Q1 2019

Interim Financial Report

Three-month period as of March 31, 2019

Sunrise

Content

Operational and Financial Review

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CHF million January 1 – March 31	**2019 as reported**	2019 without IFRS 16	2018[1]	Change reported figures (%)
Revenue				
Mobile services	302	302	302	(0.2)
– Thereof mobile postpaid	*201*	*201*	*190*	*6.1*
– Thereof mobile prepaid	*19*	*19*	*25*	*(23.0)*
– Thereof mobile hardware	*58*	*58*	*66*	*(11.4)*
– Thereof other	*23*	*23*	*22*	*4.8*
Landline services (incl. voice)	71	71	89	(20.1)
– Thereof landline voice	*31*	*31*	*32*	*(2.5)*
– Thereof hubbing	*17*	*17*	*31*	*(45.8)*
– Thereof other	*23*	*23*	*26*	*(11.2)*
Landline Internet and TV	74	74	67	10.2
Total revenue	**447**	**447**	**458**	**(2.6)**
Revenue excl. mobile hardware and hubbing	372	372	362	2.7
Gross profit	**305**	**305**	**293**	**4.2**
% margin	68.4%	68.4%	64.0%	
% margin (excl. hubbing & hardware revenue)	82.2%	82.2%	81.1%	
EBITDA	**175**	**163**	**137**	**27.4**
EBITDA adjusted	**158**	**147**	**140**	**13.2**
% margin	35.5%	32.9%	30.5%	
% margin (excl. hubbing & hardware revenue)	42.6%	39.5%	38.7%	
Net income	**35**	**36**	**17**	**110.8**
Cash flow				
Reported EBITDA	175	163	137	27.4
Change in NWC	40	33	(15)	(359.4)
Net interest	(9)	(6)	(6)	64.8
Tax	(21)	(21)	(23)	(6.9)
CAPEX	(134)	(134)	(73)	85.1
Repayments of lease liabilities[2]	(16)	(1)	0	–
Other financing activities	(0)	(0)	(20)	(98.2)
Equity free cash flow	**33**	**33**	**1**	**2,625.5**
Other[3]	5	5	7	(30.4)
Total cash flow	**38**	**38**	**8**	**364.2**
Net debt	**1,420**	**1,155**	**1,137**	**24.9**
Net debt / pro forma adj. EBITDA (LTM)[4]	2.2×	1.9×	1.9×	

[1] The Company has initially applied IFRS 16 using the modified retrospective approach. Under this method, the comparative information is not restated.
[2] In 2018 repayments related to finacial leases were not part of Equity free cash flow.
[3] 2019 consist mainly of sale of property, plant and equipment of CHF +5 million.
[4] Based on pro forma adjusted EBITDA taking into account annualized IFRS 16 EBITDA impact.

Operational KPIs

January 1 – March 31	**2019 as reported**	2018	Change reported figures (%)
ARPU (CHF)			
Mobile blended	**31.1**	**30.5**	**2.0**
Postpaid	38.3	39.3	(2.6)
– Thereof origination	*35.7*	*36.3*	*(1.6)*
– Thereof termination	*2.6*	*3.0*	*(14.6)*
Prepaid	10.6	11.4	(6.8)
Landline			
Landline voice	21.6	23.8	(9.1)
Internet	36.0	35.7	0.9
TV	25.0	26.4	(5.0)
Subscription base (in thousand)			
Mobile			
Postpaid	1,772.0	1,625.1	9.0
– Primary	1,437.5	1,333.6	7.8
– Secondary	334.5	291.5	14.7
Prepaid (3-month rule)	597.3	725.8	(17.7)
Prepaid (12-month rule)	1,010.0	1,244.4	(18.8)
Landline			
Landline voice	481.3	442.9	8.7
Internet	471.8	430.7	9.5
TV	252.3	220.9	14.2
LTM Churn (%)			
Postpaid	13.2	13.5	(1.9)
Landline	12.9	16.2	(20.8)
Employees			
FTEs	1,611	1,620	(0.6)
Apprentices	138	123	12.2

Financial Review

Financial Summary

Compared to Q1 2018, service revenue (total revenue excl. mobile hardware and hubbing revenue) increased by 2.7%, which was mainly driven by the strong customer growth in mobile postpaid and landline internet. This positive development was offset by the decreasing mobile hardware (−11.4%) and hubbing revenue (−45.8%), leading to a total revenue decrease of 2.6% compared to prior year period. Adjusted EBITDA (excl. IFRS 16) increased by 5.0% in the first three-month period ended March 31, 2019, mainly driven by gross profit growth. The initial application of the new accounting standard IFRS 16 led to a decrease in operating expenses of CHF 11 million for Q1 2019. As a consequence, adjusted EBITDA incl. IFRS 16 increased by 13.2%.

Major Events

In January 2019, the Group has sold 133 telecom towers for a consideration of CHF 29 million to Swiss Towers AG. The resulted gain on the transaction is treated as a non-recurring gain and therefore has no impact on the adjusted EBITDA guidance.

At the 5G frequency auction, Sunrise has acquired the strategically most important frequencies in the 3.5 GHz band for CHF 89 million. With its existing and new frequencies, Sunrise will be able to secure its existing 96% 4G area coverage and deliver a world-class 5G network in the future. The concessions are not yet legally binding, once they will be, the payment of CHF 89 million will be due within 30 days.

IFRS 16 Impact for Q1 2019

IFRS 16, Leases is effective for annual reporting periods beginning on January 1, 2019 and replaces the existing standard IAS 17. The new standard requires lessees to treat all lease contracts as finance leases and does not allow the classification as "operating lease" as known under IAS 17. As part of the transition to IFRS 16, as of January 1, 2019 the Group has recognized right-of-use assets (RoU assets) and additional Lease Liabilities in the amount of CHF 280 million (total Lease Liabilities as of January 1, 2019: CHF 284million). The first-time adoption of IFRS 16 did not have an impact on the Group's equity. The positive impact on EBITDA for Q1 2019 of CHF 11 million (thereof CHF 11 million as a reduction of other operating expenses and a negligible effect in the cost of sales), is related to the shift of costs within Condensed Consolidated Interim Statement of Income (from originally above EBITDA to depreciation and interest expenses). It was compensated by the increase in depreciation (CHF 9 million) and interest expenses (CHF 3 million). This led to a negative income before tax impact of CHF 1 million in Q1 2019.

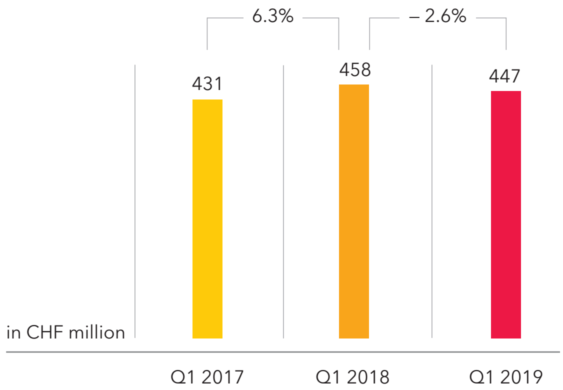
The table below summarizes the impact on Condensed Consolidated Interim Statement of Income of applying IFRS 16 for Sunrise:

CHFk January 1 – March 31	TOTAL COMPANY 2019	2018[1]	Change (%)
Gross profit reported	**305,402**	**293,183**	**4.2**
IFRS 16 impact	45	–	
Gross profit excluding IFRS 16	305,357	293,183	4.2
EBITDA reported	**174,565**	**137,006**	**27.4**
IFRS 16 impact	11,400	–	
EBITDA excluding IFRS 16	163,165	137,006	19.1
Income before income taxes reported	**45,620**	**22,305**	**104.5**
IFRS 16 impact	(956)	–	
Income before income taxes excluding IFRS 16	46,576	22,305	108.8
Net income reported	**35,246**	**16,721**	**110.8**
IFRS 16 impact	(756)	–	
Net income excluding IFRS 16	36,002	16,721	115.3

[1] The Group has initially applied IFRS 16 as of January 1, 2019. Under the transition method chosen, comparative information is not restated.

Revenue

The Sunrise Group financial results for the three-month period ended March 31, 2019, showed a decrease in total revenue of 2.6%, mainly attributable to the decrease in mobile hardware and hubbing revenue, which both are low margin. This effect was partly offset by the increased service revenue of 2.7% year-over-year.



Revenue by segment and service

Sunrise reports the segments Residential, Business, Wholesale and a reportable Head Office segment, which includes the finance, customer service, IT and technology functions of the Group. The organizational structure of Sunrise reflects these segments, as they represent the different customer groups to which the Group provides its services. The financial revenue development of the segments is shown in the table below:

CHFk January 1 – March 31	RESIDENTIAL 2019	 2018	BUSINESS 2019	 2018	WHOLESALE[1] 2019	 2018	HEAD OFFICE ACTIVITIES 2019	 2018	TOTAL 2019	 2018
Revenue										
External customers	324,436	326,144	71,520	65,813	40,797	56,245	9,870	10,118	446,623	458,320
Total	**324,436**	**326,144**	**71,520**	**65,813**	**40,797**	**56,245**	**9,870**	**10,118**	**446,623**	**458,320**

[1] Including hubbing revenue of CHF 17 million generated in the three-month period ended as of March 31, 2019, and CHF 31 million in the three-month period ended as of March 31, 2018.

Sunrise sells mobile services, landline services and Internet & TV services across its segments. Since this information could be sensitive from a competitive point of view, the Group refrains from reporting breakdown of the segments by services and instead provides a breakdown of total revenue by services.

CHFk January 1 – March 31	2019	2018
Mobile services	301,672	302,384
– Thereof mobile postpaid	*201,161*	*189,615*
– Thereof mobile prepaid	*19,456*	*25,283*
– Thereof mobile hardware	*58,179*	*65,657*
– Thereof other	*22,876*	*21,829*
Landline services	70,850	88,694
– Thereof landline voice	*31,171*	*31,971*
– Thereof hubbing	*16,796*	*30,961*
– Thereof other	*22,883*	*25,762*
Landline Internet and TV	74,101	67,242
Total	**446,623**	**458,320**
Revenue excl. mobile hardware and hubbing	*371,648*	*361,702*

Mobile Services

Revenue from mobile services slightly decreased by 0.2% to CHF 302 million in the year-over-year comparison. While the mobile postpaid revenue rose by 6.1% due to a increased postpaid subscription base (9.0%), the decrease in mobile prepaid revenue (23.0%) as well as the lower mobile hardware revenue (11.4%) led to the slight total mobile services revenue decrease for the three-month period ended as of March 31, 2019.

The year-over-year postpaid ARPU reduction of CHF 1.0 was mainly driven by the continued secondary SIM dilution, reduction in mobile termination rates (MTR) and roaming-off effects. The postpaid subscription base totaled 1,772 thousand subscribers as of March 31, 2019 (March 31, 2018: 1,625 thousand). The subscription base increase, recorded over all segments, was driven by high network quality, good customer experience, prepaid to postpaid migration, broad product offerings as well as an attractive price performance ratio. 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 0.8). As in previous years, increased OTT usage as well as high value prepaid customers migrating to postpaid are the main factors that led to the ARPU decrease. The prepaid subscription base shrank year-over-year by 17.7% to 597 thousand subscribers as of March 31, 2019, mainly related to pre- to postpaid migration.

Hardware revenue (low margin) decreased year-over-year by 11.4% to CHF 58 million for the three-month period ended March 31, 2019. Average hardware prices remained stable compared on a year-over-year basis, the decline in revenue is mainly attributable to lower device plan volumes as a result of a lower subscription attachment rate. Hardware revenue also depends on handset innovation/launches and is volatile by nature.

Landline Services

Landline services revenue decreased by 20.1% to CHF 71 million in the first quarter of 2019, mainly driven by lower hubbing revenue.

Landline voice revenue decreased by 2.5% to CHF 31 million caused by continued fixed-to-mobile substitution, voice flat rates and increased use of OTT services. Hubbing revenue, which is low margin, decreased by 45.8% to CHF 17 million. This decline is due to an increased focus on profitability and therefore a shift to higher margin business, which is also reflected in a stable hubbing gross profit.

Landline Internet and TV

Internet and TV revenue increased by 10.2% to CHF 74 million in the three-month period ended as of March 31, 2019.

The total Internet subscription base increased by 9.5% year-over-year to 472 thousand subscriptions. The revenue increase was also supported by a 0.9% growth of Internet ARPU, which is attributable to increased Internet prices in Q3 2018 accompanied by higher speeds. The TV product that can be purchased alongside Internet service increased its customer base by 14.2% year-over-year to 252 thousand subscribers. Customer growth was supported by convergence benefits including the Sunrise One offer, and by enhanced TV sports content. TV ARPU decreased by 1.3 CHF to 25.0 CHF in the first quarter of 2019 which was mainly caused by promotion activities.

In the three-month period ended as of March 31, 2019, total Internet and TV subscription base as well as the corresponding ARPUs were impacted by a minor redefinition of customer base, which has no effect on revenue. Total increase in subscription base due to this redefinition is 5 thousand landline internet and TV subscribers (thereof 5 thousand internet, 3 thousand TV and 5 thousand landline voice).

Profitability and Costs

The following sections show the development of gross profit, EBITDA and net income.

Gross Profit

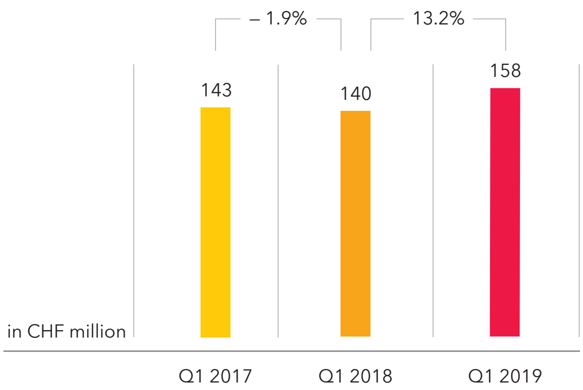
Gross profit came in at CHF 305 million with a 4.2% growth year-over-year and with a negligible impact of IFRS 16. The increase in gross profit despite the total revenue decline of 2.6%, can be ascribed to the fact that the revenue decline from mobile hardware and hubbing has below group average gross margins. Gross profit growth was driven by service revenue growth and service gross margin expansion. Higher service gross margin was supported by reduced MTR (mobile termination rate), better revenue mix as well as landline access deals.

Transmission Costs and Costs of Goods Sold

Transmission costs and cost of goods sold totaled CHF 141 million for the three-month period ended as of March 31, 2019, a decrease of 14.5% year-over-year, mostly driven by lower handset expenses and the reduced hubbing costs of goods sold, both along reduced revenue.

Adjusted EBITDA

Adjusted EBITDA as of March 31, 2019, amounted to CHF 158 million, showing a year-over-year increase of 13.2%. The initial application of IFRS 16 as of January 1, 2019, led to a CHF 11 million or 8.1% higher year-over-year (adjusted) EBITDA. Consequently, adjusted EBITDA increased year-over-year by 7 million or 5.0% excluding the impact of IFRS 16.



The development of adjusted EBITDA was supported by gross profit growth which was partly offset by increased variable operational expenses into operational momentum, such as marketing, acquisition and customer service expenses.

The table below shows one-time adjustments from reported EBITDA to adjusted EBITDA for the first three months in 2019, 2018 and 2017. The biggest adjustments for the current period relate to non-recurring, non-operating events and include the gain on the 133 telecom tower disposal to Swiss Towers AG (CHF 25 million) in January 2019, partly offset by advisory fees related to the acquisition of UPC Switzerland GmbH (CHF 7 million), costs related to the relocation of the group's headquarter (CHF 2 million) and early employee contract terminations (CHF 1 million).

in CHFk January 1 – March 31	**2019**	2018	2017
Reported EBITDA	**175**	**137**	**141**
Prior-year-related events	(2)	(1)	(2)
Non-recurring and / or non-operating events	(15)	4	3
Costs related to share-based payment	1	0	0
Adjusted EBITDA	**158**	**140**	**143**

Reported EBITDA

The Group generated an EBITDA of CHF 175 million for the three-month period ended March 31, 2019, a year-over-year increase of CHF 38 million or 27.4% from CHF 137 million for the same period in 2018. The year-over-year EBITDA increase is mainly attributable to higher mobile service revenue and internet and TV revenue alongside with the growth in gross profit as well as the achieved gains on disposal of property, plant and equipment related to the sale of 133 telecom towers to Swiss Towers AG in January 2019. Due to the initial application of IFRS 16 as of January 1, 2019, EBITDA was positively impacted by CHF 11 million that is mainly related to the reduction of lease expenses as a consequence of the cost shift within Condensed Consolidated Interim Statement of Income.

Other Operating Expenses

Other operating expenses increased by CHF 1 million from CHF 104 million to CHF 105 million (excl. IFRS 16 to CHF 117 million) year-over-year for the three-month period in 2019. Compared to the prior year period, additional costs related to the acquisition of UPC Switzerland GmbH of CHF 7 million, as well as higher marketing costs and higher onboarding costs for new customers are the main factors for this development. The initial application of IFRS 16 as of January 1, 2019, had a positive impact of CHF 11 million on other operating expenses.

Wages, Salaries and Pension Costs

Wages, salaries and pension costs totaled CHF 54 million for the three-month period ended March 31, 2019. This represents a flat year-over-year development with one-time early employee contract terminations of CHF 1 million being offset by a slightly lower FTE base.

Although the pension fund of Sunrise Communications AG is overfunded by 16% as of December 31, 2018, according to Swiss GAAP FER 26, the Group reports a net pension liability of CHF 89 million in its condensed consolidated interim financial statements as of March 31, 2019. 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 increase of CHF 4 million in the pension liability from CHF 85 million as of December 31, 2018, is mainly due to the change in the discount rate.

Other Income and Expenses, Net

Other income and expenses, net increased by CHF 27 million year-over-year. This is mainly attributable to the sale of 133 telecom towers to Swiss Towers AG in January 2019, which is treated as a non-recurring gain and therefore has no impact on adjusted EBITDA.

Net Income

The Group reported a net income of CHF 35 million for the three-month period ended March 31, 2019, a year-over-year increase of CHF 19 million from a net income of CHF 17 million for the prior-year period. The net income development was impacted by the positive operational result, reflected in an adjusted EBITDA (excl. IFRS 16) growth of CHF 7 million and by the recorded gain of CHF 25 million related to the sale of the 133 telecom towers to Swiss Towers AG in January 2019. These effects were partly offset by the increased expenses related to the acquisition of UPC Switzerland GmbH (CHF 7 million) as well as higher tax expenses of CHF 5 million. The negative IFRS 16 impact on Net income for the first three months in 2019 was CHF 1 million.

Depreciation and Amortization

Depreciation and amortization have increased compared to prior year from CHF 105 million in Q1 2018 to CHF 116 million in Q1 2019. This is mainly attributable to the additional depreciation of the new right-of-use assets related to the implementation of IFRS 16, that totaled CHF 9 million for Q1 2019. For the three-month period as of March 31, 2019 CHF 32 million out of the total of CHF 116 million related to the amortization of purchased intangibles (CHF 32 million in Q1 2018). 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 three months in 2019 mainly consist of financial expenses in the amount of CHF 13 million (2018: CHF 11 million). These higher interest expenses are mainly due to the initial application of IFRS 16 as of January 1, 2019, which led to an increase in interest expense in relation to the recognized lease liabilities of CHF 3 million in the first three months of 2019.

Income Taxes

For the first three months in 2019, net income tax expenses of CHF 10 million (Q1 2018: CHF 6 million) consists of a CHF 19 million (Q1 2018: CHF 11 million) tax expense related to current income taxes and a tax benefit of CHF 8 million (Q1 2018: CHF 5 million) related to the change in deferred taxes.

Cash Flow, Balance Sheet and Dividend Policy

The following sections show the development of cash flow, Balance Sheet movements and Dividend Policy.

Cash Flow

Cash and cash equivalents totaled CHF 459 million as of March 31, 2019, an increase of CHF 38 million compared to the cash position held as of December 31, 2018. The cash flow from operating activities of CHF 159 million was partly offset by the cash flow used in investing (CHF 105 million) and financing activities (CHF 17 million). The application of IFRS 16 has led to several shifts within the cash flow statement. However, there is no net cash impact resulting from IFRS 16 (refer to note 4 in the condensed interim financial statements as of March 31, 2019).

Cash Flow from Operating Activities

The year-over-year increase of CHF 65 million in 2019 includes an impact related to IFRS 16 of CHF 15 million (refer to note 4 in the condensed interim financial statements as of March 31, 2019). Excluding this effect, the increase in cash flow from operating activities would amount to CHF 50 million, which is mainly explained by the change in net working capital (CHF 48 million change excl. IFRS 16).

Cash Flow (Used In)/From Investing Activities

Cash flow used in investing activities amounts to CHF 105 million as of March 31, 2019, which is CHF 40 million higher than in prior year (Q1 2018: cash flow from investing activities CHF 65 million). In the first three months of 2019, the cash flow from investing activities was positively impacted by the net proceeds from asset disposals (Q1 2019: CHF 29 million; Q1 2018: CHF 8 million), which mainly related to the sale of 133 telecom towers to Swiss Towers AG in January 2019. This was more than offset by the higher payments for the purchase of intangible assets (CHF 69 million), mainly stemming from the renewal of the Swisscom access deal.

Cash Flow Used in Financing Activities

Cash flow used in financing activities decreased by CHF 4 million in the first three months in 2019 compared to the same period in prior year. The cash flow used in financing activities for Q1 2019 was negatively impacted by IFRS 16, reflected in the CHF 15 million increase in repayments of lease liabilities. This was compensated by CHF 19 million lower payments relating to IRU compared to prior year.

Net Debt

The Group's consolidated debt position – consisting of a term loan B3 facility, senior secured notes and lease liabilities – amounted to CHF 1,840 million (nominal value: CHF 1,879 million compared to CHF 1,615 million as of December 31, 2018), of which CHF 32 million is expected to be paid within 12 months. The increase compared to December 31, 2018, is related to the Group's implementation of IFRS 16 as of January 1, 2019. Net debt at nominal value totaled CHF 1,420 million as of March 31, 2019, resulting in a net debt to EBITDA leverage ratio of 2.2× (December 31, 2018: 2.0×). The 2019 leverage ratio is based on an annualized IFRS 16 impact on EBITDA. Excluding the effects of IFRS 16, the net debt to EBITDA ratio as of March 31, 2019 is 1.9×.

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 non-cash capital expenditures for Indefeasible Rights of Use (IRU) are excluded.

The positive change in net working capital of CHF 40 million in the three-month period as of March 31, 2019 is primarily related to a positive change in trade and other receivable (CHF 28 million) and the change in contract assets (CHF 26 million) driven by incoming payments from customers as well as the settlement of credit notes. This was partly offset by a negative change in other items (CHF 10 million) mainly driven by prepaid expenses.

Compared to the three-month period ended as of March 31, 2018, the change in net working capital shows an increase of CHF 55 million mainly driven by higher cash in from trade and other receivables (CHF 8 million) as well as lower cash out for trade and other payables (CHF 32 million) mainly relating to the purchase of phones, tablets and transmission equipment. Furthermore there was an improvement year-over-year in other items, net (CHF 11 million), mainly driven by lower prepaid expenses in 2019, partly due to IFRS 16 (prepaid leases).

Dividend Proposal and Distribution Policy

At the Annual General Meeting on April 10, 2019, the payment of an ordinary dividend from statutory reserves from capital contributions in the total amount of CHF 189 million (CHF 4.20 per share) in respect of the 2018 financial year was approved. The dividend payment was made on April 16, 2019.

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 2019 guidance, Sunrise expects to propose a dividend in the range of CHF 4.35 to CHF 4.45 per share for 2019, to be paid out of capital contribution reserves in 2020.

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 faces. 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 7, 2018.

Risk Management Process

The Sunrise risk management system adheres to a comprehensive process that starts at the Executive Leadership Team level. The members of the Executive Leadership Team then work 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. Risk management and the resulting risk clusters are discussed among the Executive Leadership Team, while 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

Aggressive promotional campaigns by Salt and other operators offering low domestic flat rates, roaming price competition and competition in the landline market put pressure on almost all market segments. Continued price erosion and a growing customer preference for bundle plans that tend to offer more value for the same price might lead to a decrease in revenue. Additionally, over-the-top services continue to cannibalize international call and roaming voice revenue and impact the growth potential of IPTV. Sunrise actively monitors market developments and offers attractive bundles with flat rate components and promotional activities to comprehensively meet customers' needs.

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 increases in data traffic and the digitalization needs of customers (see chapter 8.7 on pages 25 et seq.). This scenario might mean that the spectrum acquired in the 2019 frequency auction will tie up investments that cannot be utilized without an easing of NIR regulations. With the goal of bringing about a more favorable regulation, Sunrise is attempting to mitigate this risk by stepping up its lobbying activities and by educating all stakeholders about the impact of the restrictive regulatory framework on network evolution, especially the 5G rollout.

Cyber Security and Data Protection

Continuous technological innovation and digitalization open up new business opportunities and services for Sunrise customers. At the same time, the rising technological complexity of the solutions requested by customers and the growing volume of available data combined with shorter innovation cycles increase the complexity of technical implementations. They also open up a wider range of opportunities for attacks to be launched on these systems and solutions. Additionally, both the power commanded by cybercriminals as well as the number of cyber attacks committed increase 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 to the ISO 27001 standard, which covers all personnel, operations processes and technology infrastructure used for the processing, storing and transmission of customer information and communication.

Reputation

The Company's strong momentum contributed to its improved public perception as a strong, ambitious, high-quality player in the Swiss market. This heightened perception, however, also increases the Company's exposure to incidents such as quality issues, network outages, cyber security attacks or negative consumer reports, all of which could negatively affect its image. Reputation risk is not classified as a fully independent risk in and of itself, but rather must be considered as a risk cluster influenced by incidents. Corresponding mitigation activities are addressed in several sections of the Company's strategic risk management.

Business Continuity Management

Telecom services are becoming increasingly complex, and that means they are also heavily dependent on highly sophisticated technological infrastructures. Software or hardware 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, the deliberate selection of suppliers, and continuous improvements to network operations management and controls ensure that Sunrise is able to deliver the service quality and availability expected by its customers.

Sourcing Dependency

Sunrise, like the entire ICT industry, is highly dependent on the global supply chain. Supply chain disruptions, such as supply shortages due to natural disasters, political instability, trade conflicts, etc. could affect the availability of certain components. Sunrise actively monitors these factors. In addition, it is in our suppliers' interest to reduce potential risks to their own business continuity by implementing a multi-sourcing strategy and a comprehensive supply and business continuity management system. Some of our key suppliers, such as Huawei, have confirmed to Sunrise that they have such a comprehensive set-up in place.

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 25 to the 2018 Consolidated Financial Statements of the Group.

Additional Disclosures

Material Affiliate Transactions

Change in the Board of Directors
Ingo Arnold was elected to the Board of Directors as a new member by the Annual General Meeting on April 10, 2019 for a term of one year.

Change in the Executive Leadership Team (ELT)
Marcel Huber was appointed as the new Chief Administrative Officer and Member of the ELT, following Dominik Rubli, who left the companyas of August 31, 2018. Marcel Huber took office on February 11, 2019 taking over Patrick Alain Meier, Director Legal who had been leading the Administrative Office in the interim.

Dividend Payment
At the Annual General Meeting on April 10, 2019, the payment of an ordinary dividend from statutory reserves from capital contributions in the total amount of CHF 189 million (CHF 4.20 per share) in respect of the 2018 financial year was approved. The dividend payment was made on April 16, 2019.

Material Contractual Arrangements

At the 5G frequency auction, Sunrise has acquired the strategically most important frequencies in the 3.5 GHz band for CHF 89 million. With its existing and new frequencies, Sunrise will be able to secure its existing 96% 4G area coverage and deliver a world-class 5G network in the future.

Acquisitions, Disposals and Recapitalization

On February 27, 2019, Sunrise has anounced that it has signed a binding agreement to acquire UPC Switzerland GmbH, a wholly-owned subsidiary of Liberty Global plc, for an enterprise value of CHF 6.3 billion. The Transaction is subject to receipt of regulatory clearance and approval of the rights issue by an extraordinary general meeting of Sunrise; the regulatory approval is expected to be obtained in the second half of 2019 and the closing of the Transaction is expected to take place by the fourth quarter of 2019. Sunrise has agreed to pay a termination fee of CHF 50 million which would become payable in case the Transaction is not completed, subject to certain exceptions.

In January 2019, Sunrise has sold 133 telecom towers to Swiss Towers AG for a consideration of CHF 29 million.

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

2019 Guidance

2019 revenue continues to be expected between CHF 1,860 million to CHF 1,900 million. After a strong start into the year, Sunrise increases its adjusted EBITDA guidance from a range of CHF 608 million to CHF 623 million to a range of CHF 613 million to CHF 628 million. The guidance refers to the standalone business and does not yet include the effects of IFRS 16. 2019 Capex is reiterated in the range of CHF 420 million to CHF 460 million. Upon meeting its 2019 guidance, Sunrise expects to propose a dividend in the range of CHF 4.35 to CHF 4.45 per share for 2019, paid out of capital contribution reserves in 2020.

Condensed Consolidated Interim Financial Statements (unaudited)

Sunrise Communications Group AG

Condensed Consolidated Interim Statements of Income

CHFk January 1 – March 31	Note	2019	2018[1]
		Unaudited	Unaudited
Revenue	**5, 6**	**446,623**	**458,320**
Transmission costs and cost of goods sold	4	(141,221)	(165,137)
Other operating expenses	4	(105,098)	(104,225)
Wages, salaries and pension costs		(53,879)	(53,194)
Other income	7	29,251	1,324
Other expenses		(1,111)	(82)
Income before depreciation and amortization, net financial items and income taxes		**174,565**	**137,006**
Amortization		(65,761)	(63,055)
Depreciation and impairment losses	4	(50,136)	(41,594)
Operating income		**58,668**	**32,357**
Foreign currency gains, net		26	601
Financial income		5	1
Financial expenses	4	(13,079)	(10,654)
Net financial items	**8**	**(13,048)**	**(10,052)**
Income before income taxes		**45,620**	**22,305**
Income taxes		(10,374)	(5,584)
Net income		**35,246**	**16,721**
Net income attributable to equity holders of the parent company		**35,246**	**16,721**
Basic and diluted earnings per share (in CHF)	**4, 9**	**0.78**	**0.37**

[1] The Group has initially applied IFRS 16 as of January 1, 2019. Under the transition method 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 January 1 – March 31	2019	2018[1]
	Unaudited	Unaudited
Net income	**35,246**	**16,721**
Actuarial (loss)/gain related to defined benefit pension plans	(3,648)	7,017
Income tax effect	741	(1,425)
Net other comprehensive (loss)/income not to be reclassified to profit and loss in subsequent periods	**(2,907)**	**5,592**
Other comprehensive (loss)/income, net of tax	**(2,907)**	**5,592**
Total comprehensive income	**32,339**	**22,313**
Comprehensive income attributable to equity holders of the parent company	**32,339**	**22,313**

[1] The Group has initially applied IFRS 16 as of January 1, 2019. Under the transition method chosen, comparative information is not restated (see Note 4).

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

Condensed Consolidated Interim Statements of Financial Position

Assets

CHFk	Note	March 31, 2019	December 31, 2018[1]
		Unaudited	Audited
Non-current assets			
Intangible assets		2,136,929	2,088,238
Property, plant and equipment	4, 15	790,861	823,763
Right-of-use assets	4	298,122	–
Non-current portion of trade and other receivables		62,220	56,813
Non-current portion of contract assets		3,548	4,067
Non-current portion of prepaid expenses		611	631
Contract costs		46,767	45,933
Total non-current assets		**3,339,058**	**3,019,445**
Current assets			
Inventories		45,073	46,329
Current portion of trade and other receivables		291,550	325,960
Current portion of contract assets		74,198	99,682
Current portion of prepaid expenses	4, 15	18,662	8,886
Cash and cash equivalents		458,656	420,919
Total current assets		**888,139**	**901,776**
Total assets		**4,227,197**	**3,921,221**

[1] The Group has initially applied IFRS 16 as of January 1, 2019. Under the transition method chosen, comparative information is not restated (see Note 4).

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

Equity and liabilities

CHFk	Note	March 31, 2019	December 31, 2018[1]
		Unaudited	Audited
Equity			
Common shares		45,069	45,069
Share premium		2,163,251	2,162,727
Other reserves		(776,143)	(776,143)
Accumulated profit		81,863	49,524
Total equity	**10**	**1,514,040**	**1,481,177**
Non-current liabilities			
Non-current portion of loans and notes	11	1,570,656	1,568,262
Non-current portion of lease liabilities	4, 11	237,335	2,774
Non-current portion of trade and other payables	14	40,688	368
Deferred tax liabilities		146,867	155,744
Non-current portion of provisions		54,371	54,372
Employee benefit obligations		89,357	84,881
Non-current portion of contract liabilities		6,008	5,958
Total non-current liabilities		**2,145,282**	**1,872,359**
Current liabilities			
Current portion of lease liabilities	4, 11	31,543	1,973
Current portion of trade and other payables		475,602	501,016
Income tax payable		23,580	26,735
Current portion of provisions		5,569	6,005
Current portion of contract liabilities		30,965	31,510
Other current liabilities		616	446
Total current liabilities		**567,875**	**567,685**
Total liabilities		**2,713,157**	**2,440,044**
Total equity and liabilities		**4,227,197**	**3,921,221**

[1] The Group has initially applied IFRS 16 as of January 1, 2019. Under the transition method 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 January 1 – March 31	Note	2019	2018[1]
		Unaudited	Unaudited
Income before income taxes	**4**	**45,620**	**22,305**
Amortization		65,761	63,055
Depreciation and impairment losses	4	50,136	41,594
Gain on disposal of property, plant and equipment	7	(24,598)	–
Movement in pension		612	1,025
Movement in provisions		(392)	(414)
Change in net working capital	4,13	39,639	(15,283)
Cash flow from operating activities before net financial items and tax		**176,778**	**112,282**
Financial income	8	(5)	(1)
Financial expense	4, 8	13,079	10,654
Foreign currency gains, net	8	(26)	(339)
Interest received	8	5	1
Interest paid	4	(9,310)	(5,648)
Corporate income and withholding tax paid		(21,131)	(22,700)
Total cash flow from operating activities		**159,390**	**94,249**
Purchase of property, plant and equipment	15	(46,471)	(53,855)
Purchase of intangible assets		(87,943)	(18,776)
Sale of property, plant and equipment	14	29,162	7,529
Total cash flow used in investing activities		**(105,252)**	**(65,102)**
Costs relating to capital increase		–	(73)
Repayments of lease liabilities	4, 11	(16,263)	(1,446)
Other financing activities		(358)	(19,544)
Total cash flow used in financing activities		**(16,621)**	**(21,063)**
Total cash flow		**37,517**	**8,084**
Cash and cash equivalents as of January 1		420,919	272,486
Foreign currency impact on cash	8	220	339
Cash and cash equivalents as of March 31		**458,656**	**280,909**

[1] The Group has initially applied IFRS 16 as of January 1, 2019. Under the transition method chosen, comparative information is not restated (see Note 4).

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

Condensed Consolidated Interim Statements of Changes in Equity

CHFk	Common shares	Share premium	Other reserves	Valuation reserve	Accumulated profit/(deficit)	**Total**
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Equity as of January 1, 2018[1]	**45,000**	**2,342,653**	**(776,143)**	**-**	**(101,229)**	**1,510,281**
Impact of change in accounting policies[1]	–	–	–	–	40,032	40,032
Adjusted equity as of January 1, 2018	**45,000**	**2,342,653**	**(776,143)**	**-**	**(61,197)**	**1,550,313**
Net income for the period	–	–	–	–	16,721	16,721
Other comprehensive income	–	–	–	–	5,592	5,592
Total comprehensive income	**-**	**-**	**-**	**-**	**22,313**	**22,313**
Share-based payment	–	(5,328)	–	–	–	(5,328)
Capital increase	69	4,551	–	–	–	4,620
Equity as of March 31, 2018[1]	**45,069**	**2,341,876**	**(776,143)**	**-**	**(38,884)**	**1,571,918**
Equity as of January 1, 2019	**45,069**	**2,162,727**	**(776,143)**	**-**	**49,524**	**1,481,177**
Net income for the period	–	–	–	–	35,246	35,246
Other comprehensive loss	–	–	–	–	(2,907)	(2,907)
Total comprehensive income	**-**	**-**	**-**	**-**	**32,339**	**32,339**
Share-based payment	–	524	–	–	–	524
Equity as of March 31, 2019	**45,069**	**2,163,251**	**(776,143)**	**-**	**81,863**	**1,514,040**

[1] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018.
The accompanying Notes form an integral part of the consolidated financial statements.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

NOTE

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 Thurgauerstrasse 101B, 8152 Glattpark (Opfikon), Switzerland.

The condensed consolidated interim financial statements for the three-month period ended March 31, 2019, 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, 4G/4G+ and 5G technologies. In connection with the services it provides, Sunrise also resells handsets manufactured by third party suppliers.

These condensed consolidated interim financial statements were authorized for issue by the Group's Board of Directors on May 14, 2019.

NOTE 2

Basis of preparation

The condensed consolidated interim financial statements of the Group as of and for the three-month period ended March 31, 2019, 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, 2018.

This is the first set of the Company's financial statements where IFRS 16 has 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 income. Cash, loans and other amounts receivable or payable in foreign currencies (monetary assets and liabilities), if any, are translated into the functional currency at the official exchange rates as quoted at the reporting date.

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

CURRENCY	BALANCE SHEET		INCOME STATEMENT AND CASH FLOW	
CHF	**March 31, 2019**	December 31, 2018	**January 1 – March 31, 2019**	January 1 – March 31, 2018
Euro	1.1164	1.1255	1.1428	1.1709
US Dollar	0.9952	0.9821	1.0039	0.9873

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, leases 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, 2018. The change in accounting policies for IFRS 16 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, 2018. 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, 2019.

The Company has initially adopted IFRS 16 Leases from January 1, 2019. A number of other amendments to existing standards are effective from January 1, 2019, but they do not have a material effect on the Company's financial statements.

Restatement of equity due to accounting policy changes

The initial application of IFRS 16 did not have any impact on equity as of January 1, 2019.

Impact on the financial statements

As part of the transition to IFRS 16, as of January 1, 2019 the Group has recognized additional right-of-use assets (RoU assets) and Lease Liabilities in the amount of CHF 280 million. For the initial application of the new Standard, the Group has chosen the modified retrospective transition method. Comparative figures for the year ended December 31, 2018 have not been restated. For the initial recognition of the right-of-use assets, the Group values the RoU assets to be equal to the lease liabilities (subject to certain adjustments). The detailed impact on the Group's condensed consolidated interim statements of income and cash-flow for the three-month period ended March 31, 2019, and on its condensed consolidated interim statements of financial position as of March 31, 2019 are summarized in the tables below.

	IMPACT OF CHANGES IN ACCOUNTING POLICIES		
CHFk **January 1 – March 31, 2019**	**As reported**	**Adjustments**	Balances without adoption of new accounting policies
	Unaudited	Unaudited	Unaudited
Income Statement			
Transmission costs and cost of goods sold	(141,221)	(45)	(141,266)
Other operating expenses	(105,098)	(11,356)	(116,454)
Depreciation and impairment losses	(50,136)	9,412	(40,724)
Financial expenses	(13,079)	2,944	(10,135)
Income taxes	(10,374)	(199)	(10,573)
Other[1]	355,154	–	355,154
Net income	**35,246**	**756**	**36,002**
Basic and diluted earning per share (in CHF)	0.78	0.02	0.80

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

CHFk March 31, 2019	IMPACT OF CHANGES IN ACCOUNTING POLICIES As reported	Adjustments	Balances without adoption of new accounting policies
	Unaudited	Unaudited	Unaudited
Assets			
Property, plant and equipment	790,861	(27,245)	818,106
Right-of-use assets	298,122	298,122	–
Current portion of prepaid expenses	18,662	(10,187)	28,849
Other[1]	3,119,552	–	3,119,552
Total assets	**4,227,197**	**260,690**	**3,966,507**
Liabilities			
Non-current portion of lease liabilities	237,335	235,242	2,093
Current portion of trade and other payables	475,602	(3,651)	479,253
Current portion of lease liabilities	31,543	30,054	1,489
Income tax payable	23,580	(199)	23,779
Other[1]	1,945,097	–	1,945,097
Total liabilities	**2,713,157**	**261,446**	**2,451,711**
Total Equity			
Accumulated profit	81,863	(756)	82,619
Other[1]	1,432,177	–	1,432,177
Total equity	**1,514,040**	**(756)**	**1,514,796**

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

CHFk January 1 – March 31, 2019	IMPACT OF CHANGES IN ACCOUNTING POLICIES As reported	Adjustments	Balances without adoption of new accounting policies
	Unaudited	Unaudited	Unaudited
Income before income taxes	**45,620**	**955**	**46,575**
Depreciation and impairment losses	50,136	(9,412)	40,724
Change in net working capital	39,639	(6,535)	33,104
Financial expense	13,079	(2,944)	10,135
Interest paid	(9,310)	2,944	(6,366)
Other[1]	20,226	–	20,226
Total cash flow from operating activities	**159,390**	**(14,992)**	**144,398**
Total cash flow used in investing activities	**(105,252)**	**–**	**(105,252)**
Repayments of lease liabilities	(16,263)	14,992	(1,271)
Other[1]	(358)	–	(358)
Total cash flow used in financing activities	**(16,621)**	**14,992**	**(1,629)**

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

IFRS 16 Leases

IFRS 16 replaces existing leases guidance, including IAS 17 Leases and IFRIC 4 Determining whether an Arrangement contains a Lease. The Group has applied IFRS 16 using the modified retrospective transition method and therefore the comparative information has not been restated.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation for lease payments. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. For the Group, Lessor accounting remains immaterial.

At inception of a contract, the Group assesses whether a contract contains a lease. A contract contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This assessment is based on following criteria:

- The contract specifies explicitly or implicitly the right to use an indentified asset which is physically distinct or represents substantially all of the capacity of a physically distinct asset
- If the supplier has a substantive substitution right, then the asset is not identified and therefore the contract does not contain a lease
- the Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset.

During the assessment the Group has identified lease contracts in the categories Mobile Sites, Transmission Equipment such as Leased Lines, Shops & Offices and Cars.

The Group recognizes a RoU asset and a lease liability at the lease commencement date. The RoU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. Furthermore the RoU asset is adjusted for an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located (ARO). The existing ARO Assets that are directly related to an identified lease are reclassed to the RoU asset as of transition date. The RoU assets are subsequently depreciated using the straight-line method from the commencement date to the earlier of the useful life of the RoU asset or the end of the lease term. In addition, RoU assets are periodically reduced by impariment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liabilities are initially measured at the present value of the future lease payments (incl. extension options reasonably certain to be exercised), discounted using the Group's incremental borrowing rate as the discount rate. The weighted average discount rate used to measure the lease liabilities at the date of initial application is 4.7%.

As permitted by the standard, the Group has elected not to recognize RoU assets and lease liabilities for short term leases that have a lease term of 12 months or less. Lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

Based on the operating lease obligations as of December 31, 2018, the following reconciliation resulted to the opening value of the lease liabilities as of January 1, 2019.

CHFk **January 1, 2019**	**As reported**
	Unaudited
Operating lease commitment at 31 December 2018	**203,352**
Discounted effect using the incremental borrowing rate at January 1, 2019	(39,681)
Discounted operating lease commitmentment at January 1, 2019	**163,671**
Financial lease liabilities as at 31 December 2018	4,747
Recognition exemption for short-term leases	(7,176)
Extension options reasonably certain to be exercised	123,130
Lease Liabilities at 1 January 2019	**284,372**

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

Activities

CHFk January 1 – March 31	RESIDENTIAL 2019	RESIDENTIAL 2018[2]	BUSINESS 2019	BUSINESS 2018[2]	WHOLESALE[1] 2019	WHOLESALE[1] 2018[2]	HEAD OFFICE ACTIVITIES 2019	HEAD OFFICE ACTIVITIES 2018[2]	TOTAL 2019	TOTAL 2018[2]
Revenue										
External customers	324,436	326,144	71,520	65,813	40,797	56,245	9,870	10,118	446,623	458,320
Total	**324,436**	**326,144**	**71,520**	**65,813**	**40,797**	**56,245**	**9,870**	**10,118**	**446,623**	**458,320**
Transmission costs and costs of goods sold										
External customers	(97,292)	(106,519)	(22,989)	(21,835)	(20,895)	(36,762)	(45)	(21)	(141,221)	(165,137)
Total	**(97,292)**	**(106,519)**	**(22,989)**	**(21,835)**	**(20,895)**	**(36,762)**	**(45)**	**(21)**	**(141,221)**	**(165,137)**
Other operating expenses	(32,311)	(31,348)	(5,118)	(5,311)	(1,074)	(1,054)	(66,595)	(66,512)	(105,098)	(104,225)
Wages, salaries and pension costs	(14,758)	(14,484)	(10,344)	(10,344)	(1,163)	(1,087)	(27,614)	(27,279)	(53,879)	(53,194)
Other income	–	–	–	–	–	–	29,251	1,324	29,251	1,324
Other expenses	(11)	(11)	–	–	–	–	(1,100)	(71)	(1,111)	(82)
EBITDA	**180,064**	**173,782**	**33,069**	**28,323**	**17,665**	**17,342**	**(56,233)**	**(82,441)**	**174,565**	**137,006**

[1] Including hubbing revenue of CHF 17 million generated in the three-month period ended as of March 31, 2019, and CHF 31 million in the three-month period ended as of March 31, 2018.
[2] The Group has initially applied IFRS 16 as of January 1, 2019. Under the transition method chosen, comparative information is not restated (see Note 4).

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

CHFk January 1 – March 31	2019	2018[1]
EBITDA from reportable segments	**174,565**	**137,006**
Unallocated:		
– Amortization	(65,761)	(63,055)
– Depreciation	(50,136)	(41,594)
– Net financial items	(13,048)	(10,052)
Income before income taxes	**45,620**	**22,305**

[1] The Group has initially applied IFRS 16 as of January 1, 2019. Under the transition method chosen, comparative information is not restated (see Note 4).

NOTE 6

Revenue

CHFk January 1 – March 31	2019	2018
Mobile services	301,672	302,384
– Thereof mobile postpaid	*201,161*	*189,615*
– Thereof mobile prepaid	*19,456*	*25,283*
– Thereof mobile hardware	*58,179*	*65,657*
– Thereof other	*22,876*	*21,829*
Landline services	70,850	88,694
– Thereof landline voice	*31,171*	*31,971*
– Thereof hubbing	*16,796*	*30,961*
– Thereof other	*22,883*	*25,762*
Landline internet and TV	74,101	67,242
Total	**446,623**	**458,320**

CHFk January 1 – March 31	2019	2018
Sales of goods	59,218	77,269
Sales of services	387,405	381,051
Total	**446,623**	**458,320**

Mobile services include revenue from voice and data traffic, subscription and connection fees for mobile devices and interconnection traffic as well as roaming revenue from group subscribers traveling abroad.

Landline services include revenue from traffic, subscription and connection for PSTN / ISDN and Voice over Internet Protocol and other revenue from services, which primarily relate to business services.

Internet services comprise revenue from subscription fees for xDSL, related traffic charges for Internet traffic and IPTV services.

Sales of goods include sales of mobile devices and distribution and sales of ICT and telecommunication products in the e-business sector as well as installation, operation and maintenance services for these products.

NOTE 7

Other income

CHFk January 1 – March 31	2019	2018
Other income		
Gain on disposal of property, plant and equipment	24,598	–
Build-to-Suit (BTS)	2,095	–
Early termination fees	1,328	858
Lump sum payment related to shop transfer	929	–
Other	301	466
Total	**29,251**	**1,324**

NOTE 8

Net Financial Items

CHFk **January 1 – March 31, 2019**	Interest	**Total financial income/ (expenses) before foreign currency**	Net foreign currency gains/(losses)	**Total**
Income				
Cash and cash equivalents	–	–	220	220
Other	5	5		5
Total	**5**	**5**	**220**	**225**
Expenses				
Financial liabilities measured at amortized cost	(8,309)	(8,309)	–	(8,309)
Other	(4,770)	(4,770)	(194)	(4,964)
Total	**(13,079)**	**(13,079)**	**(194)**	**(13,273)**
Net financial items	**(13,074)**	**(13,074)**	**26**	**(13,048)**

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

NOTE 9

Earnings per share

Basic earnings per share is calculated by dividing net profit for the period attributable to ordinary equity holders of the parent company by the weighted number of ordinary shares outstanding during the period.

January 1 – March 31	**2019**	2018[1]
Basic earnings per share		
Net income attributable to equity holders of SCG (CHFk)	35,246	16,721
Weighted average number of shares outstanding	45,069,028	45,042,184
Basic earnings per share (in CHF)	**0.78**	**0.37**
Diluted earnings per share		
Net income attributable to equity holders of SCG (CHFk)	35,246	16,721
Weighted average number of shares outstanding	45,179,406	45,118,369
Diluted earnings per share (in CHF)	**0.78**	**0.37**

[1] The Group has initially applied IFRS 16 as of January 1, 2019. Under the transition method chosen, comparative information is not restated (see Note 4).

If the vesting conditions were fully met as of March 31, 2019, a maximum of 134'485 shares (December 31, 2018: 98'870) would have a dilutive effect.

NOTE 10

Equity

CHFk	**March 31, 2019**	December 31, 2018[2]
Common shares	45,069	45,069
Share premium[1]	2,163,251	2,162,727
Other reserve	(776,143)	(776,143)
Accumulated profit	81,863	49,524
Total equity	**1,514,040**	**1,481,177**

[1] Share premium includes reserves which are freely available for distribution of dividends.
[2] The Group has initially applied IFRS 16 as of January 1, 2019. Under the transition method chosen, comparative information is not restated (see Note 4).

Share capital

As of March 31, 2019, 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.

Other reserve

The change in other reserve represents the difference in the fair value of the contribution in kind and the book value of assets and liabilities as part of the business restructuring in 2015. Please see the 2015 financial report for more information.

Accumulated profit

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 profit / (deficit).

Dividend
At the Annual General Meeting on April 10, 2019, the payment of an ordinary dividend from statutory reserves from capital contributions in the total amount of CHF 189.3 million (CHF 4.20 per share) in respect of the 2018 financial year was approved. The dividend payment was made on April 16, 2019.

NOTE 11

Borrowings

CHFk	Nominal value at inception	Capitalized debt issuance cost[1]	Debt modification revaluation[4]	Debt repayments	**March 31, 2019**	December 31, 2018[5]
Floating rate						
Term loan B – CHF[2]	1,410,000	(17,598)	(20,829)	–	1,371,573	1,369,221
Fixed rate						
Senior secured notes – CHF[3]	200,000	(917)		–	199,083	199,041
Total loans and notes	**1,610,000**	**(18,515)**	**(20,829)**	**-**	**1,570,656**	**1,568,262**
Other						
Debt relating to lease liabilities	–	–		(16,263)	268,878	4,747
Total borrowings					**1,839,534**	**1,573,009**
Thereof current					*31,543*	*1,973*
Thereof non-current					*1,807,991*	*1,571,036*

[1] At issuance of the borrowings or 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 June 27, 2018
[4] Related to refinancing
[5] The Group has initially applied IFRS 16 as of January 1, 2019. Under the transition method chosen, comparative information is not restated (see Note 4).

The Group's financial indebtedness is governed by financial covenants specified in the senior facilities agreement dated February 9, 2015, and as amended and restated from time to time, most recently on June 15, 2018. The sole financial covenant is the leverage ratio. The Group performs such covenant test biannually on June 30 and December 31. The last covenant test, performed as of December 31, 2018, showed that the Group was in compliance with the applicable financial covenant.

Lease Liabilities is primarily related to lease agreements on mobile sites, shops & offices, fiber networks and cars.

The CHF 1,410.0 million term loan B has a maturity of 5 years, the CHF 200.0 million inaugural Swiss domestic senior secured notes are 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.

NOTE 12

Fair value estimation

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

Fair value hierarchy

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

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

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

There were no transfers between the different hierarchy levels as of March 31, 2019, and December 31, 2018.

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

	CARRYING AMOUNT (BY MEASUREMENT BASIS)		
CHFk **March 31, 2019**	Amortized cost	**Total**	Comparison Fair value[1]
Financial assets			
Cash	458,656	458,656	
Trade and other receivables	353,768	353,768	
Financial liabilities			
Trade payables and other payables	(503,926)	(503,926)	
Loans and notes	(1,570,656)	(1,570,656)	(1,619,600)
Lease Liabilities	(268,878)	(268,878)	
Other current liabilities	(616)	(616)	

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

CHFk December 31, 2018	CARRYING AMOUNT (BY MEASUREMENT BASIS) Amortized cost	Total	Comparison Fair value[1]
Financial assets			
Cash	420,919	420,919	
Trade and other receivable	382,237	382,237	
Financial liabilities			
Trade payables and other payables	(494,818)	(494,818)	
Loans and notes	(1,568,262)	(1,568,262)	(1,611,900)
Financial leases	(4,747)	(4,747)	
Other current liabilities	(446)	(446)	

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

NOTE 13

Change in net working capital

CHFk January 1 – March 31	2019	2018[1]
Change in inventories	1,256	2,594
Change in trade and other receivables	28,203	19,881
Change in trade and other payables	(4,497)	(36,269)
Change in contract assets	26,003	22,116
Change in contract liabilities	(495)	148
Change in contract costs	(834)	(2,646)
Change in other items, net	(9,997)	(21,107)
Total	**39,639**	**(15,283)**

[1] The Group has initially applied IFRS 16 as of January 1, 2019. Under the transition method chosen, comparative information is not restated (see Note 4).

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 non-cash capital expenditures for Indefeasible Rights of Use (IRU) are excluded.

The positive change in net working capital of CHF 39.6 million in the three-month period as of March 31, 2019 is primarily related to a positive change in trade and other receivable (CHF 28.2 million) and the change in contract assets (CHF 26.0 million) driven by incoming payments from customers as well as the settlement of credit notes. This was partly offset by a negative change in other items (CHF 10.0 million) mainly driven by prepaid expenses.

Compared to the three-month period ended as of March 31, 2018, the change in net working capital shows an increase of CHF 54.9 million mainly driven by higher cash in from trade and other receivables (CHF 8.3 million) as well as lower cash out for trade and other payables (CHF 31.8 million) mainly relating to the purchase of phones, tablets and transmission equipment. Furthermore there was an improvement year-over-year in other items, net

(CHF 11.1 million), mainly driven by lower prepaid expenses in 2019, partly due to IFRS 16 (prepaid leases).

NOTE 14

Disposal of assets

During the first three months of 2019, the Group has recognized a net gain on asset disposal of CHF 24.6 million, which is reflected in other income in the Groups condensed consolidated financial statements as of March 31, 2019 (Q1 2018: CHF nil). The total cash consideration received amounted to CHF 29.2 million (Q1 2018: CHF 7.5 million), of which CHF 28.6 million relate to the telecom towers sold to Swiss Towers AG in January 2019.

NOTE 15

Other balance sheet items

Intangible assets

During the three-month period ended March 31, 2019, the Group acquired intangible assets of CHF 114.5 million (March 31, 2018: 9.4 million). In the same period, the Group paid CHF 87.9 million (Q1 2018: CHF 18.8 million) for intangible assets additions.

Property, plant and equipment

During the three-month period ended March 31, 2019, the Group acquired assets of CHF 39.2 million (March 31, 2018: CHF 27.1 million). In the same period, the Group paid CHF 46.5 million (Q1 2018: CHF 53.9 million) for property, plant and equipment additions.

Current portion of prepaid expenses

The balance mainly consists of 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 March 31, 2019, amounted to CHF 434.8 million (March 31, 2018: CHF 190.9 million) consisting of future investments in property, plant and equipment and intangible assets, of which CHF 89.2 million relate to the 5G licences.

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.

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