# Q1 2018

**Interim Financial Report**

Three-month period as of March 31, 2018

Sunrise

# Content

# Operational and Financial Review

# Financial KPIs

| CHF million<br>January 1 – March 31 | **2018 as reported** | 2018 without IFRS 15 | 2017[1] | Change of reported 2018 to 2017 (%) |
|---|---|---|---|---|
| **Revenue** | | | | |
| Mobile services | 302 | 303 | 279 | 8.4 |
| *– Thereof mobile postpaid* | *190* | *191* | *181* | *4.9* |
| *– Thereof mobile prepaid* | *25* | *25* | *30* | *(16.8)* |
| *– Thereof mobile hardware* | *66* | *65* | *48* | *38.0* |
| Landline services (incl. voice) | 89 | 89 | 95 | (6.2) |
| *– Thereof landline voice* | *32* | *32* | *37* | *(12.5)* |
| *– Thereof hubbing* | *31* | *31* | *31* | *0.2* |
| Landline Internet and TV | 67 | 67 | 57 | 17.1 |
| **Total revenue** | **458** | **459** | **431** | **6.3** |
| Service revenue excl. hubbing & mobile hardware | 362 | 363 | 352 | 2.6 |
| **Gross profit** | **293** | **295** | **286** | **2.4** |
| % margin | 64.0% | 64.2% | 66.4% | |
| % margin (excl. hubbing & hardware revenue) | 81.1% | 81.2% | 81.2% | |
| **EBITDA** | **137** | **135** | **141** | **(2.9)** |
| **EBITDA adjusted** | **140** | **138** | **143** | **(1.9)** |
| % margin | 30.5% | 30.0% | 33.1% | |
| % margin (excl. hubbing & hardware revenue) | 38.7% | 37.9% | 40.5% | |
| **Net income** | **17** | **15** | **13** | **29.9** |
| **Cash flow** | | | | |
| Reported EBITDA | 137 | 135 | 141 | (2.9) |
| Change in NWC | (15) | (13) | (14) | 8.3 |
| Net interest | (6) | (6) | (14) | (58.9) |
| Tax | (23) | (23) | (7) | 226.8 |
| CAPEX | (73) | (73) | (60) | 20.1 |
| Other financing activities | (20) | (20) | (17) | 13.7 |
| **Equity free cash flow** | **1** | **1** | **29** | **(95.8)** |
| Other | 7 | 7 | (1) | (770.2) |
| **Total cash flow** | **8** | **8** | **28** | **(70.8)** |
| **Net debt** | **1,137** | **1,137** | **1,633** | **(30.4)** |
| Net debt / adj. EBITDA (LTM) | 1.9× | | 2.7× | |
| Net debt / pro forma adj. EBITDA (LTM)[2] | 1.9× | | | |

[1] The Company has initially applied IFRS 15 and IFRS 9 using the partial retrospective method. Under this method, the comparative information is not restated (see Condensed Consolidated Interim Financial Statements Note 4).
[2] Pro forma adjusted EBITDA taking into account annualized network service fees related to tower disposal.

# Operational KPIs

| January 1 – March 31 | 2018 | 2018 without IFRS 15 | 2017[1] | Change of reported 2018 to 2017 (%) |
|---|---|---|---|---|
| **ARPU (CHF)** | | | | |
| **Mobile blended[2]** | **30.5** | **30.7** | **30.3** | **0.6** |
| Postpaid | 39.3 | 39.5 | 40.3 | (2.5) |
| *– Thereof origination* | *36.3* | *36.5* | *36.9* | *(1.7)* |
| *– Thereof termination* | *3.0* | *3.0* | *3.4* | *(11.5)* |
| Prepaid[2] | 11.4 | 11.4 | 12.3 | (7.5) |
| **Landline blended** | **68.6** | **68.6** | **68.4** | **0.3** |
| Landline voice | 23.8 | 23.8 | 28.6 | (16.7) |
| Internet | 35.6 | 35.7 | 35.2 | 1.3 |
| Internet and TV | 49.1 | 49.1 | 46.8 | 4.8 |
| **Subscription base (in thousand)** | | | | |
| **Mobile** | | | | |
| Postpaid | 1,625.1 | | 1,510.1 | 7.6 |
| *– Primary* | *1,333.5* | | *1,253.7* | *6.4* |
| *– Secondary* | *291.5* | | *256.4* | *13.7* |
| Prepaid (3-month rule)[2] | 725.8 | | 811.4 | (10.5) |
| Prepaid (12-month rule)[2] | 1,244.4 | | 1,397.0 | (10.9) |
| **Landline** | | | | |
| Landline voice | 442.9 | | 423.0 | 4.7 |
| Internet | 430.7 | | 386.0 | 11.6 |
| *– Thereof coupled to TV* | *220.9* | | *175.8* | *25.7* |
| *– Thereof without TV* | *209.8* | | *210.2* | *(0.2)* |
| **LTM Churn (%)** | | | | |
| Postpaid | 13.6 | | 14.0 | (2.5) |
| Landline | 16.2 | | 12.8 | 26.4 |
| **Employees** | | | | |
| FTEs | 1,620 | | 1,650 | (1.8) |
| Apprentices | 123 | | 107 | 15.0 |

[1] The Company has initially applied IFRS 15 and IFRS 9 using the partial retrospective method. Under this method, the comparative information is not restated (see Condensed Consolidated Interim Financial Statements Note 4).
[2] Restatement of prepaid ARPU and prepaid subscription base as well as mobile blended ARPU (see H1 2017 report for additional information).

# Financial Review

**Financial Summary**

Revenue increased by 6.3% year-over-year and was driven by accelerated customer growth and higher handset prices of new products. Adjusted EBITDA in Q1 2018 decreased by 1.9% due to higher network service fees following the disposal of the subsidiary Swiss Towers AG in August 2017. Adjusted EBITDA rose by 4.2% year-over-year when excluding higher network service fees after the disposal of the subsidiary Swiss Towers AG. Capex was 20.1% higher than previous year in Q1 2018 due to payment pattern.

**IFRS 15 Impact for Q1 2018**

IFRS 15 Revenue from contracts with customers is effective for annual reporting periods beginning on January 1, 2018. The IFRS 15 impact in Q1 2018 is mainly related to the capitalization of costs to obtain a contract, resulting in a decrease of CHF 3 million in other operating expenses. The positive impact of applying IFRS 15 on EBITDA becomes immaterial in 2020.

The table below summarizes the immaterial impact of applying IFRS 15 in the segments residential and business.

| | RESIDENTIAL | | | BUSINESS | | |
|---|---|---|---|---|---|---|
| CHFk<br>January 1 – March 31 | 2018 | 2017[1] | Change (%) | 2018 | 2017[1] | Change (%) |
| **Revenue reported** | **326,144** | **302,369** | **7.9** | **65,813** | **63,503** | **3.6** |
| IFRS 15 impact | 466 | – | | (43) | – | |
| Revenue excluding IFRS 15 | 326,610 | 302,369 | 8.0 | 65,770 | 63,503 | 3.6 |
| **Gross Profit reported** | **219,624** | **213,949** | **2.7** | **43,978** | **44,731** | **(1.7)** |
| IFRS 15 impact | 467 | – | | 943 | – | |
| Gross Profit excluding IFRS 15 | 220,091 | 213,949 | 2.9 | 44,921 | 44,731 | 0.4 |
| **EBITDA reported** | **174,004** | **165,341** | **5.2** | **28,323** | **31,433** | **(9.9)** |
| IFRS 15 impact | (1,854) | – | | (369) | – | |
| EBITDA excluding IFRS 15 | 172,150 | 165,341 | 4.1 | 27,954 | 31,433 | (11.1) |

[1] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

**Revenue**

In Q1 2018, total revenue at Sunrise increased by 6.3%, mainly driven by strong mobile hardware sales. The initial application of IFRS 15 as of January 1, 2018, led to 0.1% revenue decrease. Consequently, revenue increased by 6.4% excluding the impact of IFRS 15. The continuing decline in mobile prepaid and landline voice was offset by growth in mobile postpaid and landline Internet.

**Mobile Services**

Revenue from mobile services increased by 8.4% to CHF 302 million due to mobile postpaid growth which exceeded the decline in mobile prepaid by CHF 4 million.

While the postpaid subscription base increased by 7.6% year-over-year, a slightly lower average revenue per user (ARPU) led to an increase in total postpaid revenue by 4.9%.

The year-over-year postpaid ARPU reduction of CHF 1.0 was mainly driven by a dilution from growth of secondary data SIMs, which are sold at below-average price levels. In Q1 2018, the secondary data SIM share increased slightly due to the launch of Apple Watches in the Sunrise product portfolio. The postpaid subscription base totaled 1,625 thousand subscribers as of March 31, 2018 (March 31, 2017: 1,510 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.

A decreasing subscription base and lower ARPU caused mobile prepaid revenue to decline by 16.8%. The prepaid subscription base shrank year-over-year by 10.5% to 726 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 38.0% to CHF 66 million in Q1 2018. Average hardware prices were higher than in previous years due to the launches of higher priced handsets in Q4 2017 and in Q1 2018. Hardware revenue depends on handset innovation/launches and volatile sales to retailers.

**Landline Services**

Landline services revenue decreased by 6.2% to CHF 89 million in Q1 2018, mainly driven by lower landline voice revenue.

Landline voice revenue decreased by 12.5% to CHF 32 million caused by ongoing fixed-to-mobile substitution, voice flat rates and increased use of OTT services.

Furthermore, hubbing revenue, which is low-margin, increased slightly by 0.2% in Q1 2018.

**Landline Internet and TV**

Internet and TV revenue increased by 17.1% to CHF 67 million in Q1 2018.

Revenue growth was supported by customer growth, especially in TV bundles, leading to increased blended ARPU of 4.8%. The total Internet subscription base increased by 11.6% year-over-year to 431 thousand subscriptions. The TV product, which can be purchased alongside Internet service, increased its customer base disproportionately by 25.6% year-over-year to 221 thousand subscribers. Customer growth was supported by convergence benefits including the Sunrise One offer, and by enhanced TV sports content.

**Transmission Costs and Cost of Goods Sold**

Transmission costs and cost of goods sold totaled CHF 165 million in Q1 2018: an increase of 14.1% year-over-year largely driven by higher handset sales and by a smaller extend improved service revenues.

Gross profit is at CHF 293 million, resulting in a 2.4% increase that confirms the success of the Sunrise topline growth strategy. The initial application of IFRS 15 as of January 1, 2018, led to 0.5% gross profit decrease. Consequently, gross profit increased by 2.9% excluding the impact of IFRS 15. Mobile postpaid and landline Internet are the most important drivers, offsetting prepaid and landline voice gross profit decline.

**Adjusted EBITDA**

Adjusted EBITDA for Q1 2018 amounted to CHF 140 million, showing a year-over-year decrease of 1.9%. The initial application of IFRS 15 as of January 1, 2018, led to 1.6% EBITDA increase. Consequently, adjusted EBITDA decreased by 3.5% excluding the impact of IFRS 15. Excluding the higher network service fees after the sale of Swiss Towers AG, adjusted EBITDA would have increased by CHF 9 million (4.2%). The table below shows one-time adjustments from reported EBITDA to adjusted EBITDA. The biggest adjustment (CHF 4 million) stem from non-recurring/non-operating events and include early employee contract terminations (CHF 2 million) and advisory fees related to the set-up/preparation of the frequency auction (CHF 1 million).

| in CHFk<br>January 1 – March 31 | **2018** | 2017 |
|---|---|---|
| **Reported EBITDA** | **137,006** | **141,154** |
| Prior-year-related events | (1,404) | (2,016) |
| Non-recurring and / or non-operating events | 4,225 | 3,435 |
| Costs relatd to share-based payment | 117 | 139 |
| **Adjusted EBITDA** | **139,944** | **142,712** |

**Reported EBITDA**

The Group generated EBITDA of CHF 137 million for the three-month period ended March 31, 2018, a year-over-year decrease of CHF 4 million, or 2.9%, from CHF 141 million for the three-month period ended March 31, 2017. The year-over-year EBITDA decrease is mainly attributable to higher other operating expenses following the sale of Swiss Towers AG. Due to the initial application of IFRS 15 as of January 1, 2018, EBIDTA increased by CHF 2 million which is mainly related to the capitalization of costs to obtain a contract.

**Other Operating Expenses**

In Q1 2018, other operating expenses decreased by CHF 0.5 million adjusted for higher network service fees provided by Swiss Towers AG. Due to the initial application of IFRS 15 as of January 1, 2018, other operating expenses increased by CHF 4 million. According to IFRS 15 costs to obtain a contract are capitalized and other expenses are reduced respectively. This was partially offset by higher outsourcing costs in customer service to improve the quality in call centers, B2B onboarding of new large customers and a special project in the ethnic segment supported by external consultants.

**Wages, Salaries and Pension Costs**

Wages, salaries and pension cost totaled CHF 53 million, having increased by 4.3% compared to previous year. Commercial wages and B2B aftersales support investments are the main areas of wages increase. Like for other operating expenses, commission fees are capitalized according to IFRS 15 and lead to a reduction of CHF 0.5 million.

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 79 million in its condensed consolidated interim financial statements as of March 31, 2018. 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 6 million in the pension liability from CHF 85 million as of December 31, 2017, to CHF 79 million as of March 31, 2018, is mainly due to the change in the discount rate resulting in a gain of CHF 11 million. The positive effect was offset by a loss of CHF 4 million due to negative return on plan assets.

**Other Income and Expenses, Net**

Other income decreased by CHF 0.2 million for the three-month period ended March 31, 2018, compared to the same period in the prior year. This is mainly attributable to lower sub-lease income partially offset by higher income due to early termination fees.

**Net Income**

The Group reported a net income of CHF 17 million for the three-month period ended as of March 31, 2018, a year-over-year improvement of CHF 4 million from a net income of CHF 13 million for the prior-year period driven by lower depreciation and amortization as well as lower interest expenses. Lower depreciation and amortization are mainly attributable to the lower tangible assets triggered by the sale of Swiss Towers AG. Repayment of term loans amounting CHF 450 million in Q3 2017 reduced the interest expense accordingly. This was partially offset by lower EBITDA which is mainly relating to higher network service fees after the sale of Swiss Towers AG.

**Amortization and Depreciation and Impairment Losses**

For the three-month period as of March 31, 2018, depreciation and amortization totaled CHF 105 million, of which CHF 32 million related to the amortization of purchased intangibles (CHF 32 million in Q1 2017). 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 CVC Capital Partners in October 2010.

Depreciation and amortization were CHF 6 million lower than in Q1 2017 due to a lower tangible asset balance following the sale of Swiss Towers AG in August 2017.

**Net Financial Items**

Net financial items decreased by CHF 2 million to CHF 10 million for the three-month period ended as of March 31, 2018, and mainly consist of interest expenses. A lower debt balance following the repayment of existing term loans in Q3 2017, reduced the interest expenses accordingly.

**Income Taxes**

For Q1 2018 the net income tax expense of CHF 6 million (Q1 2017: net income tax expense of CHF 6 million) consists of a CHF 11 million (Q1 2017: CHF 12 million) tax expense related to current income taxes and a tax benefit of CHF 5 million (Q1 2017: CHF 6 million) related to the change in deferred taxes. The resulting lower overall tax rate in Q1 2018 is based on a lower amount of not recognized deferred tax assets on tax loss carryforwards compared to Q1 2017 due to uncertainty of utilization in near term.

**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 negative change in net working capital of CHF 15 million during Q1 2018 is primarily related to a change in trade and other payables driven by payments to handset vendors as well as a negative change in other items mainly due to prepayments of rents and annual payout of employee bonus This was partially offset by lower trade and other receivables driven by lower revenue compared to Q4 2017.

## Cash Flow

Cash and cash equivalents totaled CHF 281 million as of March 31, 2018, an increase of CHF 8 million compared to the cash position held as of December 31, 2017. The cash flow from operating activities of CHF 94 million was compensated by cash flow used in investing activities of CHF 73 million and cash flow used in financing activities of CHF 21 million.The cash flow increase is mainly attributable to cash inflow from the sale of additional sites to Swiss Towers AG in December 2017 of CHF 8 million.

### Cash Flow from Operating Activities

The year-over-year decrease of CHF 13 million in Q1 2018, is primarily attributable to a higher outflow from net working capital of CHF 1 million and higher tax payments of CHF 16 million, partly offset by lower paid interest following the debt repayment in August 2017. Compared to Q1 2017, the net working capital outflow mainly stems from changes in trade and other payables driven by higher payments to handset vendors. The tax outflow is driven by higher taxable income and consequently higher tax invoices as well as earlier tax payments in Q1 2018 compared to Q1 2017.

### Cash Flow Used in Investing Activities

Purchase of tangible and intangible assets for the three-month period ended as of March 31, 2018, amounted to CHF 73 million. This represents an increase of CHF 12 million compared to the prior-year period. This is mainly impacted by the timing of payments which was partially offset by a cash inflow of CHF 8 million in Q1 2018 from the sale of additional sites to Swiss Towers AG in December 2017.

### Cash Flow Used in Financing Activities

Cash flow used in financing activities increased by CHF 2 million in Q1 2018 compared to the same period in prior year. The increase is mainly due to higher payments relating to IRU.

## 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 4 million is expected to be paid within 12 months. Net debt at nominal value totaled CHF 1,137 million as of March 31, 2018 resulting in a net debt to EBITDA leverage ratio of 1.9× (December 31, 2017: 1.9×).

## Dividend Proposal and Distribution Policy

At the Annual General Meeting on April 11, 2018, the payment of an ordinary dividend from statutory reserves from capital contributions in the total amount of CHF 180 million (CHF 4.00 per share) in respect of the 2017 financial year was approved. The dividend payment was made on April 18, 2018.

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 2.0×. 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.

# Risks

**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.

**Risk Management Process**

The Sunrise risk management system adheres to a comprehensive process that starts with approaching all Executive Leadership Team (ELT) members. The ELT 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 ELT; the Audit Committee and the Sunrise Board of Directors are informed annually.

**Main Risk Clusters**

The following risks clusters are focus areas for Sunrise.

**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.

**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 of the Annual Report 2017). 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.

**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.

**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.

**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.

**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 given in Note 24 to the 2017 Consolidated Financial Statements of the Group.

**Significant Changes since last Risk Assessment**

Salt entered the landline market on March 30, 2018, which might impact the Sunrise IPTV growth potential. Sunrise will continue to actively monitor market developments and offers attractive bundles with flat rate components and promotions to cover customers' needs comprehensively.

# Additional Disclosures

**Material Affiliate Transactions**

**Change in the Board of Directors of SCG**
At the ordinary Annual General Meeting on April 11, 2018, Ingrid Deltenre was elected to the Board of Directors as a new member by the General Meeting for a term of one year. All other Board members were re-elected for an additional one-year term.

**Change in the Board of Directors of Subsidiaries in Luxembourg**
As of March 5, 2018, Patrick Alain Meier and Peter Klinkner were elected to the Board of Directors of Mobile Challenger Intermediate Group S.A., Sunrise Communications International S.A. and Skylight S.à r.l. All other Board memebers continued as members of the Board of Directors of the Luxembourg entities.

**Change in the Executive Leadership Team (ELT)**
Karin Schmidt, Chief Human Resources Officer and Member of the ELT since May 2016, has decided to leave the company by March 24, 2018. Françoise Clemes, CSO, will lead the Human Resource unit ad interim.

**Share Capital Increase**
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 on February 9, 2018.

**Dividend Payment**
At the Annual General Meeting on April 11, 2018, the payment of an ordinary dividend from statutory reserves from capital contributions in the total amount of CHF 180 million (CHF 4.00 per share) in respect of the 2017 financial year was approved. The dividend payment was made on April 18, 2018.

**Material Contractual Arrangements**

Sunrise entered into new agreements with Swiss Fibre Net AG (SFN), Services Industriels de Genève (SIG) and Basel Industrial Works (IWB). The new agreements grant Sunrise access to a certain amount of fiber lines on new terms: Sunrise will invest CHF 56 million upfront during 2018 and will then benefit from additional low single-digit annual gross profit contribution.

**Certain Other Contractual Commitments**

Total contractual and purchase commitments as of March 31, 2018 are CHF 191 million, consisting of future investments in property, plant and equipment and intangible assets.

**Credit Ratings**

As of March 31, 2018, the corporate family rating for Sunrise Communications Holding S.A., 100% indirectly owned by Sunrise Communications Group AG, by the credit rating agencies Fitch, Moody's and Standard & Poor's (S&P) remains unchanged at BB+, Ba2 and BB+, respectively. In addition, the notes and term loan facilities are still rated BBB- by Fitch and Ba2 by Moody's. On March 22, 2018, Moody's affirmed the Ba2 rating with a stable outlook for Sunrise Communications Holding S.A. and the Ba2- rating for the notes and term loan facilities.

**Acquisitions, Disposals and Recapitalization**

No material acquisitions, disposals or recapitalization occurred in Q1 2018.

**Material development after the balance sheet date**

No material development occurred after the balance sheet date.

**Research and Development**

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

# Outlook

**2018 Guidance**

Sunrise reiterates the guidance for 2018.

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.

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 2.0×. 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.

# Condensed Consolidated Interim Financial Statements (unaudited)

Sunrise Communications Group AG

# Condensed Consolidated Interim Statements of Income

| CHFk<br>January 1 – March 31 | Note | 2018 | 2017[1] |
|---|---|---|---|
| | | Unaudited | Unaudited |
| **Revenue** | **4,5,6** | **458,320** | **430,968** |
| Transmission costs and cost of goods sold | | (165,137) | (144,713) |
| Other operating expenses | 4 | (104,225) | (95,681) |
| Wages, salaries and pension costs | 4 | (53,194) | (50,988) |
| Other income | 7 | 1,324 | 1,548 |
| Other expenses | | (82) | 20 |
| **Income before depreciation and amortization, net financial items and income taxes** | | **137,006** | **141,154** |
| Amortization | | (63,055) | (63,166) |
| Depreciation and impairment losses | | (41,594) | (47,282) |
| **Operating income** | | **32,357** | **30,706** |
| Foreign currency gains, net | | 601 | 436 |
| Financial income | | 1 | 3 |
| Financial expenses | | (10,654) | (12,759) |
| **Net financial items** | **8** | **(10,052)** | **(12,320)** |
| **Income before income taxes** | | **22,305** | **18,386** |
| Income taxes | | (5,584) | (5,516) |
| **Net income** | | **16,721** | **12,870** |
| **Net income attributable to equity holders of the parent company** | | **16,721** | **12,870** |
| **Basic and diluted earnings per share (in CHF)** | **9** | **0.37** | **0.29** |

[1] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

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

# Condensed Consolidated Interim Statements of Comprehensive Income

| CHFk<br>January 1 – March 31 | 2018 | 2017[1] |
|---|---|---|
| | Unaudited | Unaudited |
| **Net income** | **16,721** | **12,870** |
| Actuarial gain related to defined benefit pension plans | 7,017 | 2,833 |
| Income tax effect | (1,425) | (578) |
| **Net other comprehensive income not to be reclassified to profit and loss in subsequent periods** | **5,592** | **2,255** |
| **Other comprehensive income, net of tax** | **5,592** | **2,255** |
| **Total comprehensive income** | **22,313** | **15,125** |
| **Comprehensive income attributable to equity holders of the parent company** | **22,313** | **15,125** |

[1] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

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

# Condensed Consolidated Interim Statements of Financial Position

## Assets

| CHFk | Note | March 31, 2018 | December 31, 2017[1] |
|---|---|---|---|
| | | Unaudited | Audited |
| **Non-current assets** | | | |
| Intangible assets | | 2,156,683 | 2,210,359 |
| Property, plant and equipment | 14 | 781,024 | 795,576 |
| Non-current portion of trade and other receivables | 4 | 57,667 | 58,206 |
| Non-current portion of prepaid expenses | | 269 | 248 |
| Non-current portion of contract assets | 4 | 2,961 | – |
| Contract costs | 4 | 45,533 | – |
| **Total non-current assets** | | **3,044,137** | **3,064,389** |
| **Current assets** | | | |
| Inventories | | 54,880 | 57,474 |
| Current portion of trade and other receivables | 4 | 378,460 | 435,217 |
| Current portion of contract assets | 4 | 5,902 | – |
| Current portion of prepaid expenses | 14 | 27,041 | 6,481 |
| Cash and cash equivalents | | 280,909 | 272,486 |
| **Total current assets** | | **747,192** | **771,658** |
| **Total assets** | | **3,791,329** | **3,836,047** |

[1] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

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

## Equity and liabilities

| CHFk | Note | March 31, 2018 | December 31, 2017[1] |
|---|---|---|---|
| | | Unaudited | Audited |
| **Equity** | | | |
| Common shares | | 45,069 | 45,000 |
| Share premium | | 2,341,876 | 2,342,653 |
| Other reserves | | (776,143) | (776,143) |
| Accumulated deficit | | (44,944) | (101,229) |
| **Total equity** | **10** | **1,565,858** | **1,510,281** |
| **Non-current liabilities** | | | |
| Non-current portion of loans and notes | 11 | 1,391,369 | 1,389,956 |
| Non-current portion of financial leases | 11 | 4,114 | 4,597 |
| Non-current portion of trade and other payables | 14 | 1,092 | 5,308 |
| Deferred tax liabilities | | 166,309 | 160,691 |
| Non-current portion of provisions | | 70,247 | 70,892 |
| Employee benefit obligations | | 78,948 | 84,769 |
| Non-current portion of deferred income | | 7,039 | 9,136 |
| Non-current portion of contract liabilities | 4 | 207 | – |
| **Total non-current liabilities** | | **1,719,325** | **1,725,349** |
| **Current liabilities** | | | |
| Current portion of financial leases | 11 | 3,935 | 4,899 |
| Current portion of trade and other payables | | 456,805 | 540,989 |
| Income tax payable | | 11,273 | 23,886 |
| Current portion of provisions | | 4,119 | 3,574 |
| Current portion of deferred income | | 28,333 | 26,984 |
| Current portion of contract liabilities | 4 | 1,263 | – |
| Other current liabilities | | 418 | 85 |
| **Total current liabilities** | | **506,146** | **600,417** |
| **Total liabilities** | | **2,225,471** | **2,325,766** |
| **Total equity and liabilities** | | **3,791,329** | **3,836,047** |

[1] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

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

# Condensed Consolidated Interim Statements of Cash Flow

| CHFk<br>January 1 – March 31 | Note | 2018 | 2017[1] |
|---|---|---|---|
| | | Unaudited | Unaudited |
| **Income before income taxes** | **4** | **22,305** | **18,386** |
| Amortization | | 63,055 | 63,166 |
| Depreciation and impairment losses | | 41,594 | 47,282 |
| Gain on disposal of property, plant and equipment | | – | (18) |
| Movement in pension | | 1,025 | 1,003 |
| Movement in provisions | | (414) | (182) |
| Change in net working capital | 4,13 | (15,283) | (14,116) |
| **Cash flow from operating activities before net financial items and tax** | | **112,282** | **115,521** |
| Financial income | 8 | (1) | (3) |
| Financial expense | 8 | 10,654 | 12,759 |
| Foreign currency gains, net | | (339) | (260) |
| Interest received | | 1 | 3 |
| Interest paid | | (5,648) | (13,737) |
| Corporate income and withholding tax paid | | (22,700) | (6,946) |
| **Total cash flow from operating activities** | | **94,249** | **107,337** |
| Purchase of property, plant and equipment | 14 | (53,855) | (39,212) |
| Purchase of intangible assets | | (18,776) | (21,283) |
| Sale of property, plant and equipment | | 7,529 | 18 |
| **Total cash flow used in investing activities** | | **(65,102)** | **(60,477)** |
| Proceeds from long-term loans and notes | | – | (321) |
| Costs relating to capital increase | | (73) | – |
| Repayments of capital leases | 11 | (1,446) | (1,685) |
| Other financing activities | | (19,544) | (17,183) |
| **Total cash flow used in financing activities** | | **(21,063)** | **(19,189)** |
| **Total cash flow** | | **8,084** | **27,671** |
| Cash and cash equivalents as of January 1 | | 272,486 | 214,175 |
| Foreign currency impact on cash | 8 | 339 | 260 |
| **Cash and cash equivalents as of March 31** | | **280,909** | **242,106** |

[1] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

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

# Condensed Consolidated Interim Statements of Changes in Equity

| CHFk | Common shares | Share premium | Other reserves | Valuation reserve | Accumulated deficit | **Total** |
|---|---|---|---|---|---|---|
| | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited |
| **Equity as of January 1, 2017[1]** | **45,000** | **2,489,962** | **(776,143)** | **–** | **(622,531)** | **1,136,288** |
| Net income for the period | – | – | – | – | 12,870 | 12,870 |
| Other comprehensive income | – | – | – | – | 2,255 | 2,255 |
| **Total comprehensive income** | **–** | **–** | **–** | **–** | **15,125** | **15,125** |
| Share-based payment | – | 109 | – | – | – | 109 |
| **Equity as of March 31, 2017[1]** | **45,000** | **2,490,071** | **(776,143)** | **–** | **(607,406)** | **1,151,522** |
| **Equity as of January 1, 2018** | **45,000** | **2,342,653** | **(776,143)** | **–** | **(101,229)** | **1,510,281** |
| Impact of change in accounting policies[2] | – | – | – | – | 33,972 | 33,972 |
| **Adjusted equity as of January 1, 2018** | **45,000** | **2,342,653** | **(776,143)** | **–** | **(67,257)** | **1,544,253** |
| Net income for the period | – | – | – | – | 16,721 | 16,721 |
| Other comprehensive income | – | – | – | – | 5,592 | 5,592 |
| **Total comprehensive income** | **–** | **–** | **–** | **–** | **22,313** | **22,313** |
| Share-based payment | – | (5,328) | – | – | – | (5,328) |
| Capital increase | 69 | 4,551 | – | – | – | 4,620 |
| **Equity as of March 31, 2018** | **45,069** | **2,341,876** | **(776,143)** | **–** | **(44,944)** | **1,565,858** |

[1] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).
[2] For further details see Note 4

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

# Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

NOTE 1

## General information

Sunrise Communications Group AG (SCG or the Company) was incorporated in Switzerland on January 13, 2015. The registered offices of the Company are located at Binzmühlestrasse 130, CH-8050 Zurich, Switzerland.

The condensed consolidated interim financial statements for the three-month period ended March 31, 2018, 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 condensed consolidated interim financial statements were authorized for issue by the Group's Board of Directors on May 2, 2018.

NOTE 2

## Basis of preparation

The condensed consolidated interim financial statements of the Group as of and for the three-month period ended March 31, 2018, have been prepared in compliance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board.

The condensed consolidated interim financial statements have been prepared on a historical cost basis. The preparation of these condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures at the reporting date. The accounting estimates and judgments considered material to the preparation of the financial statements are summarized in Note 3.

The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as of December 31, 2017.

This is the first set of the Company's financial statements where IFRS 15 and IFRS 9 have been applied. Changes to significant accounting policies are described in Note 4.

Except where otherwise indicated, numbers are shown in CHF thousand in all tables and in CHF million in the text.

Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided. All ratios and variances are calculated using the precise underlying amount rather than the presented rounded amount.

### Foreign currency translation

The financial statements are presented in Swiss francs, which is the functional currency of the parent company and each of its subsidiaries. The functional currency is the currency applied in the primary economic environment of each enterprise's operations. Transactions in currencies other than the functional currency are transactions in foreign currencies. Such transactions are translated at the transaction-date exchange rates. Foreign exchange gains and losses arising from differences between transaction-date and settlement-date rates are recognized as net financial items in the condensed consolidated interim statement of income. Cash, loans and other amounts receivable or payable in foreign currencies (monetary assets and liabilities), if any, are translated into the functional currency at the official exchange rates as quoted at the reporting date.

The following table summarizes the principal exchange rates used by the Group (shown against CHF):

| CURRENCY | BALANCE SHEET | | INCOME STATEMENT AND CASH FLOW | |
|---|---|---|---|---|
| CHF | **March 31, 2018** | December 31, 2017 | **January 1 – March 31, 2018** | January 1 – March 31, 2017 |
| Euro | 1.1763 | 1.1703 | 1.1782 | 1.0826 |
| US Dollar | 0.9571 | 0.9743 | 0.9741 | 1.0207 |

NOTE 3

## Significant accounting policies

The preparation of the condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Those estimates affect mainly provisions, goodwill impairment tests, employee benefit obligations, allowance for doubtful receivables and direct taxes. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last consolidated financial statements for the financial year ended December 31, 2017. The change in accounting policies for IFRS 15 and IFRS 9 are described in Note 4.

NOTE 4

## New accounting standards

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as of and for the year ended December 31, 2017.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as of and for the year ending December 31, 2018.

The Company has initially adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from January 1, 2018. A number of other new standards are effective from January 1, 2018, but they do not have a material effect on the Company's financial statements.

The effect of initially applying these standards is mainly attributed to the following effects regarding IFRS 15 and IFRS 9:
– Capitalization of costs to obtain a contract,
– Reallocation of revenue to hardware sales,
– Recognition of activation fees and uneven discounts, and
– Increase in impairment losses recognized on financial assets.

### Restatement of equity due to accounting policy changes

The effect of applying IFRS 15 led to an equity increase of CHF 45.1 million before tax (net of tax CHF 35.9 million). For IFRS 9, the effect of the initial application led to an equity reduction of CHF 2.4 million (net of tax CHF 1.9 million).

### Impact on the financial statements

The following tables summarize the impact of adopting IFRS 9 and IFRS 15 on the Group's condensed consolidated interim statements of income for the three-month period ended March 31, 2018 and on its condensed consolidated interim statements of financial position as of March 31, 2018.

| | IMPACT OF CHANGES IN ACCOUNTING POLICIES | | |
|---|---|---|---|
| CHFk<br>**January 1 – March 31, 2018** | **As reported** | **Adjustments** | Balances without adoption of new accounting policies |
| | Unaudited | Unaudited | Unaudited |
| **Income Statement** | | | |
| Revenue | 458,320 | 423 | 458,743 |
| Transmission costs and cost of goods sold | (165,137) | 986 | (164,151) |
| Other operating expenses | (104,225) | (3,394) | (107,619) |
| Wages, salaries and pension costs | (53,194) | (488) | (53,682) |
| Income taxes | (5,584) | 567 | (5,017) |
| Other[1] | (113,459) | – | (113,459) |
| **Net income** | **16,721** | **(1,906)** | **14,815** |

[1] Includes all other line items not affected by the change in accounting policies

The new accounting standards have no significant impact on the basic and diluted earnings per share.

| | IMPACT OF CHANGES IN ACCOUNTING POLICIES | | |
|---|---|---|---|
| CHFk<br>**March 31, 2018** | **As reported** | **Adjustments** | **Balances without adoption of new accounting policies** |
| | Unaudited | Unaudited | Unaudited |
| **Assets** | | | |
| Contract costs | 45,533 | (45,533) | – |
| Trade and other receivables | 436,127 | 7,786 | 443,913 |
| Contract assets | 8,863 | (8,863) | – |
| Other[1] | 3,300,806 | – | 3,300,806 |
| **Total assets** | **3,791,329** | **(46,610)** | **3,744,719** |
| **Liabilities** | | | |
| Deferred tax liabilities | 166,309 | (9,660) | 156,649 |
| Income tax payable | 11,273 | 398 | 11,671 |
| Contract liabilities | 1,470 | (1,470) | – |
| Other[1] | 2,046,419 | – | 2,046,419 |
| **Total liabilities** | **2,225,471** | **(10,732)** | **2,214,739** |
| **Total Equity** | | | |
| Accumulated deficit | (44,944) | (35,878) | (80,822) |
| Other[1] | 1,610,802 | – | 1,610,802 |
| **Total equity** | **1,565,858** | **(35,878)** | **1,529,980** |

[1] Includes all other line items not affected by the change in accounting policies

| | IMPACT OF CHANGES IN ACCOUNTING POLICIES | | |
|---|---|---|---|
| CHFk<br>**January 1 – March 31, 2018** | **As reported** | **Adjustments** | **Balances without adoption of new accounting policies** |
| | Unaudited | Unaudited | Unaudited |
| **Income before income taxes** | **22,305** | **(2,473)** | **19,832** |
| Change in net working capital | (15,283) | 2,473 | (12,810) |
| Other[1] | 87,227 | – | 87,227 |
| **Total cash flow from operating activities** | **94,249** | **-** | **94,249** |
| **Total cash flow used in investing activities** | **(65,102)** | **-** | **(65,102)** |
| **Total cash flow used in financing activities** | **(21,063)** | **-** | **(21,063)** |

[1] Includes all other line items not affected by the change in accounting policies

**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 old revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. The Group has adopted 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 company 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.

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 company 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 increases and the revenue from services is reduced accordingly.

In the comparative period, revenue was measured at the fair value of the consideration received or receivable. Revenue from sale of goods was recognized when the significant risks and rewards of ownership had been transferred to the customer, recovery of the consideration was probable, the associated costs and possible return of goods could be estimated reliably.

The following is a description of the principal activities – separated by reportable segments – from which the Group generates its revenue. For more detailed information about reportable segments, see Note 5.

The residential segment generates revenue from 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. Contracts for mobile subscriptions have no contract duration; whereas home products have a minimal contract duration of 12 months. The major part of the contracts do not contain a bundle arrangement of hardware and service. For this segment, the Group recognizes the revenue on a contract by contract basis (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.

The business segment generates revenue from a 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. For some part of this 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.

The wholesale segment generates revenue from mobile voice and data as well as Internet services to other national and international carriers. For this segment, the Group came to the conclusion that no significant adjustments have to be recognized.

**Contract balances**

The following table provides the information about trade receivables, contract assets and contract liabilities from contracts with customers.

| in CHFk | **March 31, 2018** | January 1, 2018 |
|---|---|---|
| Trade receivables | 434,401 | 489,664 |
| Contract assets | 8,863 | 6,056 |
| Contract liabilities | (1,470) | (1,322) |

**Contract costs**

In the comparative period, commissions paid to retailers or employees were recognized according to IAS 18 as expenses when incurred in other operating expenses for retailers and in wages, salaries and pension costs for employees. According to IFRS 15, commission fees directly attributable to a contract, are capitalized and recognized as expenses over the contractual term. This means, capitalized commission fees are amortized when the related revenues are recognized. For the three-month period ended March 31, 2018, the amount of amortization was CHF 6.3 million and there was no impairment loss in relation to the costs capitalized.

### IFRS 9 Financial instruments

IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments Recognition and Measurement. It includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model (ECL) for calculating impairment of financial assets (incl. accrued income/credit notes and contract assets regarding IFRS 15) as well as new general hedge accounting requirements. Changes in accounting policies resulting from the adoption of IFRS 9 have not been applied retrospectively.

In order to comply with the ECL model, the Group has elected to measure loss allowances for trade and other receivables, accrued income/credit notes and contract assets at an amount equal to lifetime ECLs. This requires considerable judgement about how changes in economic indicators affect ECLs. When determining whether the credit risk of a financial asset has increased significantly the Group includes both quantitative and qualitative information and analysis, based on its historical experience, internal credit assessment and forward-looking information. For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. Furthermore, the Group builds a loss allowance for trade and other receivables not yet due which is newly requested by IFRS 9.

The Group has determined that the application of IFRS 9's impairment requirements as of January 1, 2018 results in additional impairment allowances amounting CHF 2.4 million as follows:

| | |
|---|---|
| – Trade and other receivables | CHF 1.8 million |
| – Contract assets recognized on adoption of IFRS 15 | CHF 0.1 million |
| – Accrued income/credit notes | CHF 0.5 million |

The economic indicators impacting the forward looking element changed positively as of March 31, 2018, leading to a decrease of CHF 0.3 million in the loss allowance.

NOTE 5

**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.

Inter-segment pricing is determined on an arm's length basis.

## Activities

| CHFk January 1 – March 31 | RESIDENTIAL 2018 | RESIDENTIAL 2017[2] | BUSINESS 2018 | BUSINESS 2017[2] | WHOLESALE[1] 2018 | WHOLESALE[1] 2017[2] | HEAD OFFICE ACTIVITIES 2018 | HEAD OFFICE ACTIVITIES 2017[2] | TOTAL 2018 | TOTAL 2017[2] |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | | | |
| External customers | 326,144 | 303,160 | 65,813 | 63,504 | 56,245 | 54,801 | 10,118 | 9,503 | 458,320 | 430,968 |
| Inter-segment revenue[3] | – | – | – | – | – | 518 | – | – | – | 518 |
| **Total** | **326,144** | **303,160** | **65,813** | **63,504** | **56,245** | **55,319** | **10,118** | **9,503** | **458,320** | **431,486** |
| **Transmission costs and costs of goods sold** | | | | | | | | | | |
| External customers | (106,519) | (85,130) | (21,835) | (18,755) | (36,762) | (40,828) | (21) | – | (165,137) | (144,713) |
| Inter-segment costs[3] | – | (518) | – | – | – | – | – | – | – | (518) |
| **Total** | **(106,519)** | **(85,648)** | **(21,835)** | **(18,755)** | **(36,762)** | **(40,828)** | **(21)** | **-** | **(165,137)** | **(145,231)** |
| Other operating expenses | (31,348) | (33,247) | (5,311) | (4,569) | (1,054) | (1,108) | (66,512) | (56,757) | (104,225) | (95,681) |
| Wages, salaries and pension costs | (14,484) | (15,303) | (10,344) | (8,729) | (1,087) | (1,037) | (27,279) | (25,919) | (53,194) | (50,988) |
| Other income | – | 7 | – | – | – | – | 1,324 | 1,541 | 1,324 | 1,548 |
| Other expenses | (11) | – | – | – | – | – | (71) | 20 | (82) | 20 |
| **EBITDA[3]** | **173,782** | **168,969** | **28,323** | **31,451** | **17,342** | **12,346** | **(82,441)** | **(71,612)** | **137,006** | **141,154** |

[1] Including hubbing revenue of CHF 31.0 million generated in the three-month period ended as of March 31, 2018, and CHF 30.9 million generated in the three-month period ended as of March 31, 2017.
[2] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).
[3] YOL Communications GmbH merged into Sunrise Communications AG retrospectively as of January 1, 2017, therefore the inter-segment revenue and costs of Q1 2017 were restated by CHF 7.2 million to reflect the new structure.

## Reconciliation of net income before interest, tax, depreciation and amortization (EBITDA)

| CHFk January 1 – March 31 | 2018 | 2017[1] |
|---|---|---|
| **EBITDA from reportable segments** | **137,006** | **141,154** |
| Unallocated: | | |
| – Amortization | (63,055) | (63,166) |
| – Depreciation | (41,594) | (47,282) |
| – Net financial items | (10,052) | (12,320) |
| **Income before income taxes** | **22,305** | **18,386** |

[1] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

NOTE 6

## Revenue

| CHFk<br>January 1 – March 31 | 2018 | 2017[1] |
|---|---|---|
| Mobile services | 302,384 | 278,947 |
| – *Thereof mobile postpaid* | *189,615* | *180,803* |
| – *Thereof mobile prepaid* | *25,283* | *30,394* |
| – *Thereof mobile hardware* | *65,657* | *47,588* |
| Landline services | 88,694 | 94,596 |
| – *Thereof landline voice* | *31,971* | *36,534* |
| – *Thereof hubbing* | *30,961* | *30,897* |
| Landline internet and TV | 67,242 | 57,425 |
| **Total** | **458,320** | **430,968** |

[1] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

| CHFk<br>January 1 – March 31 | 2018 | 2017[1] |
|---|---|---|
| Sales of goods | 77,269 | 57,608 |
| Sales of services | 381,051 | 373,360 |
| **Total** | **458,320** | **430,968** |

[1] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

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 telecommunication products in the e-business sector as well as installation, operation and maintenance services for these products.

NOTE 7

## Other income

| CHFk<br>January 1 – March 31 | 2018 | 2017 |
|---|---|---|
| **Other income** | | |
| Early termination fees | 858 | 290 |
| Sub-leases | 466 | 1,240 |
| Other | – | 18 |
| **Total** | **1,324** | **1,548** |

NOTE 8

## Net financial items

| CHFk<br>**January 1 – March 31, 2018** | Interest | **Total financial income/ (expenses) before foreign currency** | Net foreign currency gains/(losses) | **Total** |
|---|---|---|---|---|
| **Income** | | | | |
| Cash and cash equivalents | – | – | 339 | 339 |
| Other | 1 | 1 | 262 | 263 |
| **Total** | **1** | **1** | **601** | **602** |
| **Expenses** | | | | |
| Financial liabilities measured at amortized cost | (8,679) | (8,679) | – | (8,679) |
| Other | (1,975) | (1,975) | – | (1,975) |
| **Total** | **(10,654)** | **(10,654)** | **-** | **(10,654)** |
| **Net financial items** | **(10,653)** | **(10,653)** | **601** | **(10,052)** |

| CHFk<br>January 1 – March 31, 2017 | Interest | **Total financial income/ (expenses) before foreign currency** | Net foreign currency gains/(losses) | **Total** |
|---|---|---|---|---|
| **Income** | | | | |
| Cash and cash equivalents | – | – | 260 | 260 |
| Other | 3 | 3 | 176 | 179 |
| **Total** | **3** | **3** | **436** | **439** |
| **Expenses** | | | | |
| Financial liabilities measured at amortized cost | (11,401) | (11,401) | – | (11,401) |
| Other | (1,358) | (1,358) | – | (1,358) |
| **Total** | **(12,759)** | **(12,759)** | **-** | **(12,759)** |
| **Net financial items** | **(12,756)** | **(12,756)** | **436** | **(12,320)** |

NOTE 9

## 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 – March 31 | 2018 | 2017[1] |
|---|---|---|
| **Basic earnings per share** | | |
| Net income attributable to equity holders of SCG (CHFk) | 16,721 | 12,870 |
| Weighted average number of shares outstanding | 45,042,184 | 45,000,000 |
| **Basic earnings per share (in CHF)** | **0.37** | **0.29** |
| **Diluted earnings per share** | | |
| Net income attributable to equity holders of SCG (CHFk) | 16,721 | 12,870 |
| Weighted average number of shares outstanding | 45,118,369 | 45,135,095 |
| **Diluted earnings per share (in CHF)** | **0.37** | **0.29** |

[1] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

If the vesting conditions were fully met as of March 31, 2018, a maximum of 89,092 shares (December 31, 2017: 193,748) would have a dilutive effect.

NOTE 10

## Equity

| CHFk | March 31, 2018 | December 31, 2017[2] |
|---|---|---|
| Common shares | 45,069 | 45,000 |
| Share premium[1] | 2,341,876 | 2,342,653 |
| Other reserve | (776,143) | (776,143) |
| Accumulated deficit | (44,944) | (101,229) |
| **Total equity** | **1,565,858** | **1,510,281** |

[1] Share premium includes reserves which are freely available for distribution of dividends.
[2] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

### Share capital

As of March 31, 2018, the total number of authorized and issued ordinary shares comprised 45,069,028 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. In connection with the management long-term incentive programs, the share capital was increased by 69,028 shares on February 9, 2018.

### 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**
At the Annual General Meeting on April 11, 2018, the payment of an ordinary dividend from statutory reserves from capital contributions in the total amount of CHF 180.3 million (CHF 4.00 per share) in respect of the 2017 financial year was approved. The dividend payment was made on April 18, 2018.

NOTE 11

## Borrowings

| CHFk | Nominal value at inception | Capitalized debt issuance cost[1] | Debt repayments | March 31, 2018 | December 31, 2017 |
|---|---|---|---|---|---|
| **Floating rate** | | | | | |
| Term loan B – CHF[2] | 910,000 | (14,517) | – | 895,483 | 894,331 |
| **Fixed rate** | | | | | |
| Senior secured notes – CHF[3] | 500,000 | (4,114) | – | 495,886 | 495,625 |
| **Total loans and notes** | **1,410,000** | **(18,631)** | **-** | **1,391,369** | **1,389,956** |
| **Other** | | | | | |
| Debt relating to finance leases | – | – | (1,446) | 8,049 | 9,496 |
| **Total borrowings** | | | | **1,399,418** | **1,399,452** |
| *Thereof current* | | | | *3,935* | *4,899* |
| *Thereof non-current* | | | | *1,395,483* | *1,394,553* |

[1] At issuance of the borrowings
[2] Issued February 13, 2015 (CHF 1,000.0 million) and February 18, 2015 (CHF 360.0 million); partially repaid on August 4, 2017 (CHF 450.0 million).
[3] Issued February 18, 2015

The Group's financial indebtedness is governed by financial covenants specified in the senior facilities agreement dated February 9, 2015. The main covenant is the leverage ratio. The Group is requested to perform covenant testing as of each half year date within the financial year of the Group. Nevertheless, the last covenant testing, performed as of March 31, 2018, 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 August 4, 2017, Sunrise partially used the gross proceeds from the disposal of a subsidiary to reduce the indebtedness of the Group by CHF 450.0 million. Additionally capitalized transactions costs of CHF 6.1 million were released.

NOTE 12

## Fair value estimation

The fair value of current financial assets and liabilities at amortized cost is assumed to approximate their carrying amounts due to the short-term nature of these financial instruments.

### Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: Techniques that use inputs with a significant effect on the recorded fair value and that are not based on observable market data

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to calculate the fair value of an instrument are observable, the instrument is included in level 2.

There were no transfers between the different hierarchy levels as of March 31, 2018 and December 31, 2017.

The table below shows a comparison by class of the carrying amounts and fair values of the Group's financial instruments carried in the condensed consolidated interim financial statements:

| | CARRYING AMOUNT (BY MEASUREMENT BASIS) | | |
|---|---|---|---|
| CHFk **March 31, 2018** | Amortized cost | **Total** | Comparison Fair value[1] |
| **Financial assets** | | | |
| Cash | 280,909 | 280,909 | |
| Trade and other receivables | 436,063 | 436,063 | |
| Contract assets | 8,863 | 8,863 | |
| **Financial liabilities** | | | |
| Trade payables and other payables | (445,143) | (445,143) | |
| Loans and notes | (1,391,369) | (1,391,369) | (1,408,050) |
| Financial leases | (8,049) | (8,049) | |
| Other current liabilities | (418) | (418) | |

[1] The fair value of borrowings for disclosure purposes is based on quoted prices in an active market for identical liabilities.

| CHFk<br>December 31, 2017 | CARRYING AMOUNT (BY MEASUREMENT BASIS)<br>Amortized cost | Total | Comparison Fair value[1] |
|---|---|---|---|
| **Financial assets** | | | |
| Cash | 272,486 | 272,486 | |
| Trade and other receivables[2] | 493,359 | 493,359 | |
| **Financial liabilities** | | | |
| 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) | |

[1] The fair value of borrowings for disclosure purposes is based on quoted prices in an active market for identical liabilities.
[2] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

NOTE 13

## Change in net working capital

| CHFk<br>January 1 – March 31 | 2018 | 2017[1] |
|---|---|---|
| Change in inventories | 2,594 | (3,747) |
| Change in trade and other receivables | 44,804 | 34,547 |
| Change in trade and other payables | (36,269) | (13,510) |
| Change in contract assets | (2,807) | – |
| Change in contract liabilities | 148 | – |
| Change in contract costs | (2,646) | – |
| Change in other items, net | (21,107) | (31,406) |
| **Total** | **(15,283)** | **(14,116)** |

[1] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

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 negative change in net working capital of CHF 15 million during Q1 2018 is primarily related to a negative change in trade and other payables and other items driven by payments to handset vendors as well as prepayments of rents and annual payout of employee bonus. This was partially offset by lower trade and other receivables driven by lower revenue compared to Q4 2017.

NOTE 14

## Other balance sheet items

### Property, plant and equipment

During the three-month period ended March 31, 2018 the Group acquired assets of CHF 27.1 million (March 31, 2017: CHF 26.0 million). In the same period, the Group paid CHF 53.9 million (Q1 2017: CHF 39.2 million) of property, plant and equipment additions.

### Current portion of prepaid expenses

The balance mainly consists of prepaid rent expenses and prepaid IT related payments for licenses and services. The prepayments are normally made at the beginning of the year and amortized of the contractual duration. Contracts with duration of more than 1 year are split into a current- and non-current portion.

NOTE 15

## Contractual commitments

The total contractual and purchase commitments as of March 31, 2018 amounted to CHF 190.9 million (December 31, 2017: CHF 87.7 million) consisting of future investments in property, plant and equipment and intangible assets.

NOTE 16

## Financial risk management

The Group operates a centralized risk management system that distinguishes between strategic and operating risks. The Group's overall risk management program focuses on the unpredictability of financial market risks and seeks to minimize potential adverse effects on the Group's financial performance. All identified risks are quantified (according to their realization probability and impact) and noted on a risk schedule. This risk schedule is subject to an annual detailed review and discussion process by the Board of Directors. The Group is exposed to a variety of financial risks, namely market risk, credit risk and liquidity risk.

The Group's financial risk management is governed by policies approved by key management personnel. These policies provide guidelines for overall risk management as well as specific areas such as interest rate risk.

NOTE 17

## Events after the balance sheet date

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

Ernst & Young Ltd
Maagplatz 1
P.O. Box
CH-8005 Zurich

Phone +41 58 286 31 11
Fax +41 58 286 30 04
www.ey.com/ch

Building a better working world

To the Annual General Meeting of
**Sunrise Communications Group AG, Zurich**

Zurich, 2 May 2018

# Report on the review of condensed consolidated interim financial statements

## Introduction

We have reviewed the condensed consolidated interim financial statements (consolidated statement of income, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and notes; pages 15 to 37) of Sunrise Communications Group AG for the three-month period from 1 January 2018 to 31 March 2018. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

## Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting".

Ernst & Young Ltd

Willy Hofstetter
Licensed audit expert
(Auditor in charge)

Tobias Meyer
Licensed audit expert

**Sunrise Communications Group AG**
Binzmühlestrasse 130
8050 Zurich
www.sunrise.ch