

Acquisition of UPC Switzerland

Key facts regarding freenet assertions

3 October 2019

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Key facts regarding freenet assertions

	freenet assertion	Key facts	Public references
1	<p>Strategic rationale</p> <ul style="list-style-type: none"> The strategic rationale of the transaction is flawed due to the inferiority of cable vs 5G and fibre 	<ul style="list-style-type: none"> Sunrise is recognised as one of the best mobile networks in Europe and has real world experience of owning 5G spectrum and rolling out a 5G radio access network across Switzerland Sunrise was the first operator to launch its 5G network across Switzerland (covering at least 80% of the local population in 262 towns and locations across Switzerland) Cable networks are more robust and less restrictive for large scale data transfers (volume driven by e.g. gaming, streaming, movies, music, VR, etc.) than the mobile network, even in a 5G environment, especially given Swiss radiation regulations and indoor reception through walls For 5G to replace fixed high-speed broadband networks in urban and sub-urban areas, where highest data transfer rates are required, the strict Swiss emission norms of Switzerland will force a substantial amount of new mobile sites to be built. This is economically unattractive versus using existing cable and fibre infrastructure, even if the unavailability of new sites could be overcome Combination of 5G and high-speed broadband landline connections is required and will be optimal to satisfy future communication needs of Swiss consumers and businesses In February 2019, freenet CEO publicly stated that he believes in the industrial logic of the transaction and the synergies (“And I have a very strong opinion that those synergies are extremely valid, given the capabilities, the capacities of the management team, I strongly believe in it. We have always said that by an industry logic and by the specific environment in Switzerland, we think the deal as such is a favourable deal.”) 	<ul style="list-style-type: none"> Network test CH connect 2019 on Sunrise website "Shareholder Information Document" page 139 on Sunrise IR website "White Paper Cable Networks Switzerland Marc Furrer" on Sunrise IR website freenet Q4 18 earnings release transcript
2	<p>Purchase price</p> <ul style="list-style-type: none"> Purchase price and implied valuation for UPC Switzerland are too high 	<ul style="list-style-type: none"> The transaction is priced at favourable multiples relative to precedent convergence transactions, even more so when considering low Swiss interest and tax rate (7.7x EV/2018A EBITDA vs. precedent average of 9.1x (post-synergies) and 10.2x EV/2018A OpFCF vs. precedent average of 13.8x (post-synergies)) Sunrise has received two independent fairness opinions supporting the purchase price Higher expected synergies with NPV of ~CHF3.1bn are expected following the completion of detailed integration planning over the last six months combined with better than expected UPC Switzerland performance further support the purchase price Expected to be significantly equity free cash flow per share accretive from year 1 (before integration costs and including run-rate synergies), broadly doubling compared to announcement 	<ul style="list-style-type: none"> "SRCG Roadshow Presentation" page 7 on Sunrise IR website ValueTrust "Fairness Opinion" page 45 on Sunrise IR website "Sunrise Board comments on announcement by freenet AG" on Sunrise IR website
3	<p>Synergy allocation</p> <ul style="list-style-type: none"> Significant portion of synergies paid away to Liberty Global 	<ul style="list-style-type: none"> Sunrise shareholders will retain over 60% of the expected synergies from the transaction, which is above market precedents Increased expected synergies as a result of detailed integration planning over the last six months results in Sunrise shareholders retaining more value of synergies compared to original announcement in February 2019 Expected to be significantly equity free cash flow per share accretive from year 1 (before integrations costs and including run-rate synergies), broadly doubling compared to announcement 	<ul style="list-style-type: none"> BCG's study "Synergies take center stage" page 19 (2018) T-Mobile Austria/UPC Austria transaction presentation page 7 (December 2017) "Sunrise Board comments on announcement by freenet AG" on Sunrise IR website

Key facts regarding freenet assertions (continued)

	freenet assertion	Key facts	Public references
4 Transaction structure	<ul style="list-style-type: none"> All-cash acquisition leaves execution risks with existing Sunrise shareholders 	<ul style="list-style-type: none"> Sunrise explored several transaction structures (including among others a partially stock-funded transaction) and concluded that the ultimate structure now announced is the most beneficial to Sunrise shareholders The representatives of freenet on the Board were privy to all of these discussions, agreed with the assessment at the time and supported the all-cash offer and associated initial CHF4.1 billion rights issue which were both unanimously approved by the Board at the time the proposal was made to Liberty Global The transaction structure allows Sunrise investors to benefit from the transaction by retaining a large portion of the synergies (as evidenced by Sunrise shareholders retaining full upside from the revised synergies) and continuing to receive a progressive dividend 	<ul style="list-style-type: none"> "Sunrise Board comments on announcement by freenet AG" on Sunrise IR website "Shareholder Information Document" page 59 on Sunrise IR website
5 Debt structure	<ul style="list-style-type: none"> There is a significant value transfer (>EUR300m) from Sunrise shareholders to UPC bondholders resulting from Sunrise taking over UPC bonds 	<ul style="list-style-type: none"> The debt portfolio transferred as part of the transaction provides Sunrise with an attractive, long-term capital structure at favourable interest rates and flexible covenants Value increase of UPC bonds has been driven by general market conditions; Sunrise CHF200m bond has experienced a similar value increase The trading price of UPC bonds has no direct impact on the value for Sunrise shareholders. The coupon payable and the principle amount to be repaid at maturity does not change Revised financing structure results in reduced weighted average cost of debt of ~3.2% vs ~3.6% in the originally announced structure 	<ul style="list-style-type: none"> "Sunrise Board comments on announcement by freenet AG" on Sunrise IR website Bloomberg Markit iTraxx Europe Crossover and publicly traded UPC bonds as well as Sunrise CHF200m note¹⁾ "Update on UPC Transaction" page 6 on Sunrise IR website
6 UPC Switzerland performance	<ul style="list-style-type: none"> UPC Switzerland cash flows driven by mobile hardware revenue 	<ul style="list-style-type: none"> Residential non-subscription revenues (incl. revenues from sale of equipment, i.e. mobile hardware) for the 6 months ending June 2019 broadly similar to the 6 months ending June 2018 Residential non-subscription revenues accounting not for more than ~8-10% of total residential revenues between FY16 and H1 19 UPC mobile hardware revenues have low margins (as with Sunrise mobile hardware revenue) and does not have a significant impact on UPC's EBITDA or cash flow Mobile revenue increased by ~44% with ~24% stemming from service (subscription) and ~20% from hardware (non-subscription revenues) 	<ul style="list-style-type: none"> "Shareholder Information Document" pages 111+112 on Sunrise IR website

1) UPCB Finance VII Ltd 3.625%, UPCB Finance IV Ltd 4.000%, UPC Holding 3.875%, Sunrise CHF200m notes