Q3 2018

Interim Financial Report

Nine-month period as of September 30, 2018

Sunrise

Content

Operational and Financial Review

3 Operational and Financial Review

Financial KPIs

CHF million	1.1 - 30.9.2018 as reported	1.1 - 30.9.2018 without IFRS 15	1.1 - 30.9.2017[1]	Change reported figures (%)	Q3 2018 as reported	Q3 2018 without IFRS 15	Q3 2017[1]	Change reported figures (%)
Revenue								
Mobile services	938	938	890	5.3	321	321	309	3.9
– Thereof mobile postpaid	*600*	*602*	*574*	*4.5*	*208*	*208*	*201*	*3.1*
– Thereof mobile prepaid	*75*	*75*	*94*	*(20.5)*	*25*	*25*	*31*	*(21.7)*
– Thereof mobile hardware	*196*	*194*	*160*	*22.0*	*65*	*65*	*53*	*22.1*
Landline services (incl. voice)	245	245	275	(11.0)	77	77	89	(13.7)
– Thereof landline voice	*94*	*94*	*104*	*(9.5)*	*31*	*31*	*33*	*(5.4)*
– Thereof hubbing	*73*	*73*	*87*	*(16.4)*	*19*	*19*	*27*	*(29.2)*
Landline Internet and TV	208	207	180	15.7	72	71	63	14.3
Total revenue	**1,390**	**1,390**	**1,345**	**3.4**	**469**	**469**	**460**	**1.9**
Service revenue (excl. hubbing & mobile hardware)	1,121	1,123	1,097	2.2	385	386	380	1.3
Gross profit	**907**	**910**	**890**	**1.8**	**310**	**311**	**306**	**1.2**
% margin	65.2%	65.4%	66.2%		66.1%	66.2%	66.6%	
% margin (excl. hubbing & hardware revenue)	80.8%	81.0%	81.2%		80.5%	80.6%	80.6%	
EBITDA	**439**	**434**	**444**	**(1.3)**	**154**	**154**	**154**	**0.2**
EBITDA adjusted	**448**	**443**	**453**	**(1.2)**	**158**	**157**	**158**	**(0.0)**
% margin	32.2%	31.9%	33.7%		33.6%	33.5%	34.3%	
% margin (excl. hubbing & hardware revenue)	39.9%	39.4%	41.3%		41.0%	40.7%	41.5%	
Net income	**72**	**68**	**481**	**(85.0)**	**32**	**31**	**442**	**(92.9)**
Cash flow								
Reported EBITDA	439	434	444	(1.3)	154	154	154	0.2
Change in NWC	(24)	(19)	44	(154.1)	7	8	26	(73.4)
Net interest	(24)	(24)	(28)	(17.0)	(6)	(6)	(7)	(11.4)
Tax	(48)	(48)	(32)	49.0	(20)	(20)	(21)	(2.8)
CAPEX	(230)	(230)	(196)	17.3	(76)	(76)	(50)	53.4
Other financing activities	(21)	(21)	(21)	1.1	(1)	(1)	(3)	(70.5)
Equity free cash flow	**92**	**92**	**210**	**(56.3)**	**58**	**58**	**100**	**(41.8)**
Other[2]	10	10	(155)	(106.4)	(3)	(3)	(2)	68.6
Total cash flow	**102**	**102**	**55**	**85.0**	**55**	**55**	**98**	**(43.7)**
Net debt	**1,239**		**1,151**	**7.6**	**1,239**		**1,151**	**7.6**
Net debt / adj. EBITDA (LTM)	2.1×		1.9×		2.1×		1.9×	
Net debt / pro forma adj. EBITDA (LTM)[3]	2.1×		2.0×		2.1×		2.0×	

[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] Q3 YTD 2018 consist of dividend payment of CHF 180 million, cash inflow due to the refinancing of CHF 187 million, sale of property, plant and equipment of CHF 7 million as well as repayment of capital leases of CHF 4 million.
[3] Based on pro forma adjusted EBITDA taking into account annualized network service fees related to tower disposal.

Operational KPIs

	1.1 - 30.9.2018 as reported	1.1 - 30.9.2018 without IFRS 15	1.1 - 30.9.2017[1]	Change reported figures (%)	Q3 2018 as reported	Q3 2018 without IFRS 15	Q3 2017[1]	Change reported figures (%)
ARPU (CHF)								
Mobile blended	**31.9**	**32.0**	**31.8**	**0.2**	**32.9**	**33.0**	**33.0**	**(0.4)**
Postpaid	40.6	40.7	41.8	(2.8)	41.4	41.5	43.3	(4.4)
– *Thereof origination*	*37.8*	*37.9*	*38.5*	*(1.9)*	*38.7*	*38.8*	*40.1*	*(3.6)*
– *Thereof termination*	*2.8*	*2.8*	*3.3*	*(13.8)*	*2.7*	*2.7*	*3.1*	*(12.3)*
Prepaid	11.7	11.7	12.9	(9.4)	12.0	12.0	13.1	(8.2)
Landline blended	**68.8**	**68.7**	**67.9**	**1.4**	**69.2**	**68.9**	**67.7**	**2.2**
Landline voice	23.1	23.1	26.8	(14.0)	22.4	22.4	25.1	(10.6)
Internet	36.0	35.9	35.3	2.0	36.4	36.3	35.5	2.6
TV	26.2	26.1	26.1	0.6	26.2	25.9	26.5	(1.1)
Internet and TV	49.5	49.4	47.3	4.5	50.1	49.8	48.2	3.9
Subscription base (in thousand)								
Mobile								
Postpaid	1,686.5		1,563.3	7.9				
– Primary	1,378.2		1,293.4	6.6				
– Secondary	308.3		269.9	14.2				
Prepaid (3-month rule)	677.1		795.9	(14.9)				
Prepaid (12-month rule)	1,129.5		1,316.2	(14.2)				
Landline								
Landline voice	460.3		434.6	5.9				
Internet	448.7		410.2	9.4				
TV	235.5		200.9	17.2				
LTM Churn (%)								
Postpaid	14.1		13.2	6.5				
Landline	13.9		15.5	(10.2)				
Employees								
FTEs	1,599		1,647	(2.9)				
Apprentices	140		124	12.9				

[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).

Financial Review

Financial Summary

Revenue increased in the first nine months by 3.4% year-over-year and was driven by customer growth in mobile postpaid, landline internet and TV as well as higher handset prices of new products. Adjusted EBITDA in the first nine-month period ended September 30, 2018, decreased by 1.2% driven by higher network service fees following the disposal of the subsidiary Swiss Towers AG in August 2017. Excluding those higher network service fees as well as the IFRS 15 impact, adjusted EBITDA rose by 2.2% year-over-year.

Major Events

Refinancing transactions

In Q2 2018 the Group has completed the amendment and extension as well as re-pricing of its existing senior facilities agreement. The existing term loan B facility ("TLB") has been increased by CHF 500 million to CHF 1,410 million. The revolving credit facility ("RCF") remains unchanged at CHF 200 million and is currently undrawn. The leverage dependent margins of the facilities were reduced by 25 and 30 bps throughout the margin grid for the TLB and the RCF, respectively. The new facilities have a maturity of 5 years. The proceeds of the increased TLB were used to redeem the outstanding CHF 500 million 2.125% senior secured notes due March 2022. Furthermore, the Group placed CHF 200 million inaugural Swiss domestic senior secured notes due 2024 with a coupon of 1.5%. The issue price was set at 100.2% of the nominal amount and redemption will be at par.

For impacts on the condensed consolidated interim financial statements please refer to the Q2 2018 Interim Financial Report.

IFRS 15 Impact for the first nine months of 2018

IFRS 15 Revenue from contracts with customers is effective for annual reporting periods beginning on January 1, 2018. The IFRS 15 impact for the first nine months in 2018 is mainly related to the capitalization of costs to obtain a contract, resulting in an increase of CHF 5 million in adjusted EBITDA. 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 January 1 – September 30	2018	2017[1]	Change (%)	2018	2017[1]	Change (%)
Revenue reported	**1,001,606**	**955,204**	**4.9**	**209,519**	**197,616**	**6.0**
IFRS 15 impact	(572)	–		503	–	
Revenue excluding IFRS 15	1,001,034	955,204	4.8	210,022	197,616	6.3
Gross Profit reported	**678,251**	**670,006**	**1.2**	**138,590**	**135,353**	**2.4**
IFRS 15 impact	(572)	–		3,455	–	
Gross Profit excluding IFRS 15	677,679	670,006	1.1	142,045	135,353	4.9
EBITDA reported	**536,576**	**523,753**	**2.4**	**91,259**	**94,072**	**(3.0)**
IFRS 15 impact	(5,385)	–		494	–	
EBITDA excluding IFRS 15	531,191	523,753	1.4	91,753	94,072	(2.5)

[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

The Sunrise Group financial results for the nine-month period ended September 30, 2018, showed an increase in total revenue of 3.4% (incl. IFRS 15) mainly driven by higher service revenue (mobile postpaid and landline Internet) and mobile hardware revenue. The initial application of IFRS 15 as of January 1, 2018, had no significant impact on total revenue.

Mobile Services

Revenue from mobile services increased by 5.3% to CHF 938 million due to higher hardware revenue and mobile postpaid growth which exceeded the decline in mobile prepaid. While the postpaid subscription base increased by 7.9% year-over-year, postpaid revenue increased by 4.5% for the nine-month period ended as of September 30, 2018, due to a lower average revenue per user (ARPU).

The year-over-year postpaid ARPU reduction of CHF 1.2 was mainly driven by roaming promotions and secondary SIM dilution. The postpaid subscription base totaled 1,686 thousand subscribers as of September 30, 2018 (September 30, 2017: 1,563 thousand). The subscription base increase was driven by high network quality, good customer experience, prepaid to postpaid migration, competitive mobile data plans and successful B2B transition. The continuous growth of mobile data traffic is reflected in the increase of secondary subscriptions (such as secondary SIM-cards used for data) used by customers in addition to their primary subscriptions.

Mobile prepaid revenue declined year-over-year due to a decreasing subscription base and lower ARPU (CHF 1.2). The prepaid subscription base shrank year-over-year by 14.9% to 677 thousand subscribers as of September 30, 2018. High value prepaid customers migrating to postpaid, less international prepaid calls related to more attractive postpaid offers and increased OTT usage contributed to the reduction of the subscription base.

Hardware revenue (low margin) increased year-over-year by 22.0% to CHF 196 million for the nine-month period ended September 30, 2018. Average hardware prices were higher than in previous years due to the launch of higher priced handsets. Hardware revenue also depends on handset innovation/launches and on volatile sales to retailers.

Landline Services

Landline services revenue decreased by 11.0% to CHF 245 million in the first three quarters of 2018, mainly driven by lower hubbing and retail voice revenue.

Landline voice revenue decreased by 9.5% to CHF 94 million caused by fixed-to-mobile substitution, voice flat rates and increased use of OTT services. Hubbing revenue, which is low margin, decreased by 16.4% to CHF 73 million.

Landline Internet and TV

Internet and TV revenue increased by 15.7% to CHF 208 million in the nine-month period ended as of September 30, 2018.

The total Internet subscription base increased by 9.4% year-over-year to 449 thousand subscriptions. The revenue increase was also supported by 4.5% (4.3% excl. IFRS 15) growth of Internet and TV blended ARPU. The TV product that can be purchased alongside Internet service increased its customer base by 17.2% year-over-year to 236 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 484 million for the nine-month period ended as of September 30, 2018, an increase of 6.5% year-over-year, mostly driven by higher handset sales.

Gross profit came in at CHF 907 million with a 1.8% growth. The initial application of IFRS 15 as of January 1, 2018, led to 0.3% gross profit decrease. Consequently, gross profit increased by 2.1% excluding the impact of IFRS 15. The increase in gross profit is slightly lower than the increase in revenue, as revenue growth from mobile hardware has below group average gross margins.

Adjusted EBITDA

Adjusted EBITDA as of September 30, 2018, amounted to CHF 448 million, showing a year-over year decrease of 1.2%. The initial application of IFRS 15 as of January 1, 2018, led to a CHF 5 million or 1.1% higher (adjusted) EBITDA. Consequently, adjusted EBITDA decreased year-over-year by 11 million or 2.3% excluding the impact of IFRS 15. Excluding the higher network service fees after the sale of Swiss Towers AG, adjusted EBITDA (excl. IFRS 15) increased by CHF 10 million (2.2%). This was supported by gross profit growth which was partly offset by higher operational expenses, as cost savings have been reinvested into commercial momentum.

The table below shows one-time adjustments from reported EBITDA to adjusted EBITDA for the first nine months in 2018 and 2017. The biggest adjustments relate to non-recurring, non-operating events and include early employee contract terminations (CHF 3 million), advisory fees related to the set-up/preparation of the frequency auction (CHF 3 million), expenses related to the relocation of the new head office (CHF 1 million) as well as cost for the refinancing transaction (CHF 1 million).

CHFk	**01.01–30.09.2018**	01.01–30.09.2017
Reported EBITDA	**438,532**	**444,442**
Prior-year-related events	(1,404)	(3,133)
Non-recurring and / or non-operating events	9,415	10,749
Adjusted EBITDA	**447,707**	**453,322**

Reported EBITDA

The Group generated an EBITDA of CHF 439 million for the nine-month period ended September 30, 2018, a year-over-year decrease of CHF 6 million or 1.3% from CHF 444 million for the same period in 2017. The year-over-year EBITDA decrease is mainly attributable to higher operating expenses following the sale of Swiss Towers AG. Due to the initial application of IFRS 15 as of January 1, 2018, EBITDA was positively impacted by CHF 5 million which is mainly related to the capitalization of costs to obtain a contract.

Other Operating Expenses

Other operating expenses increased by CHF 24 million or 8.3% from CHF 290 million to CHF 314 million year-over-year for the nine-month period in 2018. This is mainly due to the higher network service fees as well as higher marketing costs and higher customer service investments in brands (Sunrise and ethnic brand). The initial application of IFRS 15 as of January 1, 2018, had a positive impact of CHF 7 million on other operating expenses.

Wages, Salaries and Pension Costs

Wages, salaries and pension costs totaled CHF 160 million for the nine-month period ended September 30, 2018. This represents a flat year-over-year development with one-time early employee contract terminations of CHF 3 million being offset by lower FTE base and higher capitalization of wages.

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 62 million in its condensed consolidated interim financial statements as of September 30, 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 23 million in the pension liability from CHF 85 million as of December 31, 2017, is mainly due to the change in the discount rate.

Other Income and Expenses, Net

Other income and expenses, net increased by CHF 2 million year-over-year. This is mainly attributable to higher income related to early termination fees.

Net Income

The Group reported a net income of CHF 72 million for the nine-month period ended September 30, 2018, a year-over-year decrease of CHF 409 million from a net income of CHF 481 million for the prior-year period. The net income of 2017 was mainly impacted by the recorded gain of CHF 420 million, related to the sale of Swiss Towers AG. Exluding this gain, net income for the nine-month period as of September 30, 2017, would have been CHF 62 million and therefore CHF 10 million lower than in current year. In 2018, lower net financial items of CHF 18 million year-over-year overcompensated the CHF 6 million lower operating income as well as higher tax expenses of CHF 2 million.

Amortization and Depreciation and Impairment Losses

Depreciation and amortization are in line with prior year. For the nine-month period as of September 30, 2018, depreciation and amortization totaled CHF 318 million, of which CHF 96 million related to the amortization of purchased intangibles (CHF 96 million in 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 MCG in October 2010.

Net Financial Items

Net financial items for the first nine months in 2018 mainly consist of financial expenses in the amount of CHF 40 million (2017: CHF 43 million), one-time financial income of CHF 15 million (2017: CHF nil) and CHF 1.6 million of foreign currency gains. In addition to the interest expenses of CHF 31 million, net financial items are one-time impacted by the refinancing transaction executed in Q2 2018. CHF 9 million of financial expenses related to bond breakage costs and accelerated amortization of capitalized issuance cost of old debt was recorded. CHF 15 million of financial income relating to the new IFRS 9 accounting standard, applied as of January 1, 2018, was also recorded. IFRS 9 requires to immediately record the difference resulting from a debt modification related to differences between the present value of the cash flows under the original and modified terms discounted by the original effective interest rate.

Income Taxes

For the first nine months in 2018, net income tax expenses of CHF 25 million (2017: CHF 23 million) consists of a CHF 35 million (2017: CHF 41 million) tax expense related to current income taxes and a tax benefit of CHF 10 million (2017: CHF 18 million) related to the change in deferred taxes.

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.

For the nine month period ending September 30, 2018, the change in net working capital resulted in a negative change of CHF 24 million. This is mainly driven by prepaid leases and maintenance contracts (negative change in other items of CHF 10 million) as well as IFRS 15 related accounts (CHF 12 million). The negative changes in trade and other payables (CHF 70 million), caused by payments of mobile phones and tablets bought in Q4 2017 and roaming settlements, was partly offset by positive changes in trade and other receivables

(CHF 41 million) driven by settlement of roaming discounts and general lower accounts receivable driven by seasonal effects as well as a reduction of inventory of CHF 27 million.

Compared to the nine month ended as of September 30, 2017, the change in net working capital showed a decline of CHF 68 million mainly driven by a greater extend from movements in roaming discounts settlement and to a lesser extend by the application of new IFRS accounting standards and the disposal of Swiss Towers AG in 2017.

Cash Flow

Cash and cash equivalents totaled CHF 376 million as of September 30, 2018, an increase of CHF 103 million compared to the cash position held as of December 31, 2017. The increase is mainly driven by the Q2 refinancing (CHF 185 million) and equity free cash flow generation of CHF 102 million, partly offset by dividend pay-out (CHF 180 million) as well as repayments of capital leases (CHF 4 million).

Cash Flow from Operating Activities

The year-over-year decrease of CHF 84 million in 2018, is primarily attributable to an outflow from net working capital and higher income tax payments. Taxable income in 2017 increased significantly compared to 2016 and led to higher income tax payments (relating to 2017) in the first nine months in 2018 compared to prior year.

Cash Flow (Used In)/From Investing Activities

Cash flow used in investing activities amounts to CHF 223 million as of September 30, 2018, which is CHF 476 million higher than in prior year (2017: cash flow from investing activities CHF 253 million). The cash flow in 2017 was positively impacted by the net proceeds from the sale of Swiss Towers AG of CHF 450 million and only partially offset by CHF 34 million higher purchase of intangible assets and property, plant and equipment in 2018, driven by unwind of payables related to capital expenditures of Q4 2017.

Cash Flow Used in Financing Activities

Cash flow used in financing activities decreased by CHF 607 million in the first nine months in 2018 compared to the same period in prior year. In 2017 the cash flow was negatively impacted by the partial repayment of the existing term loans of CHF 450 million whereas, in 2018 the refinancing of the long-term loans and notes resulted in a net cash inflow of CHF 185 million. Furthermore, a higher dividend of CHF 30 million was paid out in 2018.

Net Debt

The Group’s consolidated debt position – consisting of a term loan B3 facility, senior secured notes and capital leases – amounted to CHF 1,571 million (nominal value: CHF 1,615 million compared to CHF 1,419 million as of December 31, 2017), of which CHF 3 million is expected to be paid within 12 months. The increase compared to December 31, 2017, is related to the Group’s refinancing transactions in Q2 2018. Net debt at nominal value totaled CHF 1,239 million as of September 30, 2018, resulting in a net debt to EBITDA leverage ratio of 2.1× (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 net 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 was 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. Significant change in Q1 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.

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. Significant change in Q2 since last risk assessment: The announced allocation of new frequencies through auction in 2019 bears the risk that it will tie up investments in frequencies that will not be utilizable without easing NIR thresholds.

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.

Additional Disclosures

Material Affiliate Transactions

Change in the Board of Directors of SCG
Joachim Preisig will step down from the Sunrise Board of Directors as of December 31, 2018. His successor will be elected at the ordinary Annual General Meeting in 2019.

Change in the Executive Leadership Team (ELT)
Marcel Huber has been appointed as the new Chief Administrative Officer and Member of the ELT, following Dominik Rubli, who has decided to leave the company by August 31, 2018. Patrick Alain Meier, Director Legal, will lead the position on an interim basis.

Material Contractual Arrangements

Sunrise and Swisscom agreed to prolong the existing agreement concerning the fixed broadband connectivity services from January 1, 2019, to June 30, 2022. As part of the prolongation, Sunrise will undertake a one-time investment of CHF 101 million for the use of wholesale broadband connectivity services from Swisscom which are paid in instalments of 60% in 2019, 20% in 2020 and 20% in 2021. The new agreement allows Sunrise to supply Broadband- and TV-Services technology independently.

Sunrise joined ngena (the Next Generation Enterprise Network Alliance), a global alliance of international telecom companies, such as T-Systems, Centurylink, PCCWGlobal, Telus, A1 Telekom Austria Group, KPN and many more. As a partner of the alliance, Sunrise will be able to use the global Software Defined Wide Area Network (SD-WAN) to offer Swiss and international customers ethernet and internet-based global connectivity services to customer sites and cloud services across the world.

Certain Other Contractual Commitments

Total contractual and purchase commitments as of September 30, 2018, amounted to CHF 288 million, consisting of future investments in property, plant and equipment and intangible assets.

Credit Ratings

As at September 30, 2018, the corporate family ratings for Sunrise Communications Holding S.A., 100% indirectly owned by Sunrise Communications Group AG, were BB+ (outlook stable) by Fitch Ratings and BBB- (outlook stable) by S&P Global Ratings ("S&P"). The Swiss domestic senior secured notes, the term loan B facility as well as the revolving credit facility are all rated BBB- by Fitch Ratings and S&P.

Acquisitions, Disposals and Recapitalization

No material acquisitions, disposals or recapitalization occurred in Q3 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 confirms the guidance for 2018, which was updated at H1 2018 financial results:

Revenue and adjusted EBITDA for 2018 continue to be expected between CHF 1,830 – 1,870 million and CHF 595 – 605 million, respectively. Adjusted EBITDA guidance incorporates a mid to high single digit positive CHF million impact from IFRS 15. FY'18 Capex is reiterated in the range of CHF 283 – 323 million.

Sunrise confirms its long-term dividend policy of paying out at least 65% of equity-free cash flow, while continuing to target 85%, if net 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 was 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	Note	01.01 – 30.09.2018	01.01 – 30.09.2017[1]	Q3 2018	Q3 2017[1]
		Unaudited	Unaudited	Unaudited	Unaudited
Revenue	**4,5,6**	**1,390,245**	**1,344,695**	**469,313**	**460,449**
Transmission costs and cost of goods sold	4	(483,595)	(454,245)	(159,251)	(154,006)
Other operating expenses	4	(314,423)	(290,428)	(105,942)	(98,415)
Wages, salaries and pension costs	4	(159,739)	(159,705)	(52,808)	(54,924)
Other income	7	6,482	4,235	3,830	1,158
Other expenses	7	(438)	(110)	(658)	(130)
Income before depreciation and amortization, net financial items and income taxes		**438,532**	**444,442**	**154,484**	**154,132**
Amortization		(189,959)	(187,335)	(63,423)	(61,797)
Depreciation and impairment losses		(128,016)	(130,767)	(42,197)	(43,754)
Operating income		**120,557**	**126,340**	**48,864**	**48,581**
Foreign currency gains, net		1,588	1,019	656	(112)
Financial income	4	15,066	90	14	10
Financial expenses	4	(40,277)	(42,917)	(9,785)	(17,458)
Net financial items	**8**	**(23,623)**	**(41,808)**	**(9,115)**	**(17,560)**
Gain on disposal of subsidiary	14	–	419,589	–	419,589
Income before income taxes		**96,934**	**504,121**	**39,749**	**450,610**
Income taxes	4	(24,642)	(22,799)	(8,197)	(8,883)
Net income		**72,292**	**481,322**	**31,552**	**441,727**
Net income attributable to equity holders of the parent company		**72,292**	**481,322**	**31,552**	**441,727**
Basic earnings per share (in CHF)	**4,9**	**1.60**	**10.70**	**0.70**	**9.82**
Diluted earnings per share (in CHF)	**4,9**	**1.60**	**10.66**	**0.70**	**9.79**

[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	01.01 – 30.09.2018	01.01 – 30.09.2017[1]	Q3 2018	Q3 2017[1]
	Unaudited	Unaudited	Unaudited	Unaudited
Net income	**72,292**	**481,322**	**31,552**	**441,727**
Actuarial gain related to defined benefit pension plans	26,791	19,388	9,476	10,832
Income tax effect	(5,439)	(3,955)	(1,924)	(2,210)
Net other comprehensive income not to be reclassified to profit and loss in subsequent periods	**21,352**	**15,433**	**7,552**	**8,622**
Other comprehensive income, net of tax	**21,352**	**15,433**	**7,552**	**8,622**
Total comprehensive income	**93,644**	**496,755**	**39,104**	**450,349**
Comprehensive income attributable to equity holders of the parent company	**93,644**	**496,755**	**39,104**	**450,349**

[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	30.09.2018	31.12.2017[1]
		Unaudited	Audited
Non-current assets			
Intangible assets		2,094,828	2,210,359
Property, plant and equipment	15	772,308	795,576
Non-current portion of trade and other receivables		50,033	58,206
Non-current portion of prepaid expenses		110	248
Non-current portion of contract assets		5,549	–
Contract costs	4	47,708	–
Total non-current assets		**2,970,536**	**3,064,389**
Current assets			
Inventories		30,238	57,474
Current portion of trade and other receivables		391,694	435,217
Current portion of contract assets		7,020	–
Current portion of prepaid expenses	15	14,367	6,481
Cash and cash equivalents		375,689	272,486
Total current assets		**819,008**	**771,658**
Total assets		**3,789,544**	**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	30.09.2018	31.12.2017[1]
		Unaudited	Audited
Equity			
Common shares		45,069	45,000
Share premium		2,162,300	2,342,653
Other reserves		(776,143)	(776,143)
Accumulated deficit	4	34,890	(101,229)
Total equity	**10**	**1,466,116**	**1,510,281**
Non-current liabilities			
Non-current portion of loans and notes	4,11	1,565,978	1,389,956
Non-current portion of financial leases	11	2,627	4,597
Non-current portion of trade and other payables		670	5,308
Deferred tax liabilities	4	166,998	160,691
Non-current portion of provisions		69,089	70,892
Employee benefit obligations		61,580	84,769
Non-current portion of deferred income		5,256	9,136
Non-current portion of contract liabilities		307	–
Total non-current liabilities		**1,872,505**	**1,725,349**
Current liabilities			
Current portion of financial leases	11	2,527	4,899
Current portion of trade and other payables		403,208	540,989
Income tax payable	4	10,691	23,886
Current portion of provisions		5,442	3,574
Current portion of deferred income		28,269	26,984
Current portion of contract liabilities		390	–
Other current liabilities		396	85
Total current liabilities		**450,923**	**600,417**
Total liabilities		**2,323,428**	**2,325,766**
Total equity and liabilities		**3,789,544**	**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	Note	01.01 – 30.09.2018	01.01 – 30.09.2017[1]	Q3 2018	Q3 2017[1]
		Unaudited	Unaudited	Unaudited	Unaudited
Income before income taxes	**4**	**96,934**	**504,121**	**39,749**	**450,610**
Amortization		189,959	187,335	63,423	61,797
Depreciation and impairment losses		128,016	130,767	42,197	43,754
Gain on disposal of property, plant and equipment		(558)	(18)	(554)	–
Gain on disposal of subsidiary	14	–	(419,589)	–	(419,589)
Movement in pension		3,087	2,612	1,053	840
Movement in provisions		(650)	(1,846)	(95)	(612)
Change in net working capital	4,13	(23,634)	43,724	6,950	26,106
Cash flow from operating activities before net financial items and tax		**393,154**	**447,106**	**152,723**	**162,906**
Financial income	4,8	(15,066)	(90)	(14)	(10)
Financial expenses	4,8	40,277	42,917	9,785	17,458
Foreign currency gains, net		(1,588)	(316)	(656)	(28)
Interest received		15	90	14	10
Interest paid		(23,545)	(28,438)	(5,998)	(6,767)
Corporate income and withholding tax paid		(48,270)	(32,388)	(20,340)	(20,918)
Total cash flow from operating activities		**344,977**	**428,881**	**135,514**	**152,651**
Purchase of property, plant and equipment	15	(132,593)	(121,822)	(49,365)	(36,488)
Purchase of intangible assets		(97,799)	(74,661)	(26,746)	(13,143)
Sale of property, plant and equipment		7,814	18	281	–
Net proceeds from subsidiary disposal	14	–	449,502	–	449,502
Total cash flow (used in)/from investing activities		**(222,578)**	**253,037**	**(75,830)**	**399,871**
Proceeds from long-term loans and notes, net	11	690,319	(321)	(1,697)	–
Repayments of long-term loans and notes	11	(500,000)	(450,000)	–	(450,000)
Cost of early debt redemption	8	(5,315)	–	–	–
Costs relating to capital increase		(73)	–	–	–
Repayments of capital leases	11	(4,342)	(6,090)	(1,866)	(1,297)
Dividend payment		(180,276)	(149,850)	–	–
Other financing activities		(20,789)	(20,556)	(966)	(3,278)
Total cash flow used in financing activities		**(20,476)**	**(626,817)**	**(4,529)**	**(454,575)**
Total cash flow		**101,923**	**55,101**	**55,155**	**97,947**
Cash and cash equivalents as of January 1		272,486	214,175	–	–
Cash and cash equivalents as of July 1		–	–	320,060	171,617
Foreign currency impact on cash	8	1,280	316	474	28
Cash and cash equivalents as of September 30		**375,689**	**269,592**	**375,689**	**269,592**

[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	Accumulated deficit	Total
	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	–	–	–	481,322	481,322
Other comprehensive income	–	–	–	15,433	15,433
Total comprehensive income	**-**	**-**	**-**	**496,755**	**496,755**
Share-based payment	–	1,170	–	–	1,170
Dividend payment	–	(149,850)	–	–	(149,850)
Equity as of September 30, 2017[1]	**45,000**	**2,341,282**	**(776,143)**	**(125,776)**	**1,484,363**
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]	–	–	–	42,475	42,475
Adjusted equity as of January 1, 2018	**45,000**	**2,342,653**	**(776,143)**	**(58,754)**	**1,552,756**
Net income for the period	–	–	–	72,292	72,292
Other comprehensive income	–	–	–	21,352	21,352
Total comprehensive income	**-**	**-**	**-**	**93,644**	**93,644**
Share-based payment	–	(4,628)	–	–	(4,628)
Dividend payment	–	(180,276)	–	–	(180,276)
Capital increase	69	4,551	–	–	4,620
Equity as of September 30, 2018	**45,069**	**2,162,300**	**(776,143)**	**34,890**	**1,466,116**

[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).
[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 nine-month period ended September 30, 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 November 7, 2018.

NOTE 2

Basis of preparation

The condensed consolidated interim financial statements of the Group as of and for the nine-month period ended September 30, 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 year 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 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

NOTE 2
Basis of preparation

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	**30.09.2018**	31.12.2017	**01.01 – 30.09.2018**	1.1 – 30.09.2017
Euro	1.1398	1.1703	1.1784	1.0961
US Dollar	0.9817	0.9743	0.9844	1.0018

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. In line with IAS 8, 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 amendments to existing 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 IFRS 15 and IFRS 9 is mainly attributed to the following effects:
– Capitalization of costs to obtain a contract,
– Reallocation of revenue to hardware sales,
– Recognition of activation fees and uneven discounts,
– Debt modification adjustments, and
– Increase in impairment losses recognized on financial assets.

NOTE 4

New accounting standards

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 increase of CHF 8.3 million (net of tax CHF 6.6 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 and cash-flow for the nine-month period ended September 30, 2018, and on its condensed consolidated interim statements of financial position as of September 30, 2018.

	IMPACT OF CHANGES IN ACCOUNTING POLICIES		
CHFk **January 1 – September 30, 2018**	**As reported**	Adjustments	Balances without adoption of new accounting policies
	Unaudited	Unaudited	Unaudited
Income Statement			
Revenue	1,390,245	(69)	1,390,176
Transmission costs and cost of goods sold	(483,595)	2,952	(480,643)
Other operating expenses	(314,423)	(6,918)	(321,341)
Wages, salaries and pension costs	(159,739)	(903)	(160,642)
Financial income	15,066	(15,051)	15
Financial expenses	(40,277)	2,421	(37,856)
Income taxes	(24,642)	3,567	(21,075)
Other[1]	(310,343)	–	(310,343)
Net income	**72,292**	**(14,001)**	**58,291**
Basic and diluted earnings per share (in CHF)	1.60	(0.31)	1.29

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

NOTE 4

New accounting standards

IMPACT OF CHANGES IN ACCOUNTING POLICIES

CHFk **September 30, 2018**	**As reported**	Adjustments	Balances without adoption of new accounting policies
	Unaudited	Unaudited	Unaudited
Assets			
Contract costs	47,708	(47,708)	–
Trade and other receivables	441,727	12,066	453,793
Contract assets	12,569	(12,569)	–
Other[1]	3,287,540	–	3,287,540
Total assets	**3,789,544**	**(48,211)**	**3,741,333**
Liabilities			
Deferred tax liabilities	166,998	(14,850)	152,148
Income tax payable	10,691	440	11,131
Contract liabilities	697	(697)	–
Non-current portion of loans and notes	1,565,978	23,300	1,589,278
Other[1]	579,064	–	579,064
Total liabilities	**2,323,428**	**8,193**	**2,331,621**
Equity			
Accumulated deficit	34,890	(56,404)	(21,514)
Other[1]	1,431,226	–	1,431,226
Total equity	**1,466,116**	**(56,404)**	**1,409,712**

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

IMPACT OF CHANGES IN ACCOUNTING POLICIES

CHFk **January 1–September 30, 2018**	**As reported**	Adjustments	Balances without adoption of new accounting policies
	Unaudited	Unaudited	Unaudited
Cash Flow			
Income before income taxes	96,934	(17,568)	79,366
Change in net working capital	(23,634)	4,938	(18,696)
Financial income	(15,066)	15,051	(15)
Financial expenses	40,277	(2,421)	37,856
Other[1]	246,466	–	246,466
Total cash flow from operating activities	**344,977**	**–**	**344,977**
Total cash flow used in investing activities	**(222,578)**	**–**	**(222,578)**
Total cash flow used in financing activities	**(20,476)**	**–**	**(20,476)**

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

NOTE 4

New accounting standards

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.

CHFk	**30.09.2018**	01.01.2018
Trade receivables	439,293	489,664
Contract assets	12,569	6,056
Contract liabilities	(697)	(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 nine-month period ended September 30, 2018, the amount of amortization was CHF 21.1 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, and
– Accrued income/credit notes CHF 0.5 million.

NOTE 4

New accounting standards

The economic indicators impacting the forward looking element changed slightly positively as of September 30, 2018, leading to a decrease of CHF 47 thousand in the loss allowance.

Furthermore IFRS 9 includes a new guidance relating to non-substantial modifications or exchanges of financial liabilities. A gain or loss resulting from non-substantial modifications in debt has to be recognized through Profit and Loss at the time of the modification. The gain is equal to the difference between the present value of the cash flows under the original and modified terms discounted by the original effective interest rate.

Due to the refinancing transactions in June 2018, that included a re-pricing of the existing term loan, the Group had to apply the new debt modification adjustments in order to be compliant with IFRS 9. The total effect as of September 30, 2018, amounts to CHF 12.6 million and is reflected in net financial items (net of deferred tax CHF 10.1 million). Since the approach related to debt modification adjustments needs to be applied retrospectively, the Group recognized the adjustment linked to the first re-pricing from December 2016 (25 bp reduction) in opening accumulated deficit on January 1, 2018. The adjustment resulted in an increase in equity of CHF 10.7 million (net of tax CHF 8.5 million).

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, 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.

NOTE 5

Segment reporting

Activities

CHFk January 1 – September 30	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	1,001,606	955,204	209,519	197,616	148,890	163,133	30,230	28,742	1,390,245	1,344,695
Inter-segment revenue	–	–	–	–	–	1,160	–	–	–	1,160
Total	**1,001,606**	**955,204**	**209,519**	**197,616**	**148,890**	**164,293**	**30,230**	**28,742**	**1,390,245**	**1,345,855**
Transmission costs and costs of goods sold										
External customers	(323,355)	(285,198)	(70,929)	(62,263)	(89,200)	(106,799)	(111)	15	(483,595)	(454,245)
Inter-segment costs	–	(1,160)	–	–	–	–	–	–	–	(1,160)
Total	**(323,355)**	**(286,358)**	**(70,929)**	**(62,263)**	**(89,200)**	**(106,799)**	**(111)**	**15**	**(483,595)**	**(455,405)**
Other operating expenses	(98,600)	(100,212)	(16,021)	(13,273)	(3,109)	(3,381)	(196,693)	(173,562)	(314,423)	(290,428)
Wages, salaries and pension costs	(43,064)	(44,893)	(31,310)	(28,008)	(3,383)	(3,324)	(81,982)	(83,480)	(159,739)	(159,705)
Other income	–	12	–	–	–	–	6,482	4,223	6,482	4,235
Other expenses	(11)	–	–	–	–	–	(427)	(110)	(438)	(110)
EBITDA	**536,576**	**523,753**	**91,259**	**94,072**	**53,198**	**50,789**	**(242,501)**	**(224,172)**	**438,532**	**444,442**

[1] Including hubbing revenue of CHF 73.0 million generated in the nine-month period ended as of September 30, 2018, and CHF 87.2 million generated in the nine-month period ended as of September 30, 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).

NOTE 5

Segment reporting

Activities

CHFk July 1 – September 30	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	340,182	328,336	74,399	68,168	44,595	54,181	10,137	9,764	469,313	460,449
Inter-segment revenue	–	–	–	–	–	248	–	–	–	248
Total	**340,182**	**328,336**	**74,399**	**68,168**	**44,595**	**54,429**	**10,137**	**9,764**	**469,313**	**460,697**
Transmission costs and costs of goods sold										
External customers	(109,782)	(97,998)	(25,838)	(22,696)	(23,597)	(33,327)	(34)	15	(159,251)	(154,006)
Inter-segment costs	–	(248)	–	–	–	–	–	–	–	(248)
Total	**(109,782)**	**(98,246)**	**(25,838)**	**(22,696)**	**(23,597)**	**(33,327)**	**(34)**	**15**	**(159,251)**	**(154,254)**
Other operating expenses	(33,641)	(31,940)	(5,531)	(3,962)	(905)	(1,009)	(65,865)	(61,504)	(105,942)	(98,415)
Wages, salaries and pension costs	(14,117)	(14,859)	(10,531)	(9,936)	(1,160)	(1,191)	(27,000)	(28,938)	(52,808)	(54,924)
Other income	–	–	–	–	–	–	3,830	1,158	3,830	1,158
Other expenses	–	–	–	–	–	–	(658)	(130)	(658)	(130)
EBITDA	**182,642**	**183,291**	**32,499**	**31,574**	**18,933**	**18,902**	**(79,590)**	**(79,635)**	**154,484**	**154,132**

[1] Including hubbing revenue of CHF 19.0 million generated in the three-month period ending as of September 30, 2018, and CHF 26.8 million generated in the three-month period ending as of September 30, 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).

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

CHFk	01.01 – 30.09.2018	01.01 – 30.09.2017[1]	Q3 2018	Q3 2017[1]
EBITDA from reportable segments	**438,532**	**444,442**	**154,484**	**154,132**
Unallocated:				
– Amortization	(189,959)	(187,335)	(63,423)	(61,797)
– Depreciation	(128,016)	(130,767)	(42,197)	(43,754)
– Net financial items	(23,623)	(41,808)	(9,115)	(17,560)
– Gain on disposal	–	419,589	–	419,589
Income before income taxes	**96,934**	**504,121**	**39,749**	**450,610**

[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	01.01 – 30.09.2018	01.01 – 30.09.2017[1]	Q3 2018	Q3 2017[1]
Mobile services	937,876	890,264	320,839	308,714
– *Thereof mobile postpaid*	*599,766*	*573,801*	*207,528*	*201,209*
– *Thereof mobile prepaid*	*74,717*	*93,953*	*24,634*	*31,447*
– *Thereof mobile hardware*	*195,857*	*160,490*	*65,103*	*53,327*
Landline services	244,655	274,851	76,899	89,094
– *Thereof landline voice*	*94,294*	*104,140*	*31,147*	*32,914*
– *Thereof hubbing*	*72,968*	*87,229*	*18,975*	*26,785*
Landline internet and TV	207,714	179,580	71,575	62,641
Total	**1,390,245**	**1,344,695**	**469,313**	**460,449**

[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	01.01 – 30.09.2018	01.01 – 30.09.2017[1]	Q3 2018	Q3 2017[1]
Sales of goods	227,654	188,244	75,873	64,517
Sales of services	1,162,591	1,156,451	393,440	395,932
Total	**1,390,245**	**1,344,695**	**469,313**	**460,449**

[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 and expenses

CHFk	01.01 – 30.09.2018	01.01 – 30.09.2017	Q3 2018	Q3 2017
Other income				
Early termination fees	3,407	1,103	1,693	442
Sub-leases	1,430	3,049	496	652
Sale of network related assets	1,087	–	1,087	–
Other	558	83	554	64
Total	**6,482**	**4,235**	**3,830**	**1,158**

CHFk	01.01 – 30.09.2018	01.01 – 30.09.2017	Q3 2018	Q3 2017
Other expenses				
Reversal of provision from prior periods	281	–	–	(105)
Cost related to sale of network related assets	(607)	–	(607)	–
Other	(112)	(110)	(51)	(25)
Total	**(438)**	**(110)**	**(658)**	**(130)**

NOTE 8 Net financial items

CHFk **January 1 – September 30, 2018**	Debt modification adjustment	Debt redemption costs	Interest	**Total financial income/ (expenses) before foreign currency**	Net foreign currency gains/(losses)	**Total**
Income						
Cash and cash equivalents	–	–	–	–	1,280	1,280
Other	15,051	–	15	15,066	308	15,374
Total	**15,051**	**–**	**15**	**15,066**	**1,588**	**16,654**
Expenses						
Financial liabilities measured at amortized cost	–	(5,315)	(30,696)	(36,011)	–	(36,011)
Other	–	–	(4,266)	(4,266)	–	(4,266)
Total	**–**	**(5,315)**	**(34,962)**	**(40,277)**	**–**	**(40,277)**
Net financial items	**15,051**	**(5,315)**	**(34,947)**	**(25,211)**	**1,588**	**(23,623)**

CHFk January 1 – September 30, 2017	Interest	**Total financial income/ (expenses) before foreign currency**	Net foreign currency gains/(losses)	**Total**
Income				
Cash and cash equivalents	1	1	316	317
Other	89	89	703	792
Total	**90**	**90**	**1,019**	**1,109**
Expenses				
Financial liabilities measured at amortized cost	(38,814)	(38,814)	–	(38,814)
Other	(4,103)	(4,103)	–	(4,103)
Total	**(42,917)**	**(42,917)**	**–**	**(42,917)**
Net financial items	**(42,827)**	**(42,827)**	**1,019**	**(41,808)**

NOTE 8

Net financial items

CHFk **July 1 – September 30, 2018**	Interest	**Total financial income/ (expenses) before foreign currency**	Net foreign currency gains/(losses)	**Total**
Income				
Cash and cash equivalents	–	–	474	474
Other	14	14	182	196
Total	**14**	**14**	**656**	**670**
Expenses				
Financial liabilities measured at amortized cost	(8,666)	(8,666)	–	(8,666)
Other	(1,119)	(1,119)	–	(1,119)
Total	**(9,785)**	**(9,785)**	**-**	**(9,785)**
Net financial items	**(9,771)**	**(9,771)**	**656**	**(9,115)**

CHFk April 1 – June 30, 2017	Interest	**Total financial income/ (expenses) before foreign currency**	Net foreign currency gains/(losses)	**Total**
Income				
Cash and cash equivalents	–	–	28	28
Other	10	10	–	10
Total	**10**	**10**	**28**	**38**
Expenses				
Financial liabilities measured at amortized cost	(16,114)	(16,114)	–	(16,114)
Other	(1,344)	(1,344)	(140)	(1,484)
Total	**(17,458)**	**(17,458)**	**(140)**	**(17,598)**
Net financial items	**(17,448)**	**(17,448)**	**(112)**	**(17,560)**

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.

	01.01 – 30.09.2018	01.01 – 30.09.2017[1]	Q3 2018	Q3 2017[1]
Basic earnings per share				
Net income attributable to equity holders of SCG (CHFk)	72,292	481,322	31,552	441,727
Weighted average number of shares outstanding	45,060,080	45,000,000	45,069,028	45,000,000
Basic earnings per share (in CHF)[2]	**1.60**	**10.70**	**0.70**	**9.82**
Diluted earnings per share				
Net income attributable to equity holders of SCG (CHFk)	72,292	481,322	31,552	441,727
Weighted average number of shares outstanding	45,147,282	45,134,601	45,147,282	45,134,601
Diluted earnings per share (in CHF)[2]	**1.60**	**10.66**	**0.70**	**9.79**

[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] In August 2017, the net gain of CHF 419.6 million resulting from the sale of Swiss Towers AG positively impacted the earnings per share.

If the vesting conditions were fully met as of September 30, 2018, a maximum of 99,569 shares (December 31, 2017: 193,748) would have a dilutive effect.

NOTE 10

Equity

CHFk	30.09.2018	31.12.2017[2]
Common shares	45,069	45,000
Share premium[1]	2,162,300	2,342,653
Other reserve	(776,143)	(776,143)
Accumulated deficit	34,890	(101,229)
Total equity	**1,466,116**	**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 September 30, 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.

NOTE 10

Equity

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 Modification Revaluation[5]	Debt repayments	**30.09.2018**	31.12.2017
Floating rate						
Term loan B3 – CHF[2]	1,410,000	(19,720)	(23,300)	–	1,366,980	894,331
Fixed rate						
Senior secured notes – CHF[3]	500,000	–	–	(500,000)	–	495,625
Senior secured notes – CHF[4]	200,000	(1,002)	–	–	198,998	–
Total loans and notes	**2,110,000**	**(20,722)**	**(23,300)**	**(500,000)**	**1,565,978**	**1,389,956**
Other						
Debt relating to finance leases	–	–	–	(4,342)	5,154	9,496
Total borrowings					**1,571,132**	**1,399,452**
Thereof current					*2,527*	*4,899*
Thereof non-current					*1,568,605*	*1,394,553*

[1] At issuance of the borrowings, respectively at the debt modification date
[2] Issued February 13, 2015 (CHF 1,000.0 million), February 18, 2015 (CHF 360.0 million); partially repaid on August 4, 2017 (CHF 450.0 million) and issued June 19, 2018 (CHF 500.0 million)
[3] Issued February 18, 2015, repaid on June 20, 2018
[4] Issued June 27, 2018
[5] Thereof CHF 15.1 million reflected in financial income, CHF 2.4 million in financial expenses and CHF 10.7 million in accumulated deficit as of January 1, 2018

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. The last covenant testing, performed as of September 30, 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.

In Q2 2018 the Group completed the amendment and extension as well as re-pricing of its existing senior facilities agreement. The existing term loan B facility ("TLB") has been increased by CHF 500.0 million to CHF 1,410.0 million. The revolving credit facility ("RCF") remains unchanged at CHF 200.0 million and is currently undrawn. The leverage dependent margins of the facilities were reduced by 25 bps and 30 bps throughout the margin grid for the TLB and the RCF, respectively. The new facilities have a maturity of 5 years. The proceeds of the increased TLB facility were used to redeem the outstanding CHF 500.0 million 2.125% senior secured notes due March 2022. Furthermore, the Group placed CHF 200.0 million inaugural Swiss domestic senior secured notes due 2024 with a coupon of 1.5%. The issue price was set at 100.2% of the nominal amount and redemption will be at par.

All financial liabilities are measured at amortized costs. In connection with the above mentioned transactions the Group incurred transaction costs in the amount of CHF 10.2 million which have been capitalized as debt issuance costs on the consolidated statement of financial position. Additionally, capitalized transaction costs of CHF 4.0 million related to the repaid senior secured notes 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 September 30, 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:

NOTE 12

Fair value estimation

CHFk **September 30, 2018**	CARRYING AMOUNT (BY MEASUREMENT BASIS) Amortized cost	 **Total**	Comparison Fair value[1]
Financial assets			
Cash and cash equivalents	375,689	375,689	
Trade and other receivables	441,224	441,224	
Contract assets	12,569	12,569	
Financial liabilities			
Trade payables and other payables	(387,777)	(387,777)	
Loans and notes	(1,565,978)	(1,565,978)	(1,613,900)
Financial leases	(5,154)	(5,154)	
Other current liabilities	(396)	(396)	

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

CHFk December 31, 2017	CARRYING AMOUNT (BY MEASUREMENT BASIS) Amortized cost	 **Total**[2]	Comparison Fair value[1]
Financial assets			
Cash and cash equivalents	272,486	272,486	
Trade and other receivables	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	01.01 – 30.09.2018	01.01 – 30.09.2017[1]	Q3 2018	Q3 2017[1]
Change in inventories	27,236	(2,787)	10,295	8,806
Change in trade and other receivables	41,346	25,073	(10,641)	(6,633)
Change in trade and other payables	(70,246)	30,561	1,510	7,129
Change in contract assets	(6,512)	–	(227)	–
Change in contract liabilities	(625)	–	(392)	–
Change in contract costs	(4,821)	–	(542)	–
Change in other items, net	(10,012)	(9,123)	6,947	16,804
Total	**(23,634)**	**43,724**	**6,950**	**26,106**

[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).

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.

For the nine month period ending September 30, 2018, the change in net working capital resulted in a negative change of CHF 23.6 million. This is mainly driven by prepaid leases and maintenance contracts (negative change in other items of CHF 10.0 million) as well as IFRS 15 related accounts (CHF 12.0 million). The negative changes in trade and other payables (CHF 70.2 million), caused by payments of mobile phones and tablets bought in Q4 2017 and roaming settlements, was partly offset by positive changes in trade and other receivables (CHF 41.3 million) driven by settlement of roaming discounts and general lower accounts receivable driven by seasonal effects as well as a reduction of inventory of CHF 27.2 million.

Compared to the nine month ended as of September 30, 2017, the change in net working capital showed a decline of CHF 67.6 million mainly driven by a greater extend from movements in roaming discounts settlement and to a lesser extend by the application of new IFRS accounting standards and the disposal of Swiss Towers AG in 2017.

NOTE 14

Disposal of subsidiary

In August 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 amounted to a gain of CHF 419.6 million (tax exempt by group companies in Luxembourg) and was recognized as gain on disposal in the condensed consolidated interim statements of income.

The result of the disposal of subsidiary in 2017 was as follows:

CHFk	30.09.2017
Total sales proceeds	502,250
Disposal-related expenses	(5,548)
Forgiveness of loan	(4,196)
Disposal of net assets	(72,917)
Gain on disposal of subsidiary	**419,589**
Disposal of net assets	72,917
Disposal of cash and cash equivalents	(43,004)
Net cash flow from disposal of subsidiary	**449,502**

NOTE 15

Other balance sheet items

Property, plant and equipment

During the nine-month period ended September 30, 2018, the Group acquired assets of CHF 104.1 million (September 30, 2017: CHF 115.4 million). In the same period, the Group paid CHF 132.6 million (2017: CHF 121.8 million) for 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 over the contractual duration. Contracts with duration of more than 1 year are split into a current and non-current portion.

NOTE 16

Contractual commitments

The total contractual and purchase commitments as of September 30, 2018, amounted to CHF 288.1 million (December 31, 2017: CHF 87.7 million) consisting of future investments in property, plant and equipment and intangible assets.

NOTE 17

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 18

Events after the balance sheet date

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

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