Sunrise

Investor Information

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Sunrise Board comments on announcement by freenet re UPC Switzerland acquisition

In its meeting of 20 August 2019, the Board of Directors of Sunrise (the "Board") reviewed the freenet AG ("freenet") announcement dated 16 August 2019 stating freenet's intention to vote against the rights issue related to the acquisition of UPC Switzerland (the "Transaction").

The Board reiterates its firm conviction that the acquisition of UPC Switzerland creates a stronger and more valuable Sunrise, benefitting from the compelling strategic and financial rationale of the contemplated combination. The Board's conviction is further strengthened by the increase in synergy estimates carefully arrived at after six months of detailed integration planning and the better than expected performance of UPC Switzerland since the announcement of the Transaction on 27 February 2019, both of which increase the value delivered to Sunrise shareholders from the Transaction.

After careful deliberations, the Board concluded that the concerns raised by freenet are neither justified nor in the best interest of Sunrise and all its shareholders. Sunrise views freenet as guided by its own short-term financial constraints and self-serving objectives which it seeks to solve at the expense of Sunrise and its shareholders. The Board proposed to freenet changes in the capital structure of the Transaction in order to accommodate freenet's desire to reduce the size of the rights issue while maintaining a prudent capital structure. However, freenet has rejected this proposal.

The Board also wishes to inform investors that freenet has made inappropriate requests at the expense of minority shareholders. In light of the specific circumstances, the Board has determined that freenet's Board representatives suffer from a conflict of interest. As a result, the Board has resolved to exclude freenet's representatives from any deliberations in relation to the Transaction ad interim.

The Board advises shareholders to treat any freenet commentary regarding the Transaction with appropriate scepticism and to not condone freenet's self-serving behaviour by supporting its attempt to vote down a strategically compelling and value-accretive Transaction.

The Board will continue to ensure an open and constructive dialogue with all shareholders.

Sunrise Board perspectives on freenet's proposals

The Board has duly assessed the concerns raised by freenet in its announcement dated 16 August 2019. The Board's views are as set out below:

- **Purchase price:** Immediately subsequent to freenet's most recent public statements, freenet Board representatives have **acknowledged in writing to other Board members that a straight purchase price reduction is difficult to argue for**. The purchase price of CHF6.3 billion enterprise value (consisting of c.CHF3.6 billion in assumed debt and a c.CHF2.7 billion cash payment to Liberty Global) is financially attractive and supported by an independent fairness opinion to the Board. The Transaction values UPC

Switzerland at a multiple of 7.7x 2018A adj. EBITDA and 10.2x 2018A adj. OpFCF (or c.8.5x 2019E adj. EBITDA and c.12.5x[1] 2019E adj. OpFCF), after taking into account the revised run-rate cost and capex synergies. These multiples compare very favourably to recent European convergence transactions, even more so when considering Switzerland's relatively lower tax and interest rate levels which reduce these multiples further to c.6x 2018A adj. EBITDA and c.7x 2018A adj. OpFCF (or c.6.5x 2019E adj. EBITDA and c.9.5x 2019E adj. OpFCF). The Transaction is accretive to Sunrise's equity free cash flow per share from the first year post completion, adjusted for run-rate cost and capex synergies and integration costs. The returns from the Transaction are expected to exceed the weighted average cost of capital of UPC Switzerland by the third full year post completion. Finally, the Board, including freenet's representatives, unanimously approved the purchase price of CHF6.3 billion at the time the proposal was made to Liberty Global.

- **Synergy allocation**: After six months of detailed integration planning, Sunrise has increased its total annual synergy run rate expectation from c.CHF235 million to c.CHF280 million, including c.CHF230 million of cost and capex synergies to be achieved by 2023 (previously c.CHF190 million by 2022) and c.CHF50 million of revenue synergies to be achieved by 2023 (previously c.CHF45 million by 2023). The net present value ("NPV") of the synergies is estimated to be c.CHF3.1 billion after integration costs (previously c.CHF2.8 billion). This implies that the **shareholders of Sunrise will retain over 60% of the synergies** NPV (reflecting also the increased standalone value of UPC given its better than expected performance of c.CHF10-15 million higher 2019E adj OpFCF) which compares favourably to precedent mobile-cable convergence transactions. The Board is confident that management will fully deliver the revised synergy target.

- **Transaction structure**: Sunrise had been in discussions with Liberty Global for more than a year before announcing the Transaction on 27 February 2019. The discussions initially started from a partially stock-funded Transaction, in which Liberty Global would have held a resulting equity stake in the enlarged Sunrise. However, following detailed negotiations, the parties were unable to agree on value, governance, leverage, and distribution policy, and decided to proceed with the all-cash structure. The representatives of freenet on the Board was privy to all of these discussions, agreed with the assessment at the time and supported **the all-cash offer and associated CHF4.1 billion rights issue which were both unanimously approved by the Board at the time the proposal was made** to Liberty Global.

- **Capital structure**: **Sunrise remains committed to maintaining a prudent capital structure** and **retaining its existing progressive dividend policy**. Following the increase in synergy estimates and the better than expected operating performance of UPC Switzerland since the announcement of the Transaction, **Sunrise is open to consider an increase in leverage in excess of the initially announced c.3.0x LTM net debt/EBITDA, thereby reducing the size of the rights issue**. The Sunrise Board, with the exception of the freenet representatives, supported a reduction of the rights issue by c.CHF1 billion with the introduction of a deferred mandatory convertible note to optimize the capital structure, reduce the size of the rights issue and create opportunities for a new class of investors. The proposal has been rejected by freenet. The issuance of such an instrument would require approval by 66.7% of votes present at the shareholders' meeting.

- **Debt structure**: The **debt portfolio acquired from Liberty Global** as part of the Transaction provides Sunrise with an attractive, long term capital structure at **favourable interest rates and flexible covenants**. The weighted average cost of debt of c.3.8% compared favourably at the time of the announcement to the alternative of raising new debt, especially when accounting for savings on new debt issuance fees and new issue spreads, while avoiding market and execution risks. Debt market conditions have improved since

[1] Includes one-off investments related to digitisation and 1Gbps roll out

announcement, but the opportunity to Sunrise remains marginal and does not constitute a value transfer from Sunrise shareholders to Liberty Global. Therefore, freenet's proposal to ask Liberty Global to retain the debt portfolio is opportunistic and inappropriate, particularly in the context of the higher synergies and standalone value of UPC Switzerland.

The Board concludes that the concerns raised by freenet are neither justified nor in the best interest of Sunrise and all its shareholders.

The Board is convinced that the acquisition of UPC Switzerland creates a stronger and more valuable Sunrise. Sunrise has a clear plan to realise the synergies quickly to create compelling and attractive offers to customers and provide a state-of-the-art-telecommunications infrastructure for Switzerland. The Sunrise management team has a proven track record of delivering strong operational and financial performance and is fully focused on executing the integration and synergy plan. The Board is confident that the company is led by a team with the relevant expertise and experience to make the Transaction a success for all stakeholders.

Sunrise, consistent with its business practices, intends to honour the binding, legal contract it has signed with Liberty Global to complete the Transaction.

Perspectives on freenet's motivations

The Board notes that freenet is facing significant strategic and financial challenges. The dividend received from Sunrise is one of the few growing contributors to freenet's free cash flow, representing over 15% of its annual free cash flow generation. As a result of its business model and investment decisions, the leverage of freenet has increased significantly to 4.8x EBITDA[2] (including IFRS 16) as of 30 June 2019, which is more than a turn higher than its long-term target of less than 3.5x debt/EBITDA (including IFRS 16).

In this context, by its own admission, freenet is short-term focused and has stated that it would like to sell its shares in Sunrise to address its over-leveraged balance sheet. By pushing for higher leverage at Sunrise, freenet is essentially seeking to partly shift its heavy indebtedness onto Sunrise.

In addition, the Board notes that:

- **freenet has made requests that Sunrise takes actions at the expense of other shareholders:** during the final negotiations with Liberty Global, freenet made requests to the Board that either Sunrise or Liberty Global buy out a significant portion of freenet's shares in Sunrise at a premium to the then prevailing market price in exchange for its support for the Transaction. The Board declined this request, judging it to be inappropriate and illegal.

- **freenet's representatives' approach to Board discussions has been unconstructive:** the Board has engaged constructively with freenet, seeking to better understand its objectives and find a mutually acceptable solution. In response, the Board considers that freenet has been evasive, opportunistic and inconclusive. Furthermore, following freenet's representatives obtaining knowledge of Sunrise's intention to announce revised synergy estimates as part of its Q2 results communication, freenet chose to publish its press release on 16 August prior to reverting with a clear proposal to the Board, as it had previously promised. The Board considers this inappropriate from a corporate governance standpoint.

[2] Source: pg 15 of freenet Q2 2019 management presentation

- **freenet's representatives may have breached their fiduciary duties:** the Board, with the support of external legal advisers, is assessing whether freenet's representatives on the Board have breached their fiduciary duties, including their duty of confidentiality. The Board has resolved to conduct an internal investigation into this matter. In light of the specific circumstances, the Board has determined that freenet’s Board representatives suffer from a conflict of interest. As a result, the Board has resolved to exclude freenet's representatives from any deliberations in relation to the Transaction. This decision has not been made lightly but is unavoidable given freenet's conduct.

The Board advises shareholders to treat any freenet commentary regarding the Transaction with appropriate scepticism and to not condone freenet's self-serving behaviour by supporting its attempt to vote down a strategically compelling and value-accretive Transaction.

The Board will continue to ensure an open and constructive dialogue with all shareholders.

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