share (in CHF)</b>	<b>11.22</b>	<b>1.93</b>
<b>Diluted earnings per share</b>		
Net income attributable to equity holders of SCG (CHFk)	504,792	87,093
Weighted average number of shares outstanding	45,155,374	45,106,386
<b>Diluted earnings per share (in CHF)</b>	<b>11.18</b>	<b>1.93</b>

If the vesting conditions were fully met as of December 31, 2017, a maximum of 193,748 shares (December 31, 2016: 191,319) would have a dilutive effect.

**NOTE 14****Intangible assets**

CHFk 2017	Goodwill	Subscriber base	Other rights, software, licenses and brands	Intangibles under development	Total
Costs as of January 1	1,147,769	1,218,683	1,223,444	19,647	3,609,543
Additions <sup>1</sup>	-	-	73,625	41,318	114,943
Transferred to/(from) other items	-	-	19,285	(19,285)	-
Assets disposed of or fully amortized during the period	-	-	(81,823)	-	(81,823)
<b>Costs as of December 31</b>	<b>1,147,769</b>	<b>1,218,683</b>	<b>1,234,531</b>	<b>41,680</b>	<b>3,642,663</b>
Accumulated amortization and write-downs as of January 1	-	(692,379)	(568,264)	-	(1,260,643)
Amortization for the period	-	(113,350)	(140,134)	-	(253,484)
Assets disposed of or fully amortized during the period	-	-	81,823	-	81,823
<b>Accumulated amortization and write-downs as of December 31</b>	<b>-</b>	<b>(805,729)</b>	<b>(626,575)</b>	<b>-</b>	<b>(1,432,304)</b>
<b>Net carrying value as of December 31</b>	<b>1,147,769</b>	<b>412,954</b>	<b>607,956</b>	<b>41,680</b>	<b>2,210,359</b>

<sup>1</sup> Thereof cash additions CHF 107.5 million.

**NOTE 14**

## Intangible assets

CHFk 2016	Goodwill	Subscriber base	Other rights, software, licenses and brands	Intangibles under development	<b>Total</b>
Costs as of January 1	1,147,769	1,218,683	1,124,663	39,606	3,530,721
Additions <sup>1</sup>	-	-	60,333	19,744	80,077
Transferred to/(from) other items	-	-	39,703	(39,703)	-
Assets disposed of or fully amortized during the period	-	-	(1,255)	-	(1,255)
<b>Costs as of December 31</b>	<b>1,147,769</b>	<b>1,218,683</b>	<b>1,223,444</b>	<b>19,647</b>	<b>3,609,543</b>
Accumulated amortization and write-downs as of January 1	-	(579,029)	(430,602)	-	(1,009,631)
Amortization for the period	-	(113,350)	(138,916)	-	(252,266)
Assets disposed of or fully amortized during the period	-	-	1,254	-	1,254
<b>Accumulated amortization and write-downs as of December 31</b>	<b>-</b>	<b>(692,379)</b>	<b>(568,264)</b>	<b>-</b>	<b>(1,260,643)</b>
<b>Net carrying value as of December 31</b>	<b>1,147,769</b>	<b>526,304</b>	<b>655,180</b>	<b>19,647</b>	<b>2,348,900</b>

<sup>1</sup> Thereof cash additions CHF 71.2 million.

Subscriber base, which comprises both residential and business customers, is defined as total Sunrise business excluding prepaid mobile. Its useful life corresponds to the weighted average useful life of the different subscriber types of the Company.

Licenses, software, brands and other rights represent the various equipment required to operate the business, software developed or customized by Sunrise as well as the brands under which the Company markets its mobile voice and data services. Other rights include primarily Indefeasible Rights of Use (IRU) to transfer capacity from one point to another.

In 2017 and 2016 no write-downs for impairment of other rights, software, licenses and brands were recognized. In the year ended December 31, 2017, internal costs capitalized totaled CHF 10.6 million (2016: CHF 12.8 million). No interest was capitalized during the years ended December 31, 2017, and December 31, 2016.

Additions from third parties in 2017 and 2016 include software licenses, IRU, product development as well as investments in process digitalization.

The carrying value of intangible assets not yet amortized is CHF 41.7 million for the year ended December 31, 2017, and mainly comprises assets under construction (2016: CHF 19.6 million).

As of December 31, 2017, and December 31, 2016, the carrying value of intangible assets is not pledged.

### Impairment tests for goodwill

Goodwill is allocated as of the acquisition date to the Group's cash-generating units (CGUs). The Group's CGUs consist of the Residential, Business and Wholesale operating segments, and the impairment test was carried out on these CGUs in the fourth quarter of 2017. An operating-segment-level summary of goodwill allocation is presented below:

#### Goodwill allocation

CHFk December 31	2017	2016
Residential	905,319	889,268
Business	190,029	190,029
Wholesale	52,421	68,472
<b>Total</b>	<b>1,147,769</b>	<b>1,147,769</b>

In 2017 a reorganization within the Group (merger of subsidiary with its parent company) changed the composition of two CGUs to which goodwill has been allocated. Using a relative value approach, goodwill in the amount of CHF 16.1 million was reallocated between Wholesale and Residential.

Goodwill has an indefinite useful life and is therefore analyzed for impairment on an annual basis. In 2017, there are no other recorded intangible assets with indefinite useful lives (2016: CHF nil). The recoverable amount of all CGUs has been determined based on its value-in-use using a discounted cash flow (DCF) method. The key assumptions used are listed below:

#### Key assumptions used for goodwill testing

CHFk December 31	2017	2016
Long-term growth rate	0.0%	0.0%
WACC (pre-tax)	5.6%	5.7%

The calculation basis for the DCF model is the Group's business plan as approved by the Board of Directors. The detailed planning horizon of the business plan covers three years. The free cash flows beyond the three-year planning period were extrapolated using a long-term growth rate. The discount rate is the weighted average cost of capital (WACC) before tax of the Group. Budgeted gross margin and growth rates are based on past performance and management's expectations of market development. As of the impairment test date, the recoverable amount for all CGUs was higher than the carrying amount.

#### Sensitivity analysis

Management performed sensitivity analyses, which

- increased the discount rate to 7.3% by stable other key assumptions
- set the long-term growth rate to –3.5% by stable other key assumptions
- combined the discount rate of 6.4% with a growth rate of 0%

The results of the sensitivity analyses demonstrated that the above changes in the key assumptions would not cause the carrying value of goodwill to exceed the recoverable amount for any of the three CGUs as of December 31, 2017.

**NOTE 15****Property, plant and equipment**

CHFk 2017	Telecommunica- tions installations	Other installations	Property, plant and equipment under construction	<b>Total</b>
Costs as of January 1	1,713,786	128,170	56,850	1,898,806
Additions <sup>1</sup>	101,608	4,800	99,032	205,440
Transferred to/(from) other items	40,208	2,983	(43,191)	-
Assets disposed of during the period	(16,952)	(26,790)	-	(43,742)
Change in consolidation scope due to disposal of subsidiary	(220,710)	-	(1,364)	(222,074)
<b>Costs as of December 31</b>	<b>1,617,940</b>	<b>109,163</b>	<b>111,327</b>	<b>1,838,430</b>
Accumulated depreciation and write-downs as of January 1	(917,743)	(97,271)	-	(1,015,014)
Depreciation for the period	(159,622)	(15,038)	-	(174,660)
Assets disposed of during the period	12,365	26,216	-	38,581
Change in consolidation scope due to disposal of subsidiary	108,239	-	-	108,239
<b>Accumulated depreciation and write-downs as of December 31</b>	<b>(956,761)</b>	<b>(86,093)</b>	<b>-</b>	<b>(1,042,854)</b>
<b>Net carrying value as of December 31</b>	<b>661,179</b>	<b>23,070</b>	<b>111,327</b>	<b>795,576</b>
<b>Carrying value of finance leases as of December 31</b>	<b>5,530</b>	<b>-</b>	<b>-</b>	<b>5,530</b>

<sup>1</sup> Thereof cash additions CHF 207.5 million.



**NOTE 15**

Property, plant and equipment

CHFk 2016	Telecommunica- tions installations	Other installations	Property, plant and equipment under construction	<b>Total</b>
Costs as of January 1	1,624,184	117,022	93,910	1,835,116
Additions <sup>1</sup>	88,838	6,389	42,998	138,225
Transferred to/(from) other items	75,025	5,033	(80,058)	-
Assets disposed of during the period	(74,261)	(274)	-	(74,535)
<b>Costs as of December 31</b>	<b>1,713,786</b>	<b>128,170</b>	<b>56,850</b>	<b>1,898,806</b>
Accumulated depreciation and write-downs as of January 1	(803,149)	(79,064)	-	(882,213)
Depreciation for the period	(188,820)	(18,481)	-	(207,301)
Assets disposed of during the period	74,226	274	-	74,500
<b>Accumulated depreciation and write-downs as of December 31</b>	<b>(917,743)</b>	<b>(97,271)</b>	<b>-</b>	<b>(1,015,014)</b>
<b>Net carrying value as of December 31</b>	<b>796,043</b>	<b>30,899</b>	<b>56,850</b>	<b>883,792</b>
<b>Carrying value of finance leases as of December 31</b>	<b>9,929</b>	<b>-</b>	<b>-</b>	<b>9,929</b>

<sup>1</sup> Thereof cash additions CHF 141.4 million.

In 2017, the Group recognized CHF 2.5 million in write-downs (2016: CHF 7.7 million). These were primarily attributable to the replacement of the mobile network equipment.

In the period ended December 31, 2017, capitalized internal costs totaled CHF 8.2 million (2016: CHF 6.3 million). In 2017 and 2016 no interest was capitalized. Additions from third parties in 2017 include an increase of CHF 3.9 million in asset retirement obligations without cash effect (2016: decrease of CHF 14.3 million). The Group has recourse guarantee obligations for payment and performance in connection with lease contracts (see Note 31 on page 140 et seq.).

**NOTE 16**
**Trade and other receivables**

CHFk December 31	2017	2016
Trade receivables	491,969	447,029
Other receivables	1,454	2,657
<b>Total</b>	<b>493,423</b>	<b>449,686</b>
<i>Thereof current</i>	435,217	393,856
<i>Thereof non-current</i>	58,206	55,830

CHFk December 31	2017	2016
Allowances for uncollectible amounts as of January 1	(87,025)	(87,881)
(Reduction)/Addition of allowances for uncollectible amounts, net	(6,168)	856
<b>Total allowances for uncollectible amounts</b>	<b>(93,193)</b>	<b>(87,025)</b>

CHFk December 31	Days	2017	2016
<b>Not impaired</b>		<b>466,862</b>	<b>414,913</b>
<i>Thereof receivables not due</i>		427,284	398,640
<i>Thereof receivables past due</i>	1-36	17,727	12,049
<i>Thereof receivables past due</i>	37-67	9,677	4,176
<i>Thereof receivables past due</i>	68-98	2,268	48
<i>Thereof receivables past due more than</i>	99	9,906	-
<b>Impaired</b>		<b>26,561</b>	<b>34,773</b>
<i>Thereof receivables not due</i>		10,015	16,594
<i>Thereof receivables past due</i>	1-36	4,335	6,517
<i>Thereof receivables past due</i>	37-67	1,736	1,553
<i>Thereof receivables past due</i>	68-98	1,804	1,719
<i>Thereof receivables past due more than</i>	99	8,671	8,390
<b>Total</b>		<b>493,423</b>	<b>449,686</b>

The total net amount of trade receivables past due as of December 31, 2017, was CHF 56.1 million (2016: CHF 34.5 million). Other classes within receivables do not contain impaired assets. The carrying value of receivables was not pledged as of December 31, 2017, or as of December 31, 2016.

As of December 31, 2017, net receivables of CHF 39.6 million (2016: CHF 16.3 million) were past due but not impaired. These mainly relate to a number of independent Business, Wholesale and Residential customers with no recent history of default. The main part relates to a wholesale partner where the Group does not see a potential default risk.

**NOTE 17****Prepaid expenses**

CHFk December 31	<b>2017</b>	2016
Prepaid lease payments	417	2,290
Other prepaid expenses	6,312	6,209
<b>Total</b>	<b>6,729</b>	<b>8,499</b>
<i>Thereof current</i>	6,481	7,916
<i>Thereof non-current</i>	248	583

**NOTE 18****Inventories**

CHFk December 31	<b>2017</b>	2016
Finished goods and merchandise	53,008	22,420
Work in progress	4,466	6,321
<b>Total</b>	<b>57,474</b>	<b>28,741</b>

Write-downs of inventories to the net realizable value totaled CHF 3.4 million in 2017 (2016: CHF 3.7 million). The carrying amount of inventories recognized as an expense in Transmission costs and cost of goods sold and Other operating expenses totaled CHF 202.0 million (2016: CHF 197.6 million). No inventories were expected to be sold after more than one year.

**NOTE 19****Cash and cash equivalents**

CHFk December 31	<b>2017</b>	2016
Cash and cash equivalents	272,486	214,175
<b>Total</b>	<b>272,486</b>	<b>214,175</b>

Sunrise cash and cash equivalents comprise primarily short-term bank deposits with mainly Swiss banks with a high credit rating. The Group does not hold any outstanding term deposits as of December 31, 2017 (December 31, 2016: CHF nil).

Under the senior facilities agreement and the senior secured notes indenture, the Group has no pledged cash and cash equivalents as of December 31, 2017, and December 31, 2016.

**NOTE 20****Equity**

CHFk December 31	2017	2016
Common shares	45,000	45,000
Share premium <sup>1</sup>	2,342,653	2,489,962
Other reserve	(776,143)	(776,143)
Accumulated deficit	(101,229)	(622,531)
<b>Total equity</b>	<b>1,510,281</b>	<b>1,136,288</b>

<sup>1</sup> Share premium includes reserves which are freely available for distribution of dividends.

**Share capital**

As of December 31, 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. During the year 2017, there was no change in share capital. In connection with the management long-term incentive programs, and as approved by the Annual General Meeting on April 15, 2016, the share capital was increased by means of an authorized capital increase of 69,028 shares.

**Other reserve**

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

**Accumulated deficit**

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

**Dividend**

CHFk	2017	2016
Cash dividends on ordinary shares declared and paid:		
Final dividend for 2016: CHF 3.33 per share (2015: CHF 3.00)	149,850	135,000
Proposed dividends on ordinary shares:		
Final cash dividend for 2017: CHF 4.00 per share (2016: CHF 3.33)	180,276	149,850

At the Annual General Meeting on April 11, 2017, the payment of an ordinary dividend from statutory reserves from capital contributions in the 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.

The Board of Directors will propose a payment of an ordinary dividend of CHF 4.00 per share at the Annual General Meeting in respect of the 2017 financial year. This equates to a total dividend distribution of CHF 180.3 million. The dividend payment is planned for April 18, 2018. Proposed dividends on ordinary shares are subject to approval at the Annual General Meeting and are not recognized as a liability as of December 31, 2017.

**NOTE 21****Share-based payment**

CHFk January 1 – December 31	<b>2017</b>	2016
Equity-settled share-based payment	2,702	1,851
<i>Thereof MLTIPZero</i>	680	953
<i>Thereof MLTIP</i>	191	255
<i>Thereof MLTIP Revised</i>	240	-
<i>Thereof MLTIPE</i>	1,060	643
<i>Thereof portion of short-term incentive paid in shares</i>	531	-
Portion of short-term incentive settled in cash	1,447	1,671
<b>Total expenses for share-based payment</b>	<b>4,149</b>	<b>3,522</b>

The Company allocated shares to employees in the following employee incentive plans:

**Management Long-Term Investment Programs (MLTIPZero, MLTIP, MLTIP Revised and MLTIPE)**

Certain members of the Executive Leadership Team and selected Other Top Management were offered the opportunity to take part in Management Long-Term Investment Programs. These plans grant a certain number of shares (Performance Shares) for each held Investment Share. As a general rule, Performance Shares do not vest until the employees have completed a three-year period of service. The related expense is recognized over the service period and adjusted by the expected number of employees eligible for Performance Shares.

**MLTIPZero**

Participants in this program could purchase a certain number of Sunrise shares (Investment Shares) at the initial public offering price of CHF 68. Purchasers of such offered shares are subject to a lock-up period of three years from the first day of trading. There are no minimum service requirements for employees for Investment Shares; however, the matching number of Performance Shares awarded at the end of the lock-up period is subject to continued employment and satisfaction of certain performance targets. In 2017, 58,494 MLTIPZero Investment Shares (2016: 76,729) were eligible for Performance Shares with a value at grant date of CHF 80.24 per share.

**MLTIP**

Under this plan, eligible participants may elect to receive a portion of their annual short-term incentive, capped at a maximum of 50% of said short-term incentive, in the form of shares (Investment Shares), which will then be blocked for a three-year period. There are no minimum service requirements for employees for Investment Shares; however, the number of shares awarded at the end of the blocking period is subject to continued employment and satisfaction of certain performance targets. The selected portion of the short-term incentive to be paid out in shares (equity-settled) is classified under equity as of December 31, 2017; the remaining portion (cash-settled) is shown under other payables. In 2017, 6,810 MLTIP Investment Shares (2016: 8,193) out of the 2016 short-term incentive were eligible for Performance Shares with a value at grant date of CHF 87.70 per share. 2,914 MLTIP Investment Shares (2016: 4,175) out of the 2017 short-term incentive are eligible for Performance Shares with a value at grant date of CHF 73.16 per share.

**NOTE 21**

## Share-based payment

**MLTIP Revised**

Rules of this plan are similar to the MLTIP. For members of the Executive Leadership Team, shares, if any, will be allocated as Performance Shares subject to continued employment and satisfying the performance target of the plan. In the event that the good leaver provision applies, awards in form of Performance Shares vest immediately pro rata of the expired performance period. However, the shares to be allocated for such vesting of Performance Shares will only be allocated at the end of the performance period. For selected Other Top Management members shares will be allocated in form of Matching Shares subject to continued employment. In the event that the good leaver provision applies, Matching Shares are immediately allocated on a pro rata basis for the duration of the employment until the relevant termination date. The selected portion of the short-term incentive to be paid out in shares (equity-settled) is classified under equity as of December 31, 2017; the remaining portion (cash-settled) is shown under other payables. In 2017, 7,774 MLTIP Revised Investment Shares (2016: nil) out of the 2016 short-term incentive were eligible for Performance Shares with a value at grant date of CHF 64.02 per share. 9,138 MLTIP Revised Investment Shares (2016: nil) out of the 2016 short-term incentive are eligible for Matching Shares with a value at grant date of CHF 62.72 for shares granted in March 2017 and CHF 66.72 per shares for shares granted in June 2017.

In September 2017, 808 MLTIP Revised Investment Shares (2016: nil) were granted for a new ELT member. All shares are eligible for Performance Shares with a value at grant date of CHF 81.40.

**MLTIPE**

Participants in this program could purchase a certain number of Sunrise shares at the share price on the date of purchase.

Same rules as for the MLTIP apply, the CEO benefits from the good leaver clause as in the MLTIP Revised plan. In 2017, 46,771 MLTIP Investment Shares (2016: 38,449) were eligible for Performance Shares with a value at grant date of CHF 69.55 for shares granted in April 2016, of CHF 65.03 for shares granted in June 2016, of CHF 85.35 for shares granted in June 2017 and of CHF 77.35 per share for shares granted in July 2017.

In 2017 and 2016, the allocation and cost of share-based payments to the members of the Board of Directors and the Executive Leadership Team were as follows:

CHFk January 1 - December 31	<b>2017</b>	2016
Members of the Board of Directors	244	108
Members of the Executive Leadership Team	2,010	2,055
<b>Total</b>	<b>2,254</b>	<b>2,163</b>

**NOTE 22****Employee benefit obligations**

The Group provides retirement benefits to its employees as required by Swiss law by means of a pension fund that is a separate legal entity. The Sunrise Pension Fund is a separate, semi-autonomous foundation governed by the Occupational Pensions and Foundations Office of the Canton of Zurich. Risks for invalidity and death are reinsured by Elips Life. The fixed assets of the Sunrise Pension Fund are managed by Credit Suisse Asset Management in Zurich in accordance with organizational guidelines and investment regulations. The Board of Trustees consists of an equal number of employer and employee representatives and is responsible for the management of the Foundation according to Swiss Law. In accordance with the Occupational Pensions Act, a temporary funding shortfall is permitted. The Board of Trustees must take appropriate measures to solve the shortfall within a reasonable timeframe. If those measures do not lead to the desired results, the Pension Fund may temporarily charge remedial contributions to employers, insured persons and pensioners. The employer contribution must at least equal the aggregate contributions levied from the insured persons.

The pension fund operates a basic pension plan for all staff and a supplemental plan for employees having an insured annual salary of more than CHF 150,000. All Swiss plans qualify as defined benefit plans under IAS 19. The pension fund of Sunrise Communications AG is overfunded by 21.9% as of December 31, 2017. Future pension benefits are based primarily on years of credited service and on contributions made by the employee and employer over the service period, which vary according to age as a percentage of insured salary. The rate of annual interest credited to employees' accounts on the balance representing the minimum amount required under pension law is defined by the Swiss government. In addition, the conversion factor used to convert the accumulated capital upon retirement into an annual pension is also defined by the Swiss government. In the case of overfunding it may be possible to a limited extent to reduce the level of contributions from both employer and employee. A distribution of excess funds from the pension fund to the Group is not possible. These defined benefit plans expose the Group to actuarial risks, such as currency risk, interest rate risk and market (investment) risk.

**Pension costs resulting from defined benefit plans**

CHFk January 1 – December 31	2017	2016
Current service costs	(20,330)	(22,558)
Interest costs on benefit obligations	(570)	(855)
<b>Pension costs recognized in the statement of income</b>	<b>(20,900)</b>	<b>(23,413)</b>

**Assets and obligations**

CHFk December 31	2017	2016
Fair value of plan assets	(313,676)	(296,878)
Defined benefit obligation	398,445	399,112
<b>Employee benefit obligations recognized in the statement of financial position</b>	<b>84,769</b>	<b>102,234</b>

**NOTE 22**

Employee benefit obligations

**Movement in defined benefit obligations**

CHFk	2017	2016
Balance as of January 1	399,112	416,784
Reduction of subsidiaries	(961)	-
<b>Included in the statement of income</b>		
– Current service costs	20,330	22,558
– Interest costs on defined benefit obligation	2,492	3,266
<b>Included in other comprehensive income</b>		
Actuarial (gain)/loss arising from:		
– Demographic assumptions	-	(14,675)
– Financial assumptions	(1,478)	7,999
– Experience adjustment	(1,608)	(7,295)
<b>Other</b>		
Employee contributions	10,399	11,105
Benefits paid/transferred	(29,841)	(40,630)
<b>Total defined benefit obligations</b>	<b>398,445</b>	<b>399,112</b>

**Movement in fair value of plan assets**

CHFk	2017	2016
Balance as of January 1	(296,878)	(301,415)
<b>Included in the statement of income</b>		
Interest income	(1,922)	(2,411)
<b>Included in other comprehensive income</b>		
Return on plan assets excluding interest income	(22,270)	(4,920)
Actuarial losses	4,613	-
<b>Other</b>		
Company contributions	(16,661)	(17,657)
Employee contributions	(10,399)	(11,105)
Benefits paid	29,841	40,630
<b>Total fair value of plan assets</b>	<b>(313,676)</b>	<b>(296,878)</b>



## Asset allocation of plan assets

CHFk	DECEMBER 31, 2017		DECEMBER 31, 2016	
	Quoted prices	Unquoted prices	Quoted prices	Unquoted prices
Cash and cash equivalents	(6,681)	-	(3,554)	-
Equity securities	-	117,785	-	110,915
Debt securities	-	144,542	-	128,392
Real estate	31	44,260	29	42,144
Other	-	13,739	-	18,952
<b>Total</b>	<b>(6,650)</b>	<b>320,326</b>	<b>(3,525)</b>	<b>300,403</b>

Plan assets do not include any property used by Group companies as of December 31, 2017. Furthermore, the defined benefit plans do not hold any shares of Sunrise Communications Group AG.

Periodically, an asset-liability matching study is performed by the pension fund's asset manager in which the consequences of the strategic investment policies are analyzed (the latest study was conducted in 2017). The strategic investment policy of the pension fund can be summarized as follows: a strategic asset mix comprising 27.5% to 42.5% equity securities, 40.5% to 49.5% government bonds, 11% to 19% real estate, 0.0% to 2.0% cash on bank (new compared to 2016) and 0.8% to 7.2% other investments.

## Principal actuarial assumptions

%	2017	2016
Discount rate	0.67	0.65
Future salary increases	2.00	2.00

As of December 31, 2017, the weighted average duration of the defined benefit obligation was 17.4 years (2016: 17.5 years). For 2018, the Group's projected contributions to its pension funds total CHF 15.7 million.

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

## Sensitivity analysis

CHFk	Increase	Decrease
Effect on defined benefit obligation on December 31, 2017:		
- Discount rate (0.5 ppt movement)	(31,826)	37,413
- Future salary increases (1 ppt movement)	12,309	(11,256)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

**NOTE 23****Borrowings**

CHFk	Nominal value at inception	Capitalized debt issuance costs <sup>1</sup>	Debt repayments	<b>December 31, 2017</b>	December 31, 2016
<b>Floating rate</b>					
Term loan B2 - CHF <sup>2</sup>	1,360,000	(15,669)	(450,000)	894,331	1,333,709
<b>Fixed rate</b>					
Senior secured notes - CHF <sup>3</sup>	500,000	(4,375)	-	495,625	494,618
<b>Total loans and notes</b>	<b>1,860,000</b>	<b>(20,044)</b>	<b>(450,000)</b>	<b>1,389,956</b>	<b>1,828,327</b>
<b>Other</b>					
Debt relating to financial leases	-	-	(7,337)	9,496	16,833
<b>Total borrowings</b>				<b>1,399,452</b>	<b>1,845,160</b>
<i>Thereof current</i>				4,899	7,597
<i>Thereof non-current</i>				1,394,553	1,837,563

<sup>1</sup> At issuance of the borrowings.

<sup>2</sup> 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).

<sup>3</sup> 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 performs covenant testing as of each half-year date within the financial year of the Group. The last covenant testing, performed as of December 31, 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 25bps on its revolving credit facility and 50bps 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 costs in the consolidated statement of financial position.

On August 4, 2017, Sunrise partially used the gross proceeds from the disposal of a subsidiary (see Note 11 on page 111) to reduce the indebtedness of the Group by CHF 450.0 million. Additionally capitalized transactions costs of CHF 6.1 million were released.

## NOTE 24

## Financial instruments

CHFk December 31, 2017	Loans and receivables	Financial liabilities measured at amortized cost	Total
<b>Non-current financial assets</b>			
Non-current portion of trade and other receivables	58,206	-	58,206
<b>Total non-current financial assets</b>	<b>58,206</b>	<b>-</b>	<b>58,206</b>
<b>Current financial assets</b>			
Current portion of trade and other receivables	435,153	-	435,153
Cash and cash equivalents	272,486	-	272,486
<b>Total current financial assets</b>	<b>707,639</b>	<b>-</b>	<b>707,639</b>
<b>Total financial assets</b>	<b>765,845</b>	<b>-</b>	<b>765,845</b>
<b>Non-current financial liabilities</b>			
Non-current portion of loans and notes	-	(1,389,956)	(1,389,956)
Non-current portion of financial leases	-	(4,597)	(4,597)
Non-current portion of trade payables and other payables	-	(5,308)	(5,308)
<b>Total non-current financial liabilities</b>	<b>-</b>	<b>(1,399,861)</b>	<b>(1,399,861)</b>
<b>Current financial liabilities</b>			
Current portion of financial leases	-	(4,899)	(4,899)
Current portion of trade payables and other payables	-	(530,772)	(530,772)
Other current liabilities	-	(85)	(85)
<b>Total current financial liabilities</b>	<b>-</b>	<b>(535,756)</b>	<b>(535,756)</b>
<b>Total financial liabilities</b>	<b>-</b>	<b>(1,935,617)</b>	<b>(1,935,617)</b>
<b>Total</b>	<b>765,845</b>	<b>(1,935,617)</b>	<b>(1,169,772)</b>

**NOTE 24**

## Financial instruments

CHFk December 31, 2016	Loans and receivables	Financial liabilities measured at amortized cost	<b>Total</b>
<b>Non-current financial assets</b>			
Non-current portion of trade and other receivables	55,830	-	55,830
<b>Total non-current financial assets</b>	<b>55,830</b>	<b>-</b>	<b>55,830</b>
<b>Current financial assets</b>			
Current portion of trade and other receivables	393,856	-	393,856
Cash and cash equivalents	214,175	-	214,175
<b>Total current financial assets</b>	<b>608,031</b>	<b>-</b>	<b>608,031</b>
<b>Total financial assets</b>	<b>663,861</b>	<b>-</b>	<b>663,861</b>
<b>Non-current financial liabilities</b>			
Non-current portion of loans and notes	-	(1,828,327)	(1,828,327)
Non-current portion of financial leases	-	(9,236)	(9,236)
Non-current portion of trade payables and other payables	-	(16,043)	(16,043)
<b>Total non-current financial liabilities</b>	<b>-</b>	<b>(1,853,606)</b>	<b>(1,853,606)</b>
<b>Current financial liabilities</b>			
Current portion of financial leases	-	(7,597)	(7,597)
Current portion of trade payables and other payables	-	(465,589)	(465,589)
Other current liabilities	-	(989)	(989)
<b>Total current financial liabilities</b>	<b>-</b>	<b>(474,175)</b>	<b>(474,175)</b>
<b>Total financial liabilities</b>	<b>-</b>	<b>(2,327,781)</b>	<b>(2,327,781)</b>
<b>Total</b>	<b>663,861</b>	<b>(2,327,781)</b>	<b>(1,663,920)</b>

**NOTE 24**

## Financial instruments

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 condition or 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. 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.

**A: Foreign-currency exposures**

The Group is predominantly active in the domestic market. All outstanding financial debt continues to be denominated in CHF.

The following table shows the impact of a possible change in the euro and the US dollar against the Swiss franc, all other variables held constant. The impact on the Group's profit before tax is mainly driven by foreign exchange gains/losses of euro- and US dollar-denominated cash and cash equivalents, trade and other receivables as well as trade and other payables. As of December 31, 2017, and December 31, 2016, the Group has no other material exposure to foreign currencies.

**Foreign currency sensitivity**

CHFk	NET EXPOSURE			EFFECT ON PROFIT BEFORE TAX	
	December 31, 2017	December 31, 2016	Change in %	December 31, 2017	December 31, 2016
EUR/CHF	(5,134)	(1,320)	+/- 10%	+/- 513	+/- 132
USD/CHF	(3,790)	(847)	+/- 10%	+/- 379	+/- 85

**B: Interest rate risk**

The Group's interest rate risk mainly arises from third party borrowings. As at the balance sheet date, interest-bearing liabilities consisted of senior secured notes bearing a fixed coupon and a term loan with a variable interest rate (CHFLIBOR plus margin with ratchets depending on leverage ratio).

The following table shows the impact of a possible change in interest rates on the Group's borrowings as of December 31, 2017, all other variables held constant. The interest rate of the Group's floating rate borrowings consists of a base rate, being the higher of the LIBOR or 0%, plus a variable margin. With the applicable LIBOR in Swiss franc currently being negative, the Group would therefore not benefit from a lower interest rate level.

**NOTE 24**

Financial instruments

**Interest rate sensitivity**

CHFk December 31	INCREASE/DECREASE IN BASIS POINTS	EFFECT ON PROFIT BEFORE TAX	
		2017	2016
CHF interest rates	+10ppt	(1,017)	(1,477)
CHF interest rates	-10ppt	-	-

Cash flow forecasting is performed by Group treasury. Rolling forecasts of the Group's liquidity requirements are established on a regular basis to ensure sufficient cash is available to meet operational needs and to honor the Group's obligations under its financing arrangements, including the maintenance of borrowing limits and covenant compliance.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted cash flows. All interest payments and repayments of financial liabilities are based on contractual agreements. Interest payments on floating-rate instruments are determined using zero-coupon rates.

**C: Maturity profiles**

CHFk December 31, 2017	< 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Trade payables and other payables	(530,772)	(5,308)	-	-	(536,080)
Borrowings - notional	-	-	(1,389,956)	-	(1,389,956)
Borrowings - interest	(30,112)	(29,179)	(87,284)	(5,639)	(152,214)
Financial leases	(4,899)	(1,823)	(1,047)	(1,727)	(9,496)
Other current liabilities	(85)	-	-	-	(85)
<b>Total financial liabilities</b>	<b>(565,868)</b>	<b>(36,310)</b>	<b>(1,478,287)</b>	<b>(7,366)</b>	<b>(2,087,831)</b>

CHFk December 31, 2016	< 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Trade payables and other payables	(465,589)	(16,043)	-	-	(481,632)
Borrowings - notional	-	-	(1,828,327)	-	(1,828,327)
Borrowings - interest	(38,278)	(38,203)	(114,684)	(7,114)	(198,279)
Financial leases	(7,597)	(4,640)	(2,601)	(1,995)	(16,833)
Other current liabilities	(989)	-	-	-	(989)
<b>Total financial liabilities</b>	<b>(512,453)</b>	<b>(58,886)</b>	<b>(117,285)</b>	<b>(1,837,436)</b>	<b>(2,526,060)</b>

**NOTE 24**

Financial instruments

**D: Undrawn credit lines**

The Group had the following undrawn borrowing facilities:

CHFk December 31	2017	2016
Revolving Credit Facility (RCF)	200,000	200,000
<i>Thereof ancillary facility</i>	<i>25,000</i>	<i>16,000</i>
<b>Total RCF</b>	<b>200,000</b>	<b>200,000</b>

In the senior facilities agreement dated February 9, 2015, as amended on December 23, 2016, a multi-currency revolving credit facility (RCF) was made available with a total commitment equal to CHF 200 million. As part of the RCF, an ancillary facility of CHF 25.0 million (2016: CHF 16.0 million) was established.

As at the balance sheet date, any amounts drawn under the RCF bear a margin of CHFLIBOR + 1.50%. For any committed and undrawn amounts, a commitment fee of 35% of the corresponding margin applies, i.e., 0.61% per annum as at the balance sheet date. No utilization has been made under the revolving credit facility during financial year 2017.

The ancillary facility of CHF 25.0 million (December 31, 2016: CHF 16.0 million) is currently undrawn and bears a facility fee of 0.2% per annum. The Group has CHF 22.6 million (2016: CHF 13.7 million) in guarantees outstanding under the ancillary facility, on which a fee of 1.2% per annum is charged.

**E: Credit risk**

Credit risk arises when a customer or counterparty may fail to perform its contractual obligations. The maximum exposure to credit risk is represented in the consolidated statement of financial position by the carrying value of each financial asset, including derivative financial instruments.

Credit risk arising from supplying telecommunications services is managed by assessing the credit quality of the customer, taking into account its financial position, past experience, payment history and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The Group periodically assesses the financial reliability of its customers and their credit limits.

Concentrations of credit risk with respect to trade receivables are limited due to the nature of the Group's business with very low customer concentration (see Note 16 on page 120 for detailed information on receivables).

**F: Capital management**

The Group's objectives in managing capital are to secure its ongoing financial needs, to continue as going concern, to meet its financial targets, to provide returns to its shareholders and to maintain a cost-efficient and risk-optimized capital structure.

The Group's managed capital structure consists of equity (as disclosed in Note 20 on page 122), current and non-current borrowings (see Note 23 on page 128) less cash and cash equivalents.

In order to maintain this capital structure, the Group manages its liquidity to ensure its ability to service its borrowings.

**NOTE 24**

## Financial instruments

**G: 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 in 2017 and 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 consolidated financial statements:

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

CHFk December 31, 2017	CARRYING AMOUNT (BY MEASUREMENT BASIS)		Comparison Fair value <sup>1</sup>
	Amortized cost	Total	
<b>Financial assets</b>			
Cash	272,486	272,486	
Trade and other receivables	493,359	493,359	
<b>Financial liabilities</b>			
Trade payables and other payables	(536,080)	(536,080)	
Loans and notes	(1,389,956)	(1,389,956)	(1,415,150)
Financial leases	(9,496)	(9,496)	
Other current liabilities	(85)	(85)	

<sup>1</sup> The fair value of borrowings for disclosure purposes is based on quoted prices in an active market for identical liabilities.



**NOTE 24**

Financial instruments

CHFk December 31, 2016	CARRYING AMOUNT (BY MEASUREMENT BASIS)			Comparison Fair value <sup>1</sup>
	Amortized cost	Total		
<b>Financial assets</b>				
Cash	214,175	214,175		
Trade and other receivables	449,686	449,686		
<b>Financial liabilities</b>				
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)		

<sup>1</sup> The fair value of borrowings for disclosure purposes is based on quoted prices in an active market for identical liabilities.

**Changes in liabilities arising from financing activities**

CHFk	Loans and notes	Financial lease liabilities	Trade and other payables	Total
<b>Balance as of January 1, 2017</b>	<b>1,828,327</b>	<b>16,833</b>	<b>492,314</b>	<b>2,337,474</b>
Proceeds from long-term loans and notes	(321)	-	-	(321)
Repayment of long-term loans and notes	(450,000)	-	-	(450,000)
Repayment of capital leases	-	(7,337)	-	(7,337)
Other financing activities	-	-	(20,026)	(20,026)
Total changes from financing cash flows	(450,321)	(7,337)	(20,026)	(477,684)
Other movements not relating to financing activities	11,950	-	74,009	85,959
<b>Balance as of December 31, 2017</b>	<b>1,389,956</b>	<b>9,496</b>	<b>546,297</b>	<b>1,945,749</b>

**NOTE 25****Trade and other payables**

CHFk December 31	<b>2017</b>	2016
Trade payables	485,404	427,363
Interest payable	2,719	3,653
Other payables and accruals	58,174	61,298
<b>Total</b>	<b>546,297</b>	<b>492,314</b>
<i>Thereof current</i>	540,989	476,271
<i>Thereof non-current</i>	5,308	16,043

Compared to 2016, trade and other payables increased in 2017 driven by higher roaming discount payables, transmissions cost payables and inventory payables.

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

**NOTE 26****Provisions**

CHFk	Asset retirement obligations <sup>1</sup>	Restructuring obligations	Other provisions	Total
Provisions as of January 1, 2017	118,750	3,500	2,118	124,368
Provisions made during the period	3,931	1,116	336	5,383
Change in present value	1,199	-	-	1,199
Provisions used during the period	(957)	(2,461)	(140)	(3,558)
Unused provisions reversed during the period	(708)	(867)	(1,075)	(2,650)
Change in consolidation scope due to disposal of subsidiary	(50,276)	-	-	(50,276)
<b>Provisions as of December 31, 2017</b>	<b>71,939</b>	<b>1,288</b>	<b>1,239</b>	<b>74,466</b>
<i>Thereof current</i>	1,047	1,288	1,239	3,574
<i>Thereof non-current</i>	70,892	-	-	70,892
Provisions as of January 1, 2016	137,514	10,342	2,149	150,005
Provisions made during the period	(14,335)	3,530	469	(10,336)
Change in present value	(2,079)	-	-	(2,079)
Provisions used during the period	(952)	(9,516)	(485)	(10,953)
Unused provisions reversed during the period	(1,398)	(856)	(15)	(2,269)
<b>Provisions as of December 31, 2016</b>	<b>118,750</b>	<b>3,500</b>	<b>2,118</b>	<b>124,368</b>
<i>Thereof current</i>	528	3,500	2,118	6,146
<i>Thereof non-current</i>	118,222	-	-	118,222

<sup>1</sup> Decrease of asset retirement obligations (ARO) in 2017 is mainly related to the disposal of the subsidiary (see Note 11 on page 111) in 2017. In 2016 changes in ARO assumptions led to a decrease.

Provisions for asset retirement obligations relate to the future dismantling of mobile stations and restoration of property owned by third parties. Those leases generally contain provisions that require the Group to remove the asset and restore the sites to their original condition at the end of the lease term. The uncertainties relate primarily to the timing of the related cash outflows. The majority of these obligations are not expected to result in cash outflow within a year.

Other provisions are related to warranties, litigations and legal claims.

**NOTE 27****Deferred income**

CHFk December 31	2017	2016
Deferred income from dark fibers	7,859	8,685
Deferred income from other telecommunications services	28,261	35,434
<b>Total</b>	<b>36,120</b>	<b>44,119</b>
<i>Thereof current</i>	26,984	33,710
<i>Thereof non-current</i>	9,136	10,409

**NOTE 28****Change in net working capital**

CHFk December 31	2017	2016
Change in inventories	(28,733)	1,174
Change in trade and other receivables	(36,106)	(59,422)
Change in trade and other payables	79,347	346
Change in other items, net	17,809	(10,022)
<b>Total</b>	<b>32,317</b>	<b>(67,924)</b>

Net working capital includes current assets and liabilities as well as non-current prepaid expenses, long-term trade 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 32.3 million during 2017 is primarily related to an increase in trade and other payables, driven by roaming discounts and payables to handset suppliers, and other items, related to prepayment of network service fees to Swiss Towers AG. This was partially offset by higher inventories and trade and other receivables driven by carriers and increased receivables related to iPhone sales.

**NOTE 29****Overview of Group companies**

Company name	Operating purpose	Registered office	Currency	Share capital in thousands	Voting rights	Consolidation method
<b>Switzerland</b>						
Sunrise Communications Group AG	Holding	Zurich	CHF	45,000		
Sunrise Communications AG	Telecommunications services	Zurich	CHF	50,000	100	Full
TelCommunication Services AG	Telecommunications services	Zurich	CHF	2,000	100	Full
YOL Services AG	Telecommunications services	Zurich	CHF	105	100	Full
<b>Luxembourg</b>						
Mobile Challenger Intermediate Group S.A.	Subholding	Luxembourg	CHF	1,346	100	Full
Sunrise Communications Holdings S.A.	Subholding	Luxembourg	CHF	1,000	100	Full
Sunrise Communications International S.A.	Subholding	Luxembourg	CHF	1,000	100	Full
Skylight S.à r.l.	Subholding	Luxembourg	CHF	1,500	100	Full

YOL Communications GmbH, a fully owned subsidiary, has been retrospectively merged into Sunrise Communications AG as of January 1, 2017.

**NOTE 30****Related parties**

Name of related party	Nature of relationship	Domicile
Pensionskasse Sunrise	Pension fund	Zurich

As described in Note 21 on page 123 et seq., certain managers and employees of Sunrise Communications AG participate in a management equity program and employee participation program involving Sunrise Communications Group AG.

The key management of Sunrise is composed of:

**Sunrise Communications Group AG****Board of Directors**

Peter Kurer	Chairman
Peter Schöpfer	Vice-Chairman
Robin Bienenstock	Member
Michael Krammer	Member
Jesper Ovesen	Member
Joachim Preisig	Member
Lorne Somerville <sup>1</sup>	Member
Christoph Vilanek	Member

<sup>1</sup> Lorne Somerville resigned from the Board of Directors as of the end of the Annual General Meeting of April 11, 2017.

**NOTE 30**

Related parties

**Sunrise Communications AG (main operating entity of the Group)****Board of Directors**

Peter Schöpfer	Chairman
André Krause	Member
Olaf Swantee	Member

**Executive Leadership Team**

Olaf Swantee	Chief Executive Officer (CEO)
André Krause	Chief Financial Officer (CFO)
Françoise Clemes	Chief Services Officer (CSO)
Timm Degenhardt (until February 2017)	Chief Consumer Officer (CCO)
Bruno Duarte (since June 2017)	Chief Consumer Officer (CCO)
Elmar Grasser	Chief Technology Officer (CTO)
Massimiliano Nunziata (until May 2017)	Chief Business Officer (CBO)
Robert Wigger (since September 2017)	Chief Business Officer (CBO)
Dominik Rubli	Chief Administrative Officer (CAO)
Karin Schmidt	Chief Human Resources Officer (CHRO)

Related party transactions in 2017 are limited to the payment of salaries and bonuses.

**NOTE 31****Other financial commitments**

CHFk December 31	2017	2016
<b>Non-cancelable lease commitments for operating leases</b>		
Rental expense relating to properties and mobile sites in the period of interminability	216,641	210,114
Lease commitments for machinery, equipment, computers and other equipment	20,865	29,423
<b>Total</b>	<b>237,506</b>	<b>239,537</b>
Broken down as follows:		
– Less than 6 months	31,870	48,159
– Between 6 and 12 months	29,649	46,272
– Between 1 and 2 years	29,044	45,733
– Between 2 and 5 years	52,257	62,303
– Over 5 years	94,686	37,070
<b>Total</b>	<b>237,506</b>	<b>239,537</b>
<b>Total rental expense recognized for all operating leases</b>		
Minimum lease payments	90,826	98,530
Sublease receipts	(3,597)	(4,761)
<b>Total</b>	<b>87,229</b>	<b>93,769</b>
Contractual and purchase commitments <sup>1</sup>	87,689	92,906

<sup>1</sup> Contractual and purchase commitments relate to investments in property, plant and equipment and intangible assets.

**NOTE 31**

Other financial commitments

The increase in operating leases over five years is mainly due to the lease obligation arising from the contract for the new headquarter starting in 2019 and the opening of a new flagship store. This was partially offset by leases related to the disposal of the passive infrastructure in the course of the sale of Swiss Towers AG.

**NOTE 32****Contingencies**

The Sunrise Group is party to certain pending lawsuits and cases with public authorities and complaint boards. Based on a legal assessment of the possible outcome of each of these lawsuits and cases, management is of the opinion that these will have no significant adverse effect on the Sunrise Group's financial position.

Under the terms of the financing documents, certain entities of the Group are guarantors. For the financial years ending December 31, 2017, and December 31, 2016, the maximum guarantee totals the value of the shares, preferred equity certificates and intercompany receivables.

**NOTE 33****Events after the balance sheet date**

Sunrise entered into two new agreements with Swiss Fibre Net AG (SFN) and Services Industriels de Genève (SIG) on January 10 (SFN) and February 27, 2018 (SIG), respectively. The new agreements give Sunrise access to a certain amount of fiber lines on new terms: Sunrise will invest CHF 47.4 million upfront during 2018 and will then benefit from additional low single-digit annual gross profit contribution. The fiber line scope of the agreements is open to extension, dependent on further upfront investments and gross profit contribution.



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

Zurich, February 27, 2018

## Statutory auditor's report on the audit of the consolidated financial statements



### Opinion

We have audited the consolidated financial statements of Sunrise Communications Group AG and its subsidiaries (the Group), which comprise the consolidated statements of income as at 31 December 2017 and consolidated statements of comprehensive income, consolidated statements of financial position, consolidated statements of cash flow, consolidated statements of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statement (pages 85 to 141) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.



### Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.





### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

### **Revenue Recognition**

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#### **Area of focus**

The Group's revenues amounted to CHF 1'854 million for the year ended 31 December 2017. Revenue is predominantly derived from services including mobile voice and data, landline voice and internet, and IPTV. Corresponding accounting policies are discussed in note 3 to the consolidated financial statements. Disclosures regarding sales and segmentation of revenues are included in notes 6 and 7 to the consolidated financial statements.

Revenue recognition is highly complex given the large number of service offerings, the high volume of transactions and the frequent changes in product and service options. Therefore revenue recognition was an area of focus during our audit.

#### **Our audit response**

We identified the occurrence, completeness and cut-off of revenue as key focus areas of our audit. We evaluated the Company's internal controls over revenue recognition. As part of our procedures, we assessed the timing of revenue recognition, the accounting for transactions involving multiple elements and the accounting judgments associated with dealer and agency relationships (including the presentation of revenue on a net or gross basis and the treatment of discounts, incentives and commissions). We performed data analytics procedures over sales developments and margins of separate revenue classes and revenue as a whole and tested individual transactions, accruals and contracts on a sample basis.

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## **Impairment Test for Goodwill**

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### **Area of focus**

Goodwill represents 30% of the Group's total assets and 76% of the Group's total equity as at December 2016. As stated in note 3 to the consolidated financial statements, the carrying value of goodwill is tested annually for impairment. The Company performed its annual impairment test of goodwill in the fourth quarter of 2017 and determined that there was no impairment. Key assumptions concerning the impairment test are disclosed in note 14 to the consolidated financial statements. In determining the value in use of cash-generating units, the Company must apply judgment in estimating – amongst other factors – future revenues and margins, long-term growth and discount rates. Due to the significance of the carrying amount of goodwill and the judgment involved in performing the impairment test, this matter was considered significant to our audit.

### **Our audit response**

We assessed the Company's internal controls over its annual impairment test and key assumptions applied. We involved valuation specialists to assist in examining the Company's valuation model and analyzing the underlying key assumptions, including future long-term growth and discount rates. We assessed the assumptions regarding future revenues and margins, historical accuracy of the Company's estimates and considered its ability to produce accurate long-term forecasts. We evaluated the sensitivity in the valuation resulting from changes to the key assumptions applied and compared these assumptions to market data, including analyst reports and data from competitors.

## **Capitalization of Property, Plant and Equipment**

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### **Risk**

The Group's investments to property, plant and equipment amounted to CHF 205 million during the year ended 31 December 2017. Corresponding accounting policies are discussed in note 3 and amounts capitalized during the period in note 15 to the consolidated financial statements. There is a risk that items which are not eligible for capitalization are treated as additions to property, plant and equipment, therefore the capitalization process was significant to our audit.

### **Our audit response**

We tested the effectiveness of the Company's internal controls over capitalization of fixed assets. As part of our procedures, we performed data analytics procedures on the capitalization process, evaluated the Company's guidelines for capitalization and tested additions to property, plant and equipment on a sample basis.

## Internal Controls - Information Technology

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### Area of focus

For business continuity, the Company is dependent on a functioning IT infrastructure as its business and finance processes are highly automated. The Group continues to invest in this infrastructure and the underlying processes to meet clients' needs and business requirements. The general IT and automated controls are part of the Company's internal control systems and support the main business and finance processes. As the Company is strongly relying on its IT applications and related controls, we defined IT internal controls as an area of focus for our audit.

### Our audit response

With the assistance of our IT audit specialists, we tested the design and operating effectiveness of IT general controls (change management, logical access, other ITGC's), application controls and electronic reports provided by the Company.



### Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements, the compensation report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



### Responsibility of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.



### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: <http://www.expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.



### **Report on other legal and regulatory requirements**

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young Ltd



Willy Hofstetter  
Licensed audit expert  
(Auditor in charge)



Tobias Meyer  
Licensed audit expert

# Statutory Financial Statements

Sunrise Communications Group AG

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# Income Statement

CHFk January 1 - December 31	Note	2017	2016
Dividend income	3.1	154,850	75,000
Interest income from investments		-	154
<b>Total operating income</b>		<b>154,850</b>	<b>75,154</b>
Other operating expenses		(3,844)	(3,500)
<b>Operating income</b>		<b>151,006</b>	<b>71,654</b>
<b>Income for the period before tax</b>		<b>151,006</b>	<b>71,654</b>
Direct taxes	3.2	(828)	(840)
<b>Income for the period</b>		<b>150,178</b>	<b>70,814</b>

# Balance Sheet

## Assets

CHFk	Note	December 31, 2017	December 31, 2016
Cash and cash equivalents		2,046	1,474
Other receivables			
<i>due from third parties</i>		27	17
<i>due from investments</i>		79	79
Prepayments and accrued income		132	175
<b>Total current assets</b>		<b>2,284</b>	<b>1,745</b>
Investments	3.3	2,593,630	2,593,630
<b>Total non-current assets</b>		<b>2,593,630</b>	<b>2,593,630</b>
<b>Total assets</b>		<b>2,595,914</b>	<b>2,595,375</b>

## Liabilities and shareholders' equity

CHFk	Note	December 31, 2017	December 31, 2016
Accruals and deferred income			
<i>due from third parties</i>		176	152
<i>due from investments</i>		2,841	2,654
<b>Total short-term liabilities</b>		<b>3,017</b>	<b>2,806</b>
Share capital	3.4	45,000	45,000
Legal capital reserves			
– Reserves from capital contributions	3.5	2,374,314	2,524,164
– Other capital reserves		5,817	5,817
Legal retained earnings			
– General legal retained earnings		879	-
Voluntary retained earnings			
– Available earnings			
– <i>Results carried forward</i>		16,709	(53,226)
– <i>Income for the period</i>		150,178	70,814
<b>Total shareholders' equity</b>		<b>2,592,897</b>	<b>2,592,569</b>
<b>Total liabilities and shareholders' equity</b>		<b>2,595,914</b>	<b>2,595,375</b>

# Notes to the Statutory Financial Statements

## NOTE

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  - 2.1 General aspects
  - 2.2 Share-based payment
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  - 4.2 Significant shareholders
  - 4.3 Shares held by the Executive Leadership Team and the Board of Directors, including any related parties



**NOTE 1****General**

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

**NOTE 2****Principles****NOTE 2.1****General aspects**

These financial statements were prepared according to the provisions of the Swiss Law on Accounting and Financial Reporting (32<sup>nd</sup> title of the Swiss Code of Obligations). Where not prescribed by law the significant accounting and valuation principles applied are described below.

**NOTE 2.2****Share-based payment**

The Company allocated shares to employees in the following employee incentive plans:

**Management Long-Term Investment Program MLTIPZero**

Shares were allocated to certain members of the Executive Leadership Team and selected Other Top Management at the initial public offer price. Purchasers of such offered shares (Investment Shares) are subject to a blocking period of three years after the first day of trading, during which shares cannot be sold or otherwise disposed of. There are no minimum service requirements for the Investment Shares; however, the matching number of Performance Shares awarded at the end of the blocking period are subject to continued employment and satisfaction of certain performance targets.

**Annual tranches of Long-Term Investment Program MLTIP and MLTIP Revised**

Under this plan there is no allocation of shares from the initial public offering. However, eligible participants, including members of the Executive Leadership Team and selected Other Top Management, have the opportunity to elect to receive a portion of their annual short-term incentive, capped at a maximum of 50% of such short-term incentive, in the form of shares, which will then be blocked for a three-year period (Investment Shares). There are no minimum service requirements for employees for the Investment Shares; however, the Matching Shares awarded at the end of the blocking period are subject to continued employment and satisfaction of certain performance targets which can differ between the two incentive plans.

In case that the good leaver provision for the Executive Leadership Team applies, any awarded Performance Shares vest immediately pro rata of the expired performance period for MLTIP Revised. However, the shares to be allocated for such vesting of Performance Shares will only be allocated at the end of the performance period. For selected Other Top Management members, shares will be allocated in form of Matching Shares subject to continued employment. In case that the good leaver provision applies, Matching Shares are immediately allocated on a pro rata basis for the duration of employment until the relevant termination date.

### **Management Long-Term Investment Program for Executives MLTIPE**

Participants in this program could purchase a certain number of Sunrise shares (Investment Shares) at the price of the shares at the date of purchase. Purchasers of such shares are subject to a blocking period of three years from the first day of trading, during which shares cannot be sold or otherwise disposed of. There are no minimum service requirements for employees for Investment Shares; however, the matching number of Performance Shares awarded at the end of the lock-up period is subject to continued employment (except for the CEO) and satisfaction of certain performance targets. For the CEO only, upon termination of employment before the end of the blocking period and provided he is considered a good leaver by the Board of Directors under the terms of the employment agreement, Performance Shares shall be awarded on a pro-rata basis for the duration of employment until the effective date of termination.

The respective shares for MLTIPE, MLTIPEZero, MLTIPE Revised and MLTIPE will be received via a capital increase. As SCG itself does not have any employees, a possible expense related to the buyback of shares at the market price will be charged to Sunrise Communications AG, the operative company indirectly held by SCG.

#### **NOTE 2.3**

### **Foregoing a cash flow statement and additional disclosure in the Notes**

As Sunrise Communications Group AG has prepared its consolidated financial statements in accordance with a recognized accounting standard (IFRS), it has decided to forego presenting additional information on interest-bearing liabilities and audit fees in the Notes as well as a cash flow statement in accordance with the law (Art. 961d Para. 1 CO).

#### **NOTE 3**

### **Information on balance sheet and income statement items**

#### **NOTE 3.1**

### **Dividend income from investment**

In the reporting year, SCG recorded a dividend income of CHF 154.9 million (2016: CHF 75.0 million). The dividend from its directly held investment, Mobile Challenger Intermediate Group S.A., was paid in cash on April 19, 2017.

#### **NOTE 3.2**

### **Direct taxes**

Direct taxes are related to capital taxes. As the main income of the Company is related to generally exempt dividend income, there are no expenses related to income taxes.

## NOTE 3.3

## Investments

Company	Domicile	CAPITAL IN CHFk		SHARE IN CAPITAL AND VOTING RIGHTS	
		December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Mobile Challenger Intermediate Group S.A.	Luxembourg	1,346	1,346	100% <sup>1</sup>	100% <sup>1</sup>
Sunrise Communications Holdings S.A.	Luxembourg	1,000	1,000	100% <sup>2</sup>	100% <sup>2</sup>
Sunrise Communications International S.A.	Luxembourg	1,000	1,000	100% <sup>2</sup>	100% <sup>2</sup>
Skylight S.à.r.l.	Luxembourg	1,500	1,500	100% <sup>2</sup>	100% <sup>2</sup>
Sunrise Communications AG	Zurich	50,000	50,000	100% <sup>2</sup>	100% <sup>2</sup>
YOL Communications GmbH <sup>3</sup>	Zurich	-	21	-	100% <sup>2</sup>
YOL Services AG	Zurich	105	105	100% <sup>2</sup>	100% <sup>2</sup>
TelCommunication Services AG	Zurich	2,000	2,000	100% <sup>2</sup>	100% <sup>2</sup>

<sup>1</sup> Directly held.

<sup>2</sup> Indirectly held.

<sup>3</sup> The company has been retrospectively merged into Sunrise Communications AG as of January 1, 2017.

## NOTE 3.4

## Share capital

Share capital in the amount of CHF 45.0 million consists of 45,000,000 registered shares at a par value of CHF 1.00 each. In connection with the management long-term incentive programs, and as approved by the Annual General Meeting on April 15, 2016, the share capital was increased by means of an authorized capital increase of 69,028 shares.

## NOTE 3.5

## Reserves from capital contributions

The reserves from capital contributions consist of the following:

CHFk December 31	2017	2016
Premium from share capital increase due to integration of MCI	1,319,862	1,319,862
Premium from IPO proceeds	1,339,302	1,339,302
Accumulated dividend payment	(284,850)	(135,000)
<b>Total</b>	<b>2,374,314</b>	<b>2,524,164</b>

At the Annual General Meeting on April 11, 2017, the payment of an ordinary dividend from 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.

From a fiscal point of view, any distributions made from reserves from capital contributions are treated the same as a repayment of share capital. The Swiss Federal Tax Administration has confirmed that it will recognize disclosed reserves from capital contributions as a capital contribution as per Art. 5 Para. 1bis Withholding Tax Act.

**NOTE 4****Other information****NOTE 4.1****Full-time equivalents**

Sunrise Communications Group AG does not have any employees, as in prior year.

**NOTE 4.2****Significant shareholders**

The following shareholders owned more than 5% of voting rights as of December 31, 2017, and December 31, 2016:

Shareholder	<b>Voting rights, December 31, 2017</b>	Voting rights, December 31, 2016
freenet AG, Büdelsdorf	24.56%	24.56%
Canada Pension Plan Investment Board, Toronto	5.03%	5.03%
Allianz SE, Munich	<5%	9.88%

**NOTE 4.3****Shares held by the Executive Leadership Team and the Board of Directors, including any related parties**

In 2017 and 2016, the allocation of shares held by the Board of Directors is as follows:

Board of Directors	<b>Numbers of shares, December 31, 2017</b>	Numbers of shares, December 31, 2016
Peter Kurer	6,466	5,150
Peter Schöpfer	1,433	775
Robin Bienenstock	1,433	775
Michael Krammer	1,433	775
Jesper Ovesen	6,263	775
Joachim Preisig	1,433	775
Christoph Vilanek	1,433	775

As of December 31, 2017, and 2016, the members of the Executive Leadership Team held the shares listed in the following table, all of which were acquired under the Long-Term Investment Programs and/or the Employee Share Purchase Program issued by Sunrise Communications Group AG at the time of the IPO. Investment Shares acquired under the Long-Term Investment Programs are subject to a blocking period of three years from the allocation date.

Executive Leadership Team	<b>Numbers of shares, December 31, 2017</b>	Numbers of shares, December 31, 2016
Olaf Swantee, CEO	25,411	22,960
André Krause, CFO	34,575	59,385
Françoise Clèmes, CSO	7,395	6,522
Timm Degenhardt (until February 2017), CCO <sup>1</sup>	-	35,548
Bruno Duarte (since June 2017), CCO	4,364	-
Elmar Grasser, CTO	25,674	23,957
Massimiliano Nunziata (until May 2017), CBO <sup>1</sup>	-	13,380
Robert Wigger (since September 2017), CBO	4,766	-
Dominik Rubli, CAO	10,307	12,389
Karin Schmidt, CHRO	3,998	3,334

<sup>1</sup> Not a member of the ELT as of December 31, 2017, therefore no shares disclosed.

As of June 12, 2017, Bruno Duarte took over the position Chief Consumer Officer from Timm Degenhardt who left the Company by the end of February 2017. As of September 1, 2017, Robert Wigger started his position as Chief Business Officer and replaced Massimiliano Nunziata who resigned in May 2017.

None of the members of the Board of Directors or the Executive Leadership Team hold conversion or option rights.

# Appropriation of Available Earnings and Capital Reserves

The Board of Directors proposes to:

- carry forward the accumulated earnings
- allocate CHF 180.3 million from the reserves from capital contributions to the dividend reserves
- pay a dividend of CHF 4.00 per share (total of CHF 180.3 million) from the dividend reserves:

CHFk	2017	2016
<b>Appropriation of available earnings</b>		
Balance brought forward from previous years	16,709	(53,226)
Income of the year	150,178	70,814
<b>Total available earnings</b>	<b>166,887</b>	<b>17,588</b>
Allocation to general reserves	(8,121)	(879)
<b>Accumulated earnings to be carried forward</b>	<b>158,766</b>	<b>16,709</b>
<b>Reserves from capital contributions</b>		
Reserves from capital contributions	2,374,314	2,524,164
Allocation to dividend reserves	(180,276)	(149,850)
<b>Balance to be carried forward</b>	<b>2,194,038</b>	<b>2,374,314</b>
<b>Appropriation of dividend reserves</b>		
Dividend reserves at the end of the year	-	-
Allocation of reserves from capital contributions	180,276	149,850
Distribution proposed by the Board of Directors	(180,276)	(149,850)
<b>Dividend reserves to be carried forward</b>	<b>-</b>	<b>-</b>



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

Zurich, February 27, 2018

## Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Sunrise Communications Group AG, which comprise the income statement, balance sheet, and notes (pages 147 to 156), for the year ended 31 December 2017.



### Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.



### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### Opinion

In our opinion, the financial statements for the year ended 31 December 2017 comply with Swiss law and the company's articles of incorporation.





**Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.



**Report on other legal requirements**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings and capital reserves complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd



Willy Hofstetter  
Licensed audit expert  
(Auditor in charge)



Tobias Meyer  
Licensed audit expert

# Legal Notice

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## Important dates 2018

### **April 11, 2018**

Annual General Meeting

### **May 3, 2018**

2018 first-quarter results

### **August 23, 2018**

2018 second-quarter results and 2018 half-year report

### **November 8, 2018**

2018 third-quarter results

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