H1 2019

Interim Financial Report

Six-month period as of June 30, 2019

Sunrise

Content

Operational and Financial Review

Financial KPIs

CHF million	**H1 2019 as reported**	H1 2019 without IFRS 16	H1 2018[1]	Change of reported H1 2019 to H1 2018 (%)	**Q2 2019 as reported**	Q2 2019 without IFRS 16	Q2 2018[1]	Change of reported Q2 2019 to Q2 2018 (%)
Revenue								
Mobile services	604	604	617	(2.1)	302	302	315	(3.9)
– Thereof mobile postpaid	*409*	*409*	*392*	*4.2*	*208*	*208*	*203*	*2.5*
– Thereof mobile prepaid	*39*	*39*	*50*	*(22.1)*	*20*	*20*	*25*	*(21.2)*
– Thereof mobile hardware	*111*	*111*	*131*	*(15.2)*	*53*	*53*	*65*	*(19.1)*
– Thereof other	*45*	*45*	*44*	*3.3*	*23*	*23*	*22*	*1.8*
Landline services (incl. voice)	145	145	168	(13.5)	74	74	79	(6.0)
– Thereof landline voice	*62*	*62*	*63*	*(1.5)*	*31*	*31*	*31*	*(0.4)*
– Thereof hubbing	*33*	*33*	*54*	*(39.5)*	*16*	*16*	*23*	*(31.1)*
– Thereof other	*50*	*50*	*51*	*(0.6)*	*27*	*27*	*25*	*10.3*
Landline Internet and TV	152	152	136	11.8	78	78	69	13.3
Total revenue	**901**	**901**	**921**	**(2.1)**	**455**	**455**	**463**	**(1.7)**
Revenue excl. mobile hardware and hubbing	758	758	736	3.0	386	386	374	3.1
Gross profit	**617**	**617**	**597**	**3.4**	**311**	**311**	**303**	**2.6**
% margin	68.4%	68.4%	64.8%		68.4%	68.4%	65.6%	
% margin (excl. hubbing & hardware revenue)	81.4%	81.3%	81.0%		80.6%	80.6%	81.0%	
EBITDA	**331**	**309**	**284**	**16.7**	**157**	**146**	**147**	**6.6**
EBITDA adjusted	**324**	**302**	**290**	**11.7**	**165**	**155**	**150**	**10.3**
% margin	35.9%	33.5%	31.5%		36.3%	34.1%	32.4%	
% margin (excl. hubbing & hardware revenue)	42.7%	39.8%	39.4%		42.8%	40.1%	40.0%	
Net income	**61**	**63**	**41**	**49.4**	**26**	**27**	**24**	**6.7**
Cash flow								
Reported EBITDA	331	309	284	16.7	157	146	147	6.6
Change in NWC	20	15	(31)	(164.7)	(20)	(18)	(15)	29.8
Net interest	(21)	(15)	(18)	18.7	(12)	(8)	(12)	(2.7)
Tax	(22)	(22)	(28)	(21.8)	(1)	(1)	(5)	(86.3)
CAPEX[2]	(277)	(277)	(154)	79.7	(143)	(143)	(82)	74.9
Repayments of lease liabilities[3]	(22)	(2)	–	–	(6)	(1)	–	–
Other financing activities	(6)	(6)	(20)	(72.2)	(5)	(5)	(0)	1,748.0
Equity free cash flow	**3**	**3**	**34**	**(90.3)**	**(29)**	**(29)**	**33**	**(190.2)**
Other[4]	(185)	(185)	13	(1,536.7)	(190)	(190)	6	(3,264.4)
Total cash flow	**(182)**	**(182)**	**47**	**(488.8)**	**(219)**	**(219)**	**39**	**(667.1)**
Net debt	**1,636**	**1,373**	**1,297**		**1,636**	**1,373**	**1,297**	
Net debt / pro forma adj. EBITDA (LTM)[5]	2.5×	2.2×	2.2×		2.5×	2.2×	2.2×	

[1] The Company has initially applied IFRS 16 using the modified retrospective approach. Under this method, the comparative information is not restated.
[2] H1 year-over-year increase mainly due to CHF 91 million for Spectrum concessions and related consultancy fees
[3] In 2018 repayments related to financial leases were not part of Equity free cash flow.
[4] H1 2019 consists mainly of sale of property, plant and equipment of CHF +5 million and dividend payment of CHF −189 million. H1 2018 consists of dividend payment (CHF −180 million), refinancing cash inflow (CHF +187 million) and sale of property, plant and equipment (CHF +7 million).
[5] Based on pro forma adjusted EBITDA taking into account annualized IFRS 16 EBITDA impact in 2019.

Operational KPIs

	H1 2019 as reported	H1 2018	Change of reported H1 2019 to H1 2018 (%)	Q2 2019 as reported	Q2 2018	Change of reported Q2 2019 to Q2 2018 (%)
ARPU (CHF)						
Mobile blended	**31.4**	**31.4**	**0.1**	**31.8**	**32.3**	**(1.6)**
Postpaid	38.5	40.2	(4.3)	38.7	41.1	(6.0)
– *Thereof origination*	*35.9*	*37.3*	*(3.7)*	*36.1*	*38.3*	*(5.7)*
– *Thereof termination*	*2.6*	*2.9*	*(12.1)*	*2.5*	*2.8*	*(9.9)*
Prepaid	10.8	11.5	(6.3)	10.9	11.7	(6.2)
Landline						
Landline voice	21.3	23.4	(8.9)	21.0	22.9	(8.4)
Internet	35.9	35.8	0.3	35.8	35.8	0.0
TV	25.1	26.2	(4.1)	25.2	26.1	(3.2)
Subscription base (in thousand)						
Mobile						
Postpaid	1,812.3	1,655.4	9.5			
– Primary	1,463.1	1,355.0	8.0			
– Secondary	349.2	300.4	16.2			
Prepaid (3-month rule)	591.7	687.0	(13.9)			
Prepaid (12-month rule)	973.1	1,185.2	(17.9)			
Landline						
Landline voice	491.4	453.1	8.4			
Internet	483.3	441.8	9.4			
TV	263.4	229.4	14.8			
LTM Churn (%)						
Postpaid	12.9	13.9				
Landline	13.2	15.4				
Employees						
FTEs	1,615	1,594.2	1.3			
Apprentices	136	124.0	9.7			

Financial Review

Financial Summary

Compared to H1 2018, service revenue (total revenue excl. mobile hardware and hubbing revenue) increased by 3.0%, which was mainly driven by the strong customer growth in mobile postpaid and landline internet and TV. This positive development was offset by the decreasing mobile hardware (15.2%) and hubbing revenue (39.5%), which both carry low profitability. As a result total revenue decreased by 2.1% compared to prior year period. Adjusted EBITDA (excl. IFRS 16) increased by 4.2% in the first six-month period ended June 30, 2019, mainly driven by service revenue growth. The initial application of the new accounting standard IFRS 16 led to a decrease in operating expenses of CHF 22 million for H1 2019. As a consequence, adjusted EBITDA incl. IFRS 16 rose by 11.7%.

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.

At the 5G frequency auction, Sunrise has acquired the strategically most important frequencies in the 3.5 GHz band for CHF 89 million (total amount incl. consultancy fees: CHF 91 million). With its existing and new frequencies, Sunrise will be able to secure its existing 4G area coverage of above 96% and deliver a world-class 5G network in the future. The concessions are legally binding since June 2019 and the payment of CHF 89 million has been made in June 2019. The acquisition of these new frequencies is reflected in an increase of intangible assets.

IFRS 16 Impact for H1 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 284 million). The first-time adoption of IFRS 16 did not have an impact on the Group's equity. The positive impact on EBITDA for H1 2019 of CHF 22 million (thereof CHF 22 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 19 million) and interest expenses (CHF 6 million). This led to a negative income before tax impact of CHF 3 million in H1 2019.

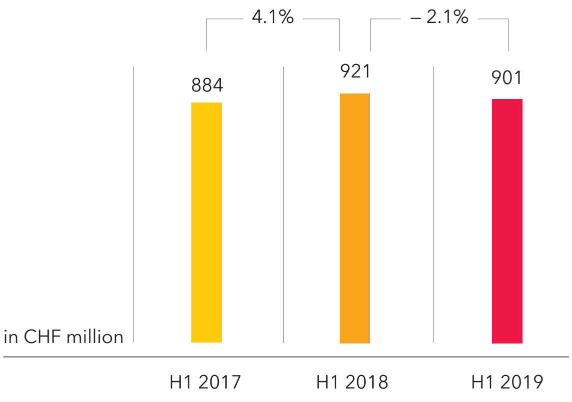
The table below summarizes the impact on Condensed Consolidated Interim Statement of Income of applying IFRS 16 for Sunrise:

CHFk January 1 – June 30	TOTAL CAMPANY 2019	2018[1]	Change (%)
Gross profit reported	**616,601**	**596,588**	**3.4**
IFRS 16 impact	88	–	
Gross profit excluding IFRS 16	616,513	596,588	3.3
EBITDA reported	**331,374**	**284,048**	**16.7**
IFRS 16 impact	22,294	–	
EBITDA excluding IFRS 16	309,080	284,048	8.8
Income before income taxes reported	**74,417**	**57,185**	**30.1**
IFRS 16 impact	(2,500)	–	
Income before income taxes excluding IFRS 16	76,917	57,185	34.5
Net income reported	**60,876**	**40,740**	**49.4**
IFRS 16 impact	(1,981)	–	
Net income excluding IFRS 16	62,857	40,740	54.3

[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 six-month period ended June 30, 2019, showed a decrease in total revenue compared to prior year period of 2.1% to CHF 901 million (H1 2018: CHF 921 million) mainly attributable to the decrease in mobile hardware and hubbing revenue, which both are low margin.



Total revenue for H1 2019 decreased by 2.1% compared to prior year period. Service revenue (total revenue excl. mobile hardware and hubbing revenue) increased by 3.0%, which was mainly driven by the strong customer growth in mobile postpaid and landline internet and TV. This positive development was offset by the decreasing mobile hardware (15.2%) and hubbing revenue (39.5%), which both carry low profitability.

Revenue by segment and service

Sunrise reports the segments Residential, Business, Wholesale as well as 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 – June 30	RESIDENTIAL 2019	RESIDENTIAL 2018	BUSINESS 2019	BUSINESS 2018	WHOLESALE[1] 2019	WHOLESALE[1] 2018	HEAD OFFICE ACTIVITIES 2019	HEAD OFFICE ACTIVITIES 2018	TOTAL 2019	TOTAL 2018
Revenue	**650,284**	**661,424**	**150,199**	**135,120**	**81,181**	**104,295**	**19,733**	**20,093**	**901,397**	**920,932**

[1] Including hubbing revenue of CHF 33 million generated in the six-month period ended as of June 30, 2019, and CHF 54 million in the six-month period ended as of June 30, 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 – June 30	2019	2018
Mobile services	604,026	617,037
– Thereof mobile postpaid	*408,778*	*392,238*
– Thereof mobile prepaid	*39,005*	*50,083*
– Thereof mobile hardware	*110,832*	*130,754*
– Thereof other	*45,411*	*43,962*
Landline services	145,179	167,756
– Thereof landline voice	*62,211*	*63,147*
– Thereof hubbing	*32,660*	*53,993*
– Thereof other	*50,308*	*50,616*
Landline Internet and TV	152,192	136,139
Total	**901,397**	**920,932**
Revenue excl. mobile hardware and hubbing	*757,905*	*736,185*

Mobile Services

The positive development in mobile postpaid revenue, that shows an increase of 4.2% compared to prior year period, is attributable to an increased postpaid subscription base (9.5%). On a year-over-year view, this was offset by the decrease in mobile prepaid revenue (22.1%) as well as the lower mobile hardware revenue (15.2%), which in total led to a mobile services revenue decrease of 2.1% to CHF 604 million for the six-month period ended as of June 30, 2019 (H1 2018: CHF 617 million).

The postpaid subscription base totaled 1,812 thousand subscribers as of June 30, 2019 (June 30, 2018: 1,655 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 demand for 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. The growth in postpaid subscription base was partly offset by the year-over-year postpaid ARPU reduction of CHF 1.8, which was mainly driven by the continued secondary SIM dilution, reduction in mobile termination rates (MTR), roaming and increased promotional intensity.

Mobile prepaid revenue declined year-over-year due to a decreasing subscription base and lower ARPU (CHF 0.7). 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. Furthermore, the decline in the MTR (mobile termination rate) intensifies the negative revenue development through a lower ARPU. The prepaid subscription base shrank year-over-year by 13.9% to 592 thousand subscribers as of June 30, 2019, mainly related to postpaid and OTT.

Hardware revenue (low margin) decreased year-over-year by 15.2% to CHF 111 million for the six-month period ended June 30, 2019. While average hardware prices slightly increased 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. In addition, it is observable that the replacement cycle of handsets has become longer as a consequence of the increased prices alongside better quality. Hardware revenue can also depend on handset innovation/ launches and is volatile by nature.

Landline Services

Landline services revenue decreased by 13.5% or CHF 23 million to CHF 145 million in the first half year of 2019, mainly driven by lower hubbing revenue.

Landline voice revenue decreased by 1.5% to CHF 62 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 39.5% to CHF 33 million. This decline is due to an increased focus on profitability, which is also reflected in a roughly stable hubbing gross profit.

Landline Internet and TV

Internet and TV revenue increased by 11.8% to CHF 152 million in the six-month period ended as of June 30, 2019.

The total Internet subscription base increased by 9.4% year-over-year to 483 thousand subscriptions. The TV products that can be purchased alongside Internet service increased its customer base by 14.8% year-over-year to 263 thousand subscribers. Internet and TV customer growth was supported by convergence 2 – 4P bundle offers, attractive TV offerings such as the launch of Sunrise TV neo in Q2 2019, enhanced TV content, focus on service excellence and dedicated promotions. The revenue increase was also supported by a 0.3% growth of Internet ARPU, which is attributable to the rise of Internet prices in Q3 2018 accompanied by higher speeds. TV ARPU decreased by 1.1 CHF to 25.1 CHF in the first half year of 2019 which was mainly caused by promotion activities.

As already highlighted in the Q1 2019 Report, the total Internet and TV subscription base as well as the corresponding ARPUs as of January 2019 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 discuss the development of gross profit, EBITDA and net income.

Gross Profit

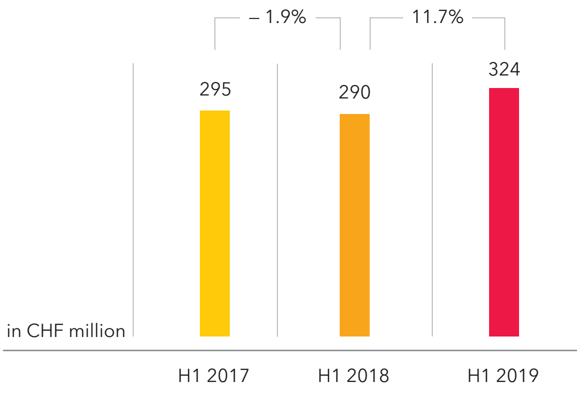
Gross profit came in at CHF 617 million with a 3.4% growth year-over-year and with a negligible impact of IFRS 16. The increase in gross profit was driven by service revenue growth and 40bps service gross margin expansion. Higher service gross margin was supported by reduced MTR as well as better margins due to new landline access deals. Gross profit showed a positive development despite the total revenue decline of 2.1%, since revenue decline from mobile hardware and hubbing has below group average gross margins. As a result of this mix effect, total gross margin increased from 64.8% to 68.4% year-over-year.

Transmission Costs and Costs of Goods Sold

Transmission costs and cost of goods sold totaled CHF 285 million for the six-month period ended as of June 30, 2019, a decrease of 12.2% 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 June 30, 2019, amounted to CHF 324 million, showing a year-over-year increase of 11.7%. The initial application of IFRS 16 as of January 1, 2019, led to a CHF 22 million or 7.7% higher year-over-year (adjusted) EBITDA. Consequently, adjusted EBITDA increased year-over-year by 12 million or 4.2% 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 six 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 14 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 – June 30	**2019**	2018	2017
Reported EBITDA	**331,374**	**284,048**	**290,310**
Prior-year-related events	(1,765)	(1,404)	(2,133)
Non-recurring and / or non-operating events	(7,062)	6,288	6,826
Costs related to share-based payment	1,129	902	397
Adjusted EBITDA	**323,677**	**289,834**	**295,400**

Reported EBITDA

The Group generated an EBITDA of CHF 331 million for the six-month period ended June 30, 2019, a year-over-year increase of CHF 47 million or 16.7% from CHF 284 million for the same period in 2018. The initial application of IFRS 16 as of January 1, 2019, positively impacted EBITDA by CHF 22 million driven by the reduction of lease expenses as a consequence of the cost shift within Condensed Consolidated Interim Statement of Income. The year-over-year EBITDA increase is mainly attributable to higher mobile postpaid revenue and internet and TV revenue, which is reflected in an organic EBITDA growth year-over-year of

CHF 12 million (adjusted EBITDA excl. IFRS 16). Hereto comes the realized gain on the disposal of property, plant and equipment related to the sale of 133 telecom towers to Swiss Towers AG in January 2019 (CHF 25 million), partly offset by the increased expenses related to the acquisition of UPC Switzerland GmbH (CHF 14 million).

Other Operating Expenses

Other operating expenses were stable compared to prior year period (CHF 208 million in both periods). Excluding the effect of IFRS 16, H1 2019 showed an increase in other operating expenses of CHF 21 million to CHF 230 million. Compared to the prior year period, additional costs related to the acquisition of UPC Switzerland GmbH of CHF 14 million, higher MSA Fees (Master Service Agreement) due to the sale of the 133 towers in January 2019, as well as higher marketing costs in relation to 5G introduction and higher onboarding costs for new customers are the main factors for this development. Furthermore the relocation of the Group's headquarter led to a one-time additional increase in other operating expenses of CHF 2 million. The initial application of IFRS 16 as of January 1, 2019, had a positive impact for H1 2019 of CHF 22 million on other operating expenses.

Wages, Salaries and Pension Costs

Wages, salaries and pension costs totaled CHF 109 million for the six-month period ended June 30, 2019. This represents a year-over-year increase of 1.9% or CHF 2 million, driven by one-time early employee contract terminations of CHF 1 million in addition to a slightly higher 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 100 million in its condensed consolidated interim financial statements as of June 30, 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 15 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 29 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 61 million for the six-month period ended June 30, 2019, a year-over-year increase of CHF 20 million from a net income of CHF 41 million for the prior-year period. The net income development was impacted by the growth in adjusted EBITDA and the sale of the 133 towers in January 2019. The negative IFRS 16 net income impact was CHF 2 million.

Depreciation and Amortization

Depreciation and amortization have increased compared to prior year from CHF 212 million in H1 2018 to CHF 233 million in H1 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 19 million for H1 2019 as well as the continued investments in access deals and network rollout. For the six-month period as of June 30, 2019 CHF 63 million out of the total of CHF 233 million related to the amortization of purchased intangibles (CHF 63 million in H1 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 six months in 2019 are CHF 10 million higher than previous year. Financial income in the first six months of 2019 are CHF 15 million lower, partially compensated by lower financial expenses of CHF 5 million. The financial income in the first six months of 2018 of CHF 15 million (nil in 2019) related to the refinancing transaction carried out in June 2018. IFRS 9 requires to book financial gains due to debt modifications at the time of the event, hence, the gain due to lower interest rates was recognized in June 2018. Main drivers of the lower financial expenses of CHF 5 million were CHF 9 million higher expenses in June 2018 caused by the refinancing transaction, offset by CHF 6 million of lease related expenses in 2019 due to the introduction of IFRS 16. Net of both effects, financial expenses decreased year-over-year by CHF 2 million mainly relating to lower average interest expenses, partly offset by higher borrowings.

Income Taxes

For the first six months in 2019, net income tax expenses of CHF 14 million (H1 2018: CHF 16 million) consists of a CHF 32 million (H1 2018: CHF 21 million) tax expense related to current income taxes and a tax benefit of CHF 18 million (H1 2018: CHF 5 million) related to the change in deferred taxes. The deferred tax rate used for the calculation of the deferred tax liabilities have been lowered and led to a deferred tax liability reduction of CHF 4 million as of June 30, 2019. This is due to the reduction of income tax rates which were approved by some cantons during the first half of year of 2019 and which will enter into force as of January 2020 and can be considered as enacted or substantively enacted.

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 240 million as of June 30, 2019, a decrease of CHF 181 million compared to the cash position held as of December 31, 2018. The cash flow from operating activities of CHF 283 million was more than offset by the cash flow used in investing (CHF 247 million) and financing activities (CHF 217 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 June 30, 2019).

Cash Flow from Operating Activities

The year-over-year increase of CHF 73 million in 2019 includes an impact related to IFRS 16 of CHF 20 million (refer to note 4 in the condensed interim financial statements as of June 30, 2019). Excluding this effect, the increase in cash flow from operating activities would amount to CHF 53 million, which is mainly explained by the reduction in net working capital (CHF 46 million change excl. IFRS 16) as well as lower corporate income tax payments, which relate to timing differences compared to prior year period.

Cash Flow (Used In)/From Investing Activities

Cash flow used in investing activities amounts to CHF 247 million as of June 30, 2019, which is CHF 101 million higher than in prior year (H1 2018: cash flow from investing activities CHF 147 million). The first six months of 2019 contained higher payments for the purchase of intangible assets (CHF 117 million higher compared to prior year), mainly stemming from the purchase of the new 5G mobile licenses (CHF 91 million incl. consultancy fees) as well as from higher payments for access deal (year-over-year increase: CHF 30 million). In contrast, the cash flow from investing activities was positively impacted by the net proceeds from asset disposals (H1 2019: CHF 30 million; H1 2018: CHF 8 million), which mainly related to the sale of 133 telecom towers to Swiss Towers AG in January 2019.

Cash Flow Used in Financing Activities

Cash flow used in financing activities increased by CHF 201 million in the first six months in 2019 compared to the same period in prior year. The main reason for this development was the refinancing, including related costs, in 2018, generating a prior year cash inflow of CHF 187 million. The cash flow used in financing activities for H1 2019 was negatively impacted by IFRS 16, reflected in the CHF 20 million increase in repayments of lease liabilities.

Net Debt

The Group's consolidated debt position as of June 30, 2019 – consisting of a term loan B3 facility, senior secured notes and lease liabilities – amounted to CHF 1,839 million of which CHF 33 million is expected to be paid within 12 months. Net Debt consists of the term loan B3 facility, senior secured notes at total nominal value amounted to CHF 1,610 million (December 31, 2018: CHF 1,610 million) and the discounted lease liabilities of CHF 266 million (December 31, 2018: CHF 5 million) reduced by cash and cash equivalents in the amount of CHF 240 million (December 31, 2018: CHF 421 million). This leads to a net debt position as of June 30, 2019 of CHF 1,636 million (December 31, 2018: CHF 1,194 million), resulting in a net debt to EBITDA leverage ratio of 2.5× (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 June 30, 2019 was 2.2×. The increase compared to December 31, 2018, is mainly related to the Group's implementation of IFRS 16 as of January 1, 2019, the cash-out related to the dividend and the mobile license payment.

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 reduction in net working capital of CHF 20 million in the six-month period as of June 30, 2019 is primarily related to a reduction in trade and other receivable (CHF 20 million) and the change in contract assets (CHF 19 million) driven by incoming payments from customers as well as the settlement of credit notes. These positive effects were partly offset by a negative change in trade and other payables (CHF 8 million), driven by seasonal pattern in transmission costs and other items (CHF 9 million) mainly driven by prepaid expenses.

Compared to the six-month period ended as of June 30, 2018, the change in net working capital had a positive impact of CHF 50 million mainly from less cash out from trade and other payables (CHF 63 million) due to higher payments in 2018 for the purchase of mobile phones and tables as well as higher roaming settlements. In addition, there was an improvement year-over-year in other items, net of CHF 8 million, mainly driven by lower prepaid expenses in 2019, partly due to IFRS 16 (prepaid leases). In contrast, the first six months of 2019 were negatively impacted by less reduction in inventory (CHF 16 million) and trade and other receivables (CHF 13 million). The remaining change stems from positions related to contract assets and contract liabilities.

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. **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 (incl. consultancy fees CHF 91 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 legally binding since Q2 2019 and the payment of CHF 89 million has been made in June 2019. The acquisition of these new frequencies is reflected in an increase of intangible assets.
Acquisitions, Disposals and Recapitalization	On February 27, 2019, Sunrise has announced 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 first half of 2019, Sunrise is tightening its adjusted EBITDA guidance range from CHF 613 million to 628 million, to CHF 618 million to 628 million. This guidance refers to the standalone business and does not yet include the effects of IFRS 16. 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 – 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	Note	H1 2019	H1 2018[1]	Q2 2019	Q2 2018[1]
		Unaudited	Unaudited	Unaudited	Unaudited
Revenue	**5, 6**	**901,397**	**920,932**	**454,774**	**462,612**
Transmission costs and cost of goods sold		(284,796)	(324,344)	(143,575)	(159,207)
Other operating expenses		(207,648)	(208,481)	(102,550)	(104,256)
Wages, salaries and pension costs		(109,013)	(106,931)	(55,134)	(53,737)
Other income	7	32,735	2,652	3,484	1,328
Other expenses		(1,301)	220	(190)	302
Income before depreciation and amortization, net financial items and income taxes		**331,374**	**284,048**	**156,809**	**147,042**
Amortization		(131,696)	(126,536)	(65,935)	(63,481)
Depreciation and impairment losses		(101,106)	(85,819)	(50,970)	(44,225)
Operating income		**98,572**	**71,693**	**39,904**	**39,336**
Foreign currency gains, net		1,103	932	1,077	331
Financial income		53	15,052	48	15,051
Financial expenses		(25,311)	(30,492)	(12,232)	(19,838)
Net financial items	**8**	**(24,155)**	**(14,508)**	**(11,107)**	**(4,456)**
Income before income taxes		**74,417**	**57,185**	**28,797**	**34,880**
Income taxes		(13,541)	(16,445)	(3,167)	(10,861)
Net income		**60,876**	**40,740**	**25,630**	**24,019**
Net income attributable to equity holders of the parent company		**60,876**	**40,740**	**25,630**	**24,019**
Basic and diluted earnings per share (in CHF)	**9**	**1.35**	**0.90**	**0.57**	**0.53**

[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	H1 2019	H1 2018[1]	Q2 2019	Q2 2018[1]
	Unaudited	Unaudited	Unaudited	Unaudited
Net income	**60,876**	**40,740**	**25,630**	**24,019**
Actuarial (loss)/gain related to defined benefit pension plans	(13,459)	17,315	(9,811)	10,298
Income tax effect	2,673	(3,515)	1,933	(2,090)
Net other comprehensive (loss)/income not to be reclassified to profit and loss in subsequent periods	**(10,785)**	**13,800**	**(7,878)**	**8,208**
Other comprehensive (loss)/income, net of tax	**(10,785)**	**13,800**	**(7,878)**	**8,208**
Total comprehensive income	**50,091**	**54,540**	**17,752**	**32,227**
Comprehensive income attributable to equity holders of the parent company	**50,091**	**54,540**	**17,752**	**32,227**

[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	June 30, 2019	December 31, 2018[1]
		Unaudited	Audited
Non-current assets			
Intangible assets		2,181,249	2,088,238
Property, plant and equipment		792,320	823,763
Right-of-use assets		290,024	–
Non-current portion of trade and other receivables		57,069	56,813
Non-current portion of contract assets		2,993	4,067
Non-current portion of prepaid expenses		–	631
Contract costs		48,555	45,933
Total non-current assets		**3,372,210**	**3,019,445**
Current assets			
Inventories		45,731	46,329
Current portion of trade and other receivables		305,365	325,960
Current portion of contract assets		81,690	99,682
Current portion of prepaid expenses		18,554	8,886
Cash and cash equivalents		239,827	420,919
Total current assets		**691,167**	**901,776**
Total assets		**4,063,377**	**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	June 30, 2019	December 31, 2018[1]
		Unaudited	Audited
Equity			
Common shares		45,069	45,069
Share premium		1,974,484	2,162,727
Other reserves		(776,143)	(776,143)
Accumulated profit		99,615	49,524
Total equity	**10**	**1,343,025**	**1,481,177**
Non-current liabilities			
Non-current portion of loans and notes	11	1,572,909	1,568,262
Non-current portion of lease liabilities	11	233,099	2,774
Non-current portion of trade and other payables		40,688	368
Deferred tax liabilities		134,572	155,744
Non-current portion of provisions		54,440	54,372
Employee benefit obligations		99,922	84,881
Non-current portion of contract liabilities		7,994	5,958
Total non-current liabilities		**2,143,624**	**1,872,359**
Current liabilities			
Current portion of lease liabilities	11	32,666	1,973
Current portion of trade and other payables		471,933	501,016
Income tax payable		36,395	26,735
Current portion of provisions		4,820	6,005
Current portion of contract liabilities		30,216	31,510
Other current liabilities		698	446
Total current liabilities		**576,728**	**567,685**
Total liabilities		**2,720,352**	**2,440,044**
Total equity and liabilities		**4,063,377**	**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	Note	H1 2019	H1 2018[1]	Q2 2019	Q2 2018[1]
		Unaudited	Unaudited	Unaudited	Unaudited
Income before income taxes		**74,417**	**57,185**	**28,797**	**34,880**
Amortization		131,696	126,536	65,935	63,481
Depreciation and impairment losses		101,106	85,819	50,970	44,225
Gain on disposal of property, plant and equipment	14	(25,228)	(4)	(630)	(4)
Movement in pension		1,151	2,034	539	1,009
Movement in provisions		(1,550)	(555)	(1,158)	(141)
Change in net working capital	13	19,774	(30,584)	(19,865)	(15,301)
Cash flow from operating activities before net financial items and tax		**301,366**	**240,431**	**124,588**	**128,149**
Financial income	8	(53)	(15,052)	(48)	(15,051)
Financial expense	8	25,311	30,492	12,232	19,838
Foreign currency gains, net	8	(1,103)	(932)	(1,077)	(593)
Interest received	8	52	1	47	–
Interest paid		(20,884)	(17,547)	(11,574)	(11,899)
Corporate income and withholding tax paid		(21,846)	(27,930)	(715)	(5,230)
Total cash flow from operating activities		**282,843**	**209,463**	**123,453**	**115,214**
Purchase of property, plant and equipment	15	(89,027)	(83,228)	(42,556)	(29,373)
Purchase of intangible assets	15	(188,184)	(71,053)	(100,241)	(52,277)
Sale of property, plant and equipment	14	29,757	7,533	595	4
Total cash flow used in investing activities		**(247,454)**	**(146,748)**	**(142,202)**	**(81,646)**
Proceeds from long-term loans and notes		–	692,016	–	692,016
Repayments of long-term loans and notes		–	(500,000)	–	(500,000)
Cost of early debt redemption		–	(5,315)	–	(5,315)
Costs relating to capital increase		–	(73)	–	–
Repayments of lease liabilities	11	(22,456)	(2,476)	(6,193)	(1,030)
Dividend payment		(189,290)	(180,276)	(189,290)	(180,276)
Other financing activities		(5,514)	(19,823)	(5,156)	(279)
Total cash flow used in financing activities		**(217,260)**	**(15,947)**	**(200,639)**	**5,116**
Total cash flow		**(181,871)**	**46,768**	**(219,388)**	**38,684**
Cash and cash equivalents as of January 1		420,919	272,486	–	–
Cash and cash equivalents as of April 1		–	–	458,656	280,909
Foreign currency impact on cash	8	780	806	560	467
Cash and cash equivalents as of June 30		**239,827**	**320,060**	**239,827**	**320,060**

[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	Accumulated profit/(deficit)	Total
	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	–	–	–	40,740	40,740
Other comprehensive income	–	–	–	13,800	13,800
Total comprehensive income	**-**	**-**	**-**	**54,540**	**54,540**
Share-based payment	–	(4,871)	–	–	(4,871)
Dividend payment	–	(180,276)	–	–	(180,276)
Capital increase	69	4,551	–	–	4,620
Equity as of June 30, 2018[1]	**45,069**	**2,162,057**	**(776,143)**	**(6,657)**	**1,424,326**
Equity as of January 1, 2019	**45,069**	**2,162,727**	**(776,143)**	**49,524**	**1,481,177**
Net income for the period	–	–	–	60,876	60,876
Other comprehensive loss	–	–	–	(10,785)	(10,785)
Total comprehensive income	**-**	**-**	**-**	**50,091**	**50,091**
Share-based payment	–	1,047	–	–	1,047
Dividend payment	–	(189,290)	–	–	(189,290)
Equity as of June 30, 2019	**45,069**	**1,974,484**	**(776,143)**	**99,615**	**1,343,025**

[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 six-month period ended June 30, 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 August 20, 2019.

NOTE 2

Basis of preparation

The condensed consolidated interim financial statements of the Group as of and for the six-month period ended June 30, 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	**June 30, 2019**	December 31, 2018	**January 1 – June 30, 2019**	January 1 – June 30, 2018
Euro	1.1104	1.1255	1.1433	1.1847
US Dollar	0.9763	0.9821	1.0099	0.9754

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 six-month period ended June 30, 2019, and on its condensed consolidated interim statements of financial position as of June 30, 2019 are summarized in the tables below.

CHFk **January 1 – June 30, 2019**	**IMPACT OF CHANGES IN ACCOUNTING POLICIES** **As reported**	**Adjustments**	Balances without adoption of new accounting policies
	Unaudited	Unaudited	Unaudited
Income Statement			
Transmission costs and cost of goods sold	(284,796)	(88)	(284,884)
Other operating expenses	(207,648)	(22,206)	(229,854)
Depreciation and impairment losses	(101,106)	18,583	(82,523)
Financial expenses	(25,311)	6,212	(19,099)
Income taxes	(13,541)	(520)	(14,061)
Other[1]	693,278	–	693,278
Net income	**60,876**	**1,981**	**62,857**
Basic and diluted earning per share (in CHF)	1.35	0.04	1.39

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

CHFk **June 30, 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	792,320	(25,092)	817,412
Right-of-use assets	290,024	290,024	–
Current portion of prepaid expenses	18,554	(9,044)	27,598
Other[1]	2,962,479	–	2,962,479
Total assets	**4,063,377**	**255,888**	**3,807,489**
Liabilities			
Non-current portion of lease liabilities	233,099	231,902	1,197
Current portion of lease liabilities	32,666	31,177	1,489
Current portion of trade and other payables	471,933	(4,690)	476,623
Income tax payable	36,395	(520)	36,915
Other[1]	1,946,259	–	1,946,259
Total liabilities	**2,720,352**	**257,869**	**2,462,483**
Total Equity			
Accumulated profit	99,615	(1,981)	101,596
Other[1]	1,243,410	–	1,243,410
Total equity	**1,343,025**	**(1,981)**	**1,345,006**

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

CHFk **January 1 – June 30, 2019**	**IMPACT OF CHANGES IN ACCOUNTING POLICIES** **As reported**	**Adjustments**	Balances without adoption of new accounting policies
	Unaudited	Unaudited	Unaudited
Income before income taxes	**74,417**	**2,501**	**76,918**
Depreciation and impairment losses	101,106	(18,583)	82,523
Change in net working capital	19,774	(4,354)	15,420
Financial expense	25,311	(6,212)	19,099
Interest paid	(20,884)	6,238	(14,646)
Other[1]	83,119	–	83,119
Total cash flow from operating activities	**282,843**	**(20,410)**	**262,433**
Total cash flow used in investing activities	**(247,454)**	**–**	**(247,454)**
Repayments of lease liabilities	(22,456)	20,410	(2,046)
Other[1]	(194,804)	–	(194,804)
Total cash flow used in financing activities	**(217,260)**	**20,410**	**(196,850)**

[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 impairment 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 – June 30	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	650,284	661,424	150,199	135,120	81,181	104,295	19,733	20,093	901,397	920,932
Total	**650,284**	**661,424**	**150,199**	**135,120**	**81,181**	**104,295**	**19,733**	**20,093**	**901,397**	**920,932**
Transmission costs and costs of goods sold										
External customers	(193,221)	(213,573)	(50,482)	(45,091)	(41,042)	(65,603)	(51)	(77)	(284,796)	(324,344)
Total	**(193,221)**	**(213,573)**	**(50,482)**	**(45,091)**	**(41,042)**	**(65,603)**	**(51)**	**(77)**	**(284,796)**	**(324,344)**
Other operating expenses	(63,390)	(64,959)	(11,373)	(10,490)	(2,095)	(2,204)	(130,790)	(130,828)	(207,648)	(208,481)
Wages, salaries and pension costs	(29,273)	(28,947)	(21,093)	(20,779)	(2,293)	(2,223)	(56,354)	(54,982)	(109,013)	(106,931)
Other income	–	–	–	–	–	–	32,735	2,652	32,735	2,652
Other expenses	(11)	(11)	–	–	–	–	(1,290)	231	(1,301)	220
EBITDA	**364,389**	**353,934**	**67,251**	**58,760**	**35,751**	**34,265**	**(136,017)**	**(162,911)**	**331,374**	**284,048**

[1] Including hubbing revenue of CHF 33 million generated in the six-month period ended as of June 30, 2019, and CHF 54 million in the six-month period ended as of June 30, 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).

CHFk April 1 – June 30	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	325,848	335,280	78,679	69,307	40,384	48,050	9,863	9,975	454,774	462,612
Total	**325,848**	**335,280**	**78,679**	**69,307**	**40,384**	**48,050**	**9,863**	**9,975**	**454,774**	**462,612**
Transmission costs and costs of goods sold										
External customers	(95,929)	(107,054)	(27,493)	(23,256)	(20,147)	(28,841)	(6)	(56)	(143,575)	(159,207)
Total	**(95,929)**	**(107,054)**	**(27,493)**	**(23,256)**	**(20,147)**	**(28,841)**	**(6)**	**(56)**	**(143,575)**	**(159,207)**
Other operating expenses	(31,079)	(33,611)	(6,255)	(5,179)	(1,021)	(1,150)	(64,195)	(64,316)	(102,550)	(104,256)
Wages, salaries and pension costs	(14,515)	(14,463)	(10,749)	(10,435)	(1,130)	(1,136)	(28,740)	(27,703)	(55,134)	(53,737)
Other income	–	–	–	–	–	–	3,484	1,328	3,484	1,328
Other expenses	–	–	–	–	–	–	(190)	302	(190)	302
EBITDA	**184,325**	**180,152**	**34,182**	**30,437**	**18,086**	**16,923**	**(79,784)**	**(80,470)**	**156,809**	**147,042**

[1] Including hubbing revenue of CHF 16 million generated in the three-month period ended as of June 30, 2019, and CHF 23 million in the three-month period ended as of June 30, 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	H1 2019	H1 2018 [1]	Q2 2019	Q2 2018 [1]
EBITDA from reportable segments	**331,374**	**284,048**	**156,809**	**147,042**
Unallocated:				
– Amortization	(131,696)	(126,536)	(65,935)	(63,481)
– Depreciation	(101,106)	(85,819)	(50,970)	(44,225)
– Net financial items	(24,155)	(14,508)	(11,107)	(4,456)
Income before income taxes	**74,417**	**57,185**	**28,797**	**34,880**

[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	H1 2019	H1 2018	Q2 2019	Q2 2018
Mobile services	604,026	617,037	302,354	314,653
– Thereof mobile postpaid	*408,778*	*392,238*	*207,617*	*202,623*
– Thereof mobile prepaid	*39,005*	*50,083*	*19,549*	*24,800*
– Thereof mobile hardware	*110,832*	*130,754*	*52,653*	*65,097*
– Thereof other	*45,411*	*43,962*	*22,535*	*22,131*
Landline services	145,179	167,756	74,329	79,062
– Thereof landline voice	*62,211*	*63,147*	*31,040*	*31,176*
– Thereof hubbing	*32,660*	*53,993*	*15,864*	*23,032*
– Thereof other	*50,308*	*50,616*	*27,425*	*24,854*
Landline internet and TV	152,192	136,139	78,091	68,897
Total	**901,397**	**920,932**	**454,774**	**462,612**

CHFk	H1 2019	H1 2018	Q2 2019	Q2 2018
Sales of goods	114,880	131,666	55,662	65,587
Sales of services	786,517	789,265	399,112	397,025.16
Total	**901,397**	**920,932**	**454,774**	**462,612**

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	H1 2019	H1 2018	Q2 2019	Q2 2018
Other income				
Gain on disposal of property, plant and equipment[1]	25,228	–	630	–
Build-to-Suit (BTS)	3,620	–	1,525	–
Early termination fees	2,499	1,714	1,171	856
Other	929	938	–	472
Total	**32,276**	**2,652**	**3,326**	**1,328**

[1] See Note 14 for further details.

NOTE 8 Net Financial Items

CHFk **January 1 – June 30, 2019**	Interest	**Total financial income/ (expenses) before foreign currency**	Net foreign currency gains/(losses)	**Total**
Income				
Cash and cash equivalents	1	1	780	781
Other	52	52	323	375
Total	**53**	**53**	**1,103**	**1,156**
Expenses				
Cash and cash equivalents	(1)	(1)	–	(1)
Financial liabilities measured at amortized cost	(15,935)	(15,935)	–	(15,935)
Lease liabilities	(6,393)	(6,393)	–	(6,393)
Other	(2,982)	(2,982)	–	(2,982)
Total	**(25,311)**	**(25,311)**	**-**	**(25,311)**
Net financial items	**(25,258)**	**(25,258)**	**1,103**	**(24,155)**

CHFk January 1 – June 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	–	–	–	–	806	806
Other	15,051	–	1	15,052	126	15,178
Total	**15,051**	**-**	**1**	**15,052**	**932**	**15,984**
Expenses						
Financial liabilities measured at amortized cost	–	(5,315)	(22,030)	(27,345)	–	(27,345)
Lease liabilities	–	–	(364)	(364)	–	(364)
Other	–	–	(2,783)	(2,783)	–	(2,783)
Total	**-**	**(5,315)**	**(25,177)**	**(30,492)**	**-**	**(30,492)**
Net financial items	**15,051**	**(5,315)**	**(25,176)**	**(15,440)**	**932**	**(14,508)**

CHFk **April 1 – June 30, 2019**	Interest	**Total financial income/ (expenses) before foreign currency**	Net foreign currency gains/(losses)	**Total**
Income				
Cash and cash equivalents	1	1	560	561
Other	47	47	323	370
Total	**48**	**48**	**883**	**931**
Expenses				
Cash and cash equivalents	(1)	(1)	–	(1)
Financial liabilities measured at amortized cost	(7,626)	(7,626)	–	(7,626)
Lease liabilities	(3,345)	(3,345)	–	(3,345)
Other	(1,260)	(1,260)	194	(1,066)
Total	**(12,232)**	**(12,232)**	**194**	**(12,038)**
Net financial items	**(12,184)**	**(12,184)**	**1,077**	**(11,107)**

CHFk April 1 – June 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	–	–	–	–	467	467
Other	15,051	–	–	15,051	(136)	14,915
Total	**15,051**	**-**	**-**	**15,051**	**331**	**15,382**
Expenses						
Financial liabilities measured at amortized cost	–	(5,315)	(13,351)	(18,666)	–	(18,666)
Lease liabilities	–	–	(157)	(157)	–	(157)
Other	–	–	(1,015)	(1,015)	–	(1,015)
Total	**-**	**(5,315)**	**(14,523)**	**(19,838)**	**-**	**(19,838)**
Net financial items	**15,051**	**(5,315)**	**(14,523)**	**(4,787)**	**331**	**(4,456)**

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.

	H1 2019	H1 2018[1]	**Q2 2019**	Q2 2018[1]
Basic earnings per share				
Net income attributable to equity holders of SCG (CHFk)	60,876	40,740	25,630	24,019
Weighted average number of shares outstanding	45,069,028	45,055,606	45,069,028	45,069,028
Basic earnings per share (in CHF)	**1.35**	**0.90**	**0.57**	**0.53**
Diluted earnings per share				
Net income attributable to equity holders of SCG (CHFk)	60,876	40,740	25,630	24,019
Weighted average number of shares outstanding	45,132,888	45,149,830	45,145,767	45,163,252
Diluted earnings per share (in CHF)	**1.35**	**0.90**	**0.57**	**0.53**

[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 June 30, 2019, a maximum of 125’233 shares (December 31, 2018: 98’870) would have a dilutive effect.

NOTE 10

Equity

CHFk	June 30, 2019	December 31, 2018[2]
Common shares	45,069	45,069
Share premium[1]	1,974,484	2,162,727
Other reserve	(776,143)	(776,143)
Accumulated profit	99,615	49,524
Total equity	**1,343,025**	**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 June 30, 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.

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	**June 30, 2019**	December 31, 2018[5]
Floating rate						
Term loan B – CHF[2]	1,410,000	(16,572)	(19,644)	–	1,373,784	1,369,221
Fixed rate						
Senior secured notes – CHF[3]	200,000	(875)		–	199,125	199,041
Total loans and notes	**1,610,000**	**(17,447)**	**(19,644)**	**-**	**1,572,909**	**1,568,262**
Other						
Debt relating to lease liabilities	–	–		(22,456)	265,765	4,747
Total borrowings					**1,838,674**	**1,573,009**
Thereof current					*32,666*	*1,973*
Thereof non-current					*1,806,008*	*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 June 30, 2019, 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 June 30, 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 **June 30, 2019**	Amortized cost	**Total**	Comparison Fair value[1]
Financial assets			
Cash	239,827	239,827	
Trade and other receivables	362,431	362,431	
Financial liabilities			
Trade payables and other payables	(499,761)	(499,761)	
Loans and notes	(1,572,909)	(1,572,909)	1,620,500
Lease Liabilities	(265,765)	(265,765)	
Other current liabilities	(698)	(698)	

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

	CARRYING AMOUNT (BY MEASUREMENT BASIS)		
CHFk December 31, 2018	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	**H1 2019**	H1 2018[1]	**Q2 2019**	Q2 2018[1]
Change in inventories	597	16,941	(659)	14,347
Change in trade and other receivables	19,541	32,270	(8,662)	7,183
Change in trade and other payables	(8,326)	(71,756)	(3,829)	(35,487)
Change in contract assets	19,066	13,432	(6,937)	(3,478)
Change in contract liabilities	741	(233)	1,236	(381)
Change in contract costs	(2,621)	(4,279)	(1,787)	(1,633)
Change in other items, net	(9,224)	(16,959)	773	4,148
Total	**19,774**	**(30,584)**	**(19,865)**	**(15,301)**

[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 reduction in net working capital of CHF 19.8 million in the six-month period as of June 30, 2019 is primarily related to a reduction in trade and other receivable (CHF 19.5 million) and the change in contract assets (CHF 19.1 million) driven by incoming payments from customers as well as the settlement of credit notes. These positive effects were partly offset by a negative change in trade and other payables (CHF 8.3 million), driven by seasonal pattern in transmission costs and other items (CHF 9.2 million) mainly driven by prepaid expenses.

Compared to the six-month period ended as of June 30, 2018, the change in net working capital had a positive impact of CHF 50.3 million mainly from less cash out from trade and other payables (CHF 63.4 million) due to higher payments in 2018 for the purchase of mobile phones and tables as well as higher roaming settlements. In addition, there was an improvement year-over-year in other items, net of CHF 7.7 million, mainly driven by lower prepaid expenses in 2019, partly due to IFRS 16 (prepaid leases). In contrast, the first six months of 2019 were negatively impacted by less reduction in inventory (CHF 16.3 million) and trade and other receivables (CHF 12.7 million). The remaining change stems from positions related to contract assets and contract liabilities.

NOTE 14

Disposal of assets

During the first six months of 2019, the Group has recognized a net gain on asset disposal of CHF 25.2 million, which is reflected in other income in the Groups condensed consolidated financial statements as of June 30, 2019 (H1 2018: CHF nil). The total cash consideration received amounted to CHF 29.8 million (H1 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 six-month period ended June 30, 2019, the Group acquired intangible assets of CHF 224.8 million (H1 2018: 54.0 million). In the same period, the Group paid CHF 188.2 million (H1 2018: CHF 71.1 million) for intangible assets additions. The reasons for this year-over-year development are the acquisition of the 5G frequencies that have been purchased at the frequency auction in February 2019 as well as the renewal of the Swisscom access deal, which both resulted in additions to intangible assets in the amount of CHF 191.4 million.

Property, plant and equipment
During the three-month period ended June 30, 2019, the Group acquired assets of CHF 80.8 million (June 30, 2018: CHF 63.6 million). In the same period, the Group paid CHF 89.0 million (H1 2018: CHF 83.2 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.

Deferred tax liabilities
The deferred tax rate used for the calculation of the deferred tax liabilities have been lowered and led to a deferred tax liability reduction of CHF 4.2 million as of June 30, 2019. This is due to the reduction of income tax rates which were approved by some cantons during the first half of year of 2019 and which will enter into force as of January 2020 and can be considered as enacted or substantively enacted.

NOTE 16

Contractual commitments

The total contractual and purchase commitments as of June 30, 2019, amounted to CHF 332.8 million (June 30, 2018: CHF 160.8 million) consisting of future investments in property, plant and equipment and intangible assets, of which CHF 118.0 million relate to access deals.

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

Other information

On February 27, 2019, Sunrise has announced 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.

NOTE 19

Events after the balance sheet date

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

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To the Board of Directors of
Sunrise Communications Group AG, Zurich

Zurich, 20 August 2019

Report on the review of condensed consolidated interim financial statements

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements (consolidated statement of income, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and notes; pages 18 to 41) of Sunrise Communications Group AG for the six-month period from 1 January 2019 to 30 June 2019. The Board of Directors is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

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

Conclusion

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

Ernst & Young Ltd

Willy Hofstetter	Tobias Meyer
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

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