

# Q3 2019

## **Interim Financial Report**

Nine-month period as of September 30, 2019

**Sunrise**

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# Operational and Financial Review

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## **3** Operational and Financial Review

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# Financial KPIs

CHF million	1.1-30.9.2019 as reported	1.1-30.9.2019 without IFRS 16	1.1-30.9.2018 <sup>1</sup>	Change of reported figures(%)	Q3 2019 as reported	Q3 2019 without IFRS 16	Q3 2018 <sup>1</sup>	Change of reported figures (%)
<b>Revenue</b>								
Mobile services	929	929	938	(1.0)	325	325	321	1.3
– Thereof mobile postpaid	624	624	600	4.1	215	215	208	3.8
– Thereof mobile prepaid	58	58	75	(22.4)	19	19	25	(22.9)
– Thereof mobile hardware	175	175	196	(10.8)	64	64	65	(1.8)
– Thereof other	72	72	68	6.6	27	27	24	12.9
Landline services (incl. voice)	218	218	245	(11.0)	72	72	77	(5.7)
– Thereof landline voice	93	93	94	(1.6)	31	31	31	(1.9)
– Thereof hubbing	50	50	73	(32.0)	17	17	19	(10.6)
– Thereof other	75	75	77	(2.7)	25	25	27	(6.7)
Landline Internet and TV	229	229	208	10.1	76	76	72	6.8
<b>Total revenue</b>	<b>1,375</b>	<b>1,375</b>	<b>1,390</b>	<b>(1.1)</b>	<b>474</b>	<b>474</b>	<b>469</b>	<b>1.0</b>
Revenue excl. mobile hardware and hubbing	1,151	1,151	1,121	2.6	393	393	385	2.0
<b>Gross profit</b>	<b>933</b>	<b>932</b>	<b>907</b>	<b>2.9</b>	<b>316</b>	<b>316</b>	<b>310</b>	<b>1.9</b>
% margin	67.8%	67.8%	65.2%		66.7%	66.7%	66.1%	
% margin (excl. hubbing & hardware revenue)	81.0%	81.0%	80.8%		80.4%	80.4%	80.5%	
<b>EBITDA</b>	<b>506</b>	<b>472</b>	<b>439</b>	<b>15.4</b>	<b>175</b>	<b>163</b>	<b>154</b>	<b>13.0</b>
<b>EBITDA adjusted</b>	<b>496</b>	<b>463</b>	<b>448</b>	<b>10.9</b>	<b>173</b>	<b>161</b>	<b>158</b>	<b>9.4</b>
% margin	36.1%	33.7%	32.2%		36.4%	34.0%	33.6%	
% margin (excl. hubbing & hardware revenue)	43.1%	40.2%	39.9%		43.9%	41.0%	41.0%	
<b>Net income</b>	<b>109</b>	<b>111</b>	<b>72</b>	<b>50.4</b>	<b>48</b>	<b>48</b>	<b>32</b>	<b>51.7</b>
<b>Cash flow</b>								
Reported EBITDA	506	472	439	15.4	175	163	154	13.0
Change in NWC	33	33	(24)	(239.1)	13	18	7	88.6
Net interest	(29)	(20)	(24)	25.1	(9)	(6)	(6)	43.9
Tax	(43)	(43)	(48)	(10.4)	(21)	(21)	(20)	5.3
CAPEX <sup>2</sup>	(342)	(342)	(230)	48.5	(65)	(65)	(76)	(14.8)
Repayments of lease liabilities <sup>3</sup>	(27)	(3)	-	-	(5)	(1)	-	-
Other financing activities	(6)	(6)	(21)	(73.5)	0	0	(1)	(100.0)
<b>Equity free cash flow</b>	<b>92</b>	<b>92</b>	<b>92</b>	<b>(0.4)</b>	<b>88</b>	<b>88</b>	<b>58</b>	<b>52.0</b>
Other <sup>4</sup>	(199)	(199)	10	(2,088.4)	(14)	(14)	(3)	379.5
<b>Total cash flow</b>	<b>(107)</b>	<b>(107)</b>	<b>102</b>	<b>(205.4)</b>	<b>74</b>	<b>74</b>	<b>55</b>	<b>34.9</b>
<b>Net debt</b>	<b>1,554</b>	<b>1,297</b>	<b>1,239</b>		<b>1,554</b>	<b>1,297</b>	<b>1,239</b>	
Net debt/adj. EBITDA (LTM) <sup>5</sup>	2.4x	2.1x	2.1x		2.4x	2.1x	2.1x	

<sup>1</sup> The Company has initially applied IFRS 16 using the modified retrospective approach. Under this method, the comparative information is not restated.

<sup>2</sup> 2019 year-over-year YTD increase mainly due to CHF 91 million for Spectrum concessions and related consultancy fees

<sup>3</sup> In 2018 repayments related to financial leases were not part of Equity free cash flow.

<sup>4</sup> 2019 consists mainly of sale of property, plant and equipment of CHF +5 million, movement in pension and provision (CHF –14 million) and dividend payment of CHF –189 million. 2018 consists of dividend payment (CHF –180 million), refinancing cash inflow (CHF +185 million), sale of property, plant and equipment (CHF +8 million) and other minor movements (CHF –3 million).

<sup>5</sup> Based on calculated adjusted EBITDA taking into account annualized IFRS 16 EBITDA impact in 2019.

# Operational KPIs

	<b>1.1- 30.9.2019 as reported</b>	1.1-30.9.2018	Change of reported figures (%)	<b>Q3 2019 as reported</b>	Q3 2018	Change of reported figures (%)
<b>ARPU (CHF)</b>						
<b>Mobile blended</b>	<b>31.7</b>	<b>31.9</b>	<b>(0.5)</b>	<b>32.3</b>	<b>32.9</b>	<b>(1.8)</b>
Postpaid	38.7	40.6	(4.7)	39.2	41.4	(5.2)
– Thereof origination	36.2	37.8	(4.1)	36.8	38.7	(4.8)
– Thereof termination	2.5	2.8	(11.8)	2.4	2.7	(10.7)
Prepaid	10.8	11.7	(8.0)	10.7	12.0	(10.9)
<b>Landline</b>						
Landline voice	21.0	23.1	(8.9)	20.4	22.4	(9.2)
Internet	35.8	36.0	(0.5)	35.5	36.4	(2.3)
TV	25.0	26.2	(4.6)	24.8	26.2	(5.5)
<b>Subscription base (in thousand)</b>						
<b>Mobile</b>						
Postpaid	1,853.7	1,686.5	9.9			
– Primary	1,493.1	1,378.2	8.3			
– Secondary	360.6	308.3	17.0			
Prepaid (3-month rule)	590.9	677.1	(12.7)			
Prepaid (12-month rule)	945.7	1,129.5	(16.3)			
<b>Landline</b>						
Landline voice	497.3	460.3	8.0			
Internet	489.7	448.7	9.1			
TV	269.5	235.5	14.4			
<b>LTM Churn (%)</b>						
Postpaid	12.8	14.1				
Landline	13.4	13.9				
<b>Employees</b>						
FTEs	1,667	1,599	4.2			
Apprentices	140	140	-			

# Financial Review

**Financial Summary** Compared to the first three quarters of 2018, service revenue (total revenue excl. mobile hardware and hubbing revenue) increased by 2.6%, which was mainly driven by the strong customer growth in mobile postpaid and landline internet and TV. This positive service revenue development was offset by the decreasing mobile hardware (10.8%) and hubbing revenue (32.0%), which both carry low profitability. As a result total revenue decreased by 1.1% compared to prior year period. Adjusted EBITDA (excl. IFRS 16) increased by 3.4% in the nine-month period ended September 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 34 million for the first nine months of 2019. As a consequence, adjusted EBITDA incl. IFRS 16 rose by 10.9%.

**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 adjusted EBITDA.

At the 5G frequency auction, Sunrise has acquired among others the strategically 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 the increase of intangible assets.

The Group has entered into a further amendment to the share purchase agreement in which Liberty Global has consented to the cancellation of the Extraordinary General Meeting (EGM) scheduled for October 23, 2019. The EGM was to be held to authorise an ordinary capital increase in the amount of CHF 2.8 billion by way of a rights offering to partially finance the acquisition of UPC Switzerland GmbH. The approval of the capital increase was the last condition precedent to closing of the acquisition of UPC Switzerland GmbH. The share purchase agreement remains in force and effect unless terminated by a party and has a long stop date of February 27, 2020.

Subsequently, the Group has cancelled the share purchase agreement as of November 12, 2019. The cancellation triggers the payment of the penalty of CHF 50 million to Liberty Global. The Group expects the total costs to amount to CHF 120-125 million, including the penalty (CHF 50 million), underwriting fees (CHF 19 million), advisory and legal fees, as well as already incurred integration costs of about CHF 24 million. CHF 27 million are already reflected in the condensed consolidated interim financial statements as of September 30, 2019, thereof CHF 24 million as other operating expenses.

**IFRS 16 Impact for 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 the nine-month period ended September 30, 2019 of CHF 34 million (thereof CHF 34 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 28 million) and interest expenses (CHF 9 million). This led to a negative income before tax impact of CHF 3 million for the first nine months in 2019.

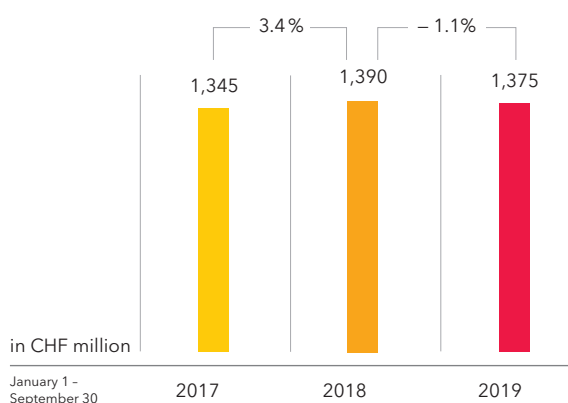
The table below summarizes the impact on condensed consolidated interim statement of income of applying IFRS 16 for Sunrise:

CHFk January 1 - September 30	TOTAL COMPANY		
	2019	2018 <sup>1</sup>	Change (%)
<b>Gross profit reported</b>	<b>932,574</b>	<b>906,650</b>	<b>2.9</b>
IFRS 16 impact	144	-	
Gross profit excluding IFRS 16	932,430	906,650	2.8
<b>EBITDA reported</b>	<b>506,001</b>	<b>438,532</b>	<b>15.4</b>
IFRS 16 impact	33,893	-	
EBITDA excluding IFRS 16	472,108	438,532	7.7
<b>Income before income taxes reported</b>	<b>120,276</b>	<b>96,934</b>	<b>24.1</b>
IFRS 16 impact	(3,215)	-	
Income before income taxes excluding IFRS 16	123,491	96,934	27.4
<b>Net income reported</b>	<b>108,744</b>	<b>72,292</b>	<b>50.4</b>
IFRS 16 impact	(2,572)	-	
Net income excluding IFRS 16	111,316	72,292	54.0

<sup>1</sup> 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 nine-month period ended September 30, 2019, showed a decrease in total revenue compared to prior year period of 1.1% to CHF 1,375 million, mainly attributable to the decrease in mobile hardware and hubbing revenue, which both are low margin.



Total revenue for the first three quarters of 2019 decreased by 1.1% compared to prior year period. Service revenue (total revenue excl. mobile hardware and hubbing revenue) increased by 2.6%, which was mainly driven by the strong customer growth in mobile postpaid and landline internet and TV. This overall positive development in service revenue was offset by the decreasing mobile hardware (10.8%) and hubbing revenue (32.0%), 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 - September 30	RESIDENTIAL		BUSINESS		WHOLESALE <sup>1</sup>		HEAD OFFICE ACTIVITIES		TOTAL	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<b>Revenue</b>	<b>989,789</b>	<b>1,001,606</b>	<b>230,803</b>	<b>209,519</b>	<b>124,940</b>	<b>148,890</b>	<b>29,756</b>	<b>30,230</b>	<b>1,375,288</b>	<b>1,390,245</b>

<sup>1</sup> Including hubbing revenue of CHF 50 million generated in the nine-month period ended as of September 30, 2019, and CHF 73 million in the nine-month period ended as of September 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 - September 30	2019	2018
Mobile services	928,957	937,876
– Thereof mobile postpaid	624,135	599,766
– Thereof mobile prepaid	58,006	74,717
– Thereof mobile hardware	174,795	195,857
– Thereof other	72,021	67,536
Landline services	217,665	244,655
– Thereof landline voice	92,756	94,294
– Thereof hubbing	49,625	72,968
– Thereof other	75,284	77,393
Landline Internet and TV	228,666	207,714
<b>Total</b>	<b>1,375,288</b>	<b>1,390,245</b>
<i>Revenue excl. mobile hardware and hubbing</i>	<i>1,150,868</i>	<i>1,121,420</i>

## Mobile Services

The positive development in mobile postpaid revenue, that shows an increase of 4.1% compared to prior year period, is attributable to an increased postpaid subscription base (9.9%). On a year-over-year view, this was offset by the decrease in mobile prepaid revenue (22.4%) as well as the lower mobile hardware revenue (10.8%), which in total led to a mobile services revenue decrease of 1.0% to CHF 929 million for the nine-month period ended September 30, 2019 (2018: CHF 938 million).

The postpaid subscription base totaled 1,854 thousand subscribers as of September 30, 2019 (September 30, 2018: 1,686 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 1.9, 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 0.9). As in previous years, increased over-the-top (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 intensifies the negative revenue development through a lower ARPU. The prepaid subscription base shrank year-over-year by 12.7% to 591 thousand subscribers as of September 30, 2019, mainly related to postpaid migration.

Hardware revenue (low margin) decreased year-over-year by 10.8% to CHF 175 million for the nine-month period ended September 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 11.0% or CHF 27 million to CHF 218 million in the first three quarters of 2019, mainly driven by lower hubbing revenue.

Landline voice revenue decreased by 1.6% to CHF 93 million caused by continued fixed-to-mobile substitution, voice flat rates and increased use of OTT services, resulting in reduced voice usage. Hubbing revenue, which is low margin, decreased by 32.0% to CHF 50 million. This decline is due to an increased focus on profitability, which is also reflected in an increased hubbing gross margin.

#### **Landline Internet and TV**

Internet and TV revenue increased by 10.1% to CHF 229 million in the nine-month period ended September 30, 2019.

The total Internet subscription base increased by 9.1% year-over-year to 490 thousand subscriptions. The TV products that can be purchased alongside Internet service increased its customer base by 14.4% year-over-year to 269 thousand subscribers. Internet and TV customer growth was supported by convergent 2 – 4P bundle offers, attractive TV offerings, enhanced TV content, focus on service excellence and dedicated promotions. While the Internet ARPU remained stable on a year-over-year basis (–0.2 CHF), the TV ARPU decreased by CHF 1.2 to CHF 25.0 in the first three quarters of 2019. The latter was mainly caused by promotional activities as well as negative mix effects (e.g. TV OTT dilution).

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 Q1 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 933 million with a 2.9% growth year-over-year and with a negligible impact of IFRS 16. The increase in gross profit was driven by service revenue growth and a slight service gross margin expansion. Higher service gross margin was supported by reduced MTR as well as better margins due to new landline access deals.

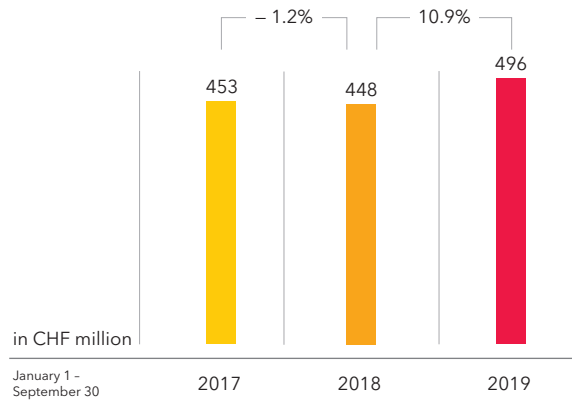
Gross profit showed a positive development despite the total revenue decline of 1.1%, since revenue decline was mainly driven by mobile hardware and hubbing, which both have below group average gross margins. As a result of this mix effect, total gross margin increased from 65.2% to 67.8% year-over-year.

### Transmission Costs and Costs of Goods Sold

Transmission costs and cost of goods sold totaled CHF 443 million for the nine-month period ended September 30, 2019. This represents a decrease of 8.5% year-over-year, mostly driven by lower handset expenses and the reduced hubbing costs of goods sold, both as a result of reduced revenue.

### Adjusted EBITDA

Adjusted EBITDA as of September 30, 2019, amounted to CHF 496 million, showing a year-over-year increase of 10.9%. The initial application of IFRS 16 as of January 1, 2019, led to a CHF 33 million or 7.4% higher year-over-year (adjusted) EBITDA. Consequently, adjusted EBITDA increased year-over-year by 15 million or 3.4% excluding the impact of IFRS 16.



The positive development of adjusted EBITDA was supported by gross profit growth due to higher service revenue, 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 nine 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 and the cost reduction from the IAS 19 pension plan adjustment (CHF 13 million) in Q3. These positive effects were partly offset by advisory fees related to the acquisition of UPC Switzerland GmbH (CHF 24 million), costs related to the relocation of the group's headquarter (CHF 2 million) and early employee contract terminations (CHF 2 million).

in CHFk January 1 - September 30	2019	2018	2017
	<b>Reported EBITDA</b>	<b>506,001</b>	<b>438,532</b>
Prior-year-related events	(1,765)	(1,404)	(3,133)
Non-recurring and/or non-operating events	(9,555)	9,415	10,749
Costs related to share-based payment	1,659	1,164	1,264
<b>Adjusted EBITDA</b>	<b>496,342</b>	<b>447,707</b>	<b>453,322</b>

### Reported EBITDA

The Group generated an EBITDA of CHF 506 million for the nine-month period ended September 30, 2019, a year-over-year increase of CHF 67 million or 15.4% from CHF 439

million for the same period in 2018. The initial application of IFRS 16 as of January 1, 2019, positively impacted EBITDA by CHF 34 million driven by the reduction of lease expenses as a consequence of the cost shift within the condensed consolidated interim statement of income. The year-over-year EBITDA excl. IFRS 16 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 15 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), the cost reduction from the IAS 19 pension plan adjustment (CHF 13 million), partly offset by the increased expenses related to the acquisition of UPC Switzerland GmbH (CHF 24 million).

#### **Other Operating Expenses**

Other operating expenses for the first three quarters of 2019 decreased compared to prior year period from CHF 314 million to CHF 310 million. The initial application of IFRS 16 as of January 1, 2019, had a positive impact for the nine-month period ended September 30, 2019 of CHF 34 million on other operating expenses. Excluding the effects of IFRS 16, 2019 showed an increase in other operating expenses of CHF 29 million to CHF 344 million. Compared to the prior year period, additional costs related to the acquisition of UPC Switzerland GmbH of CHF 24 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.

#### **Wages, Salaries and Pension Costs**

Wages, salaries and pension costs totaled CHF 150 million for the nine-month period ended September 30, 2019. This represents a year-over-year decrease of 5.8% or CHF 9 million, driven by a one-time pension plan adjustment, which led to a CHF 13 million decrease in pension fund costs (past service costs according to IAS 19) due to a reduction of the pension liability in the same amount. This was partly compensated by an increased FTE base, primary within business segment and customer service in order to support the operational momentum.

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 115 million in its condensed consolidated interim financial statements as of September 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 31 million in the pension liability from CHF 85 million as of December 31, 2018, is mainly due to the change in the discount rate, partly offset by the above described pension plan adjustment (past service costs).

#### **Other Income and Expenses, Net**

Other income and expenses, net increased by CHF 28 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 109 million for the nine-month period ended September 30, 2019, a year-over-year increase of CHF 36 million from a net income of CHF 72 million for the prior-year period. The net income development was impacted by the growth in adjusted EBITDA, the sale of the 133 towers in January 2019 and the positive effect of the one time pension plan adjustment. In addition, the reduction of the deferred tax rate led to a positive income tax effect of CHF 16 million. The negative IFRS 16 net income impact was CHF 3 million.

**Depreciation and Amortization**

Depreciation and amortization for the first nine months have increased compared to prior year from CHF 318 million in 2018 to CHF 350 million in 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 28 million for the nine-month period ended September 30, 2019 as well as the continued investments in access deals and network rollout. For the first three quarters of 2019, CHF 95 million out of the total of CHF 350 million related to the amortization of purchased intangibles (CHF 95 million in the same period for 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 nine months in 2019 are CHF 12 million higher than previous year. Financial income in the first nine months of 2019 are CHF 15 million lower, partially compensated by lower financial expenses of CHF 3 million. The financial income in the first nine 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. Comparing the first nine months of 2019 to 2018 shows that the additional expenses of CHF 9 million caused by the refinancing transaction in June 2018 were fully offset by CHF 9 million of lease related interest expenses in 2019 due to the introduction of IFRS 16. Net of both effects, financial expenses decreased year-over-year by CHF 3 million mainly relating to lower average interest expenses, partly offset by higher borrowings.

**Income Taxes**

For the first nine months in 2019, income tax expenses of CHF 12 million (2018: CHF 25 million) consist of a CHF 43 million (2018: CHF 35 million) tax expense related to current income taxes and a tax benefit of CHF 31 million (2018: CHF 10 million) related to the reduction in net deferred tax liability. The deferred tax rate used for the calculation of the net deferred tax liabilities have been lowered and led to a deferred tax liability reduction of CHF 16 million as of September 30, 2019. This is due to the reduction of income tax rates which were approved by some cantons during the first nine months 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 315 million as of September 30, 2019, a decrease of CHF 107 million compared to the cash position held as of December 31, 2018. The cash flow from operating activities of CHF 427 million was more than offset by the cash flow used in investing (CHF 312 million) and financing activities (CHF 222 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 September 30, 2019).

**Cash Flow from Operating Activities**

The year-over-year increase of CHF 82 million in 2019 includes an impact related to IFRS 16 of CHF 24 million (refer to note 4 in the condensed interim financial statements as of September 30, 2019). Excluding this effect, the increase in cash flow from operating activities would amount to CHF 58 million, which is mainly explained by the reduction in net working capital (CHF 57 million change).

**Cash Flow (Used In)/ From Investing Activities**

Cash flow used in investing activities amounts to CHF 312 million as of September 30, 2019, which is CHF 90 million higher than in prior year period (2018: cash flow from investing activities CHF 223 million). The first nine months of 2019 contained higher payments for the purchase of intangible assets (CHF 114 million higher compared to prior year period), 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 deals (year-over-year increase: CHF 38 million). In contrast, the cash flow from investing activities for the first three quarters was positively impacted by the net proceeds from asset disposals (2019: CHF 30 million; 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 nine months in 2019 compared to the same period in prior year. The main reason for this development was the refinancing transaction in 2018, generating a prior year cash inflow of CHF 185 million (net after related costs). The cash flow used in financing activities for the first three quarter of 2019 was negatively impacted by IFRS 16, reflected in the CHF 24 million increase in repayments of lease liabilities.

**Net Debt**

The Group's consolidated debt position as of September 30, 2019 - consisting of the term loan B3 facility, senior secured notes and lease liabilities - amounted to CHF 1,869 million of which CHF 32 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 259 million (December 31, 2018: CHF 5 million) reduced by cash and cash equivalents in the amount of CHF 315 million (December 31, 2018: CHF 421 million). This leads to a net debt position as of September 30, 2019 of CHF 1,554 million (December 31, 2018: CHF 1,194 million), resulting in a net debt to adjusted EBITDA leverage ratio of 2.4x (December 31, 2018: 2.0x). The 2019 leverage ratio is based on an annualized IFRS 16 impact on adjusted EBITDA. The increase compared to December 31, 2018, is mainly related to the Group's implementation of IFRS 16 as of January 1, 2019. Excluding the effects of IFRS 16, the net debt to adjusted EBITDA ratio as of September 30, 2019 was 2.1x. The increase compared to December 31, 2018 is mainly due to 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 33 million in the nine-month period ended September 30, 2019 is primarily related to a reduction in trade and other receivables (CHF 28 million) and the increase in trade and other payables (CHF 17 million) mainly driven by roaming payables. These positive effects were partly offset by a negative change in contract costs (CHF 5 million), and other items (CHF 6 million) mainly driven by prepaid expenses.

Compared to the nine-month period ended September 30, 2018, the change in net working capital had a positive impact of CHF 57 million mainly resulting from less cash out from trade and other payables (CHF 87 million) due to higher payments in 2018 for the purchase of mobile phones and tables as well as higher roaming settlements. In contrast, the first nine months of 2019 were negatively impacted by less reduction in inventory (CHF 30 million) and trade and other receivables (CHF 4 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 2.0x. This guidance does not yet include the effects of IFRS 16.

Sunrise is targeting an annual 4% to 6% dividend progression from 2018 to 2020. This near-term guidance was introduced to buffer investors from cash flow volatility during that period 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. of the annual report 2018). 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 informa-

tion 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 among others the strategically 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**

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, except the one mentioned in the section major events (see page 6).

## **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 and adjusted EBITDA continue to be expected between CHF 1,860 million to CHF 1,900 million and CHF 618 million to 628 million respectively. This guidance 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

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## **19 Condensed Consolidated Interim Financial Statements (unaudited)**

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# Condensed Consolidated Interim Statements of Income

CHFk	Note	01.01 - 30.09.2019	01.01 - 30.09.2018 <sup>1</sup>	Q3 2019	Q3 2018 <sup>1</sup>
		Unaudited	Unaudited	Unaudited	Unaudited
<b>Revenue</b>	<b>5, 6</b>	<b>1,375,288</b>	<b>1,390,245</b>	<b>473,891</b>	<b>469,313</b>
Transmission costs and cost of goods sold		(442,714)	(483,595)	(157,918)	(159,251)
Other operating expenses		(310,089)	(314,423)	(102,441)	(105,942)
Wages, salaries and pension costs		(150,468)	(159,739)	(41,455)	(52,808)
Other income	7	36,132	6,482	3,397	3,830
Other expenses		(2,148)	(438)	(847)	(658)
<b>Income before depreciation and amortization, net financial items and income taxes</b>		<b>506,001</b>	<b>438,532</b>	<b>174,627</b>	<b>154,484</b>
Amortization		(199,817)	(189,959)	(68,121)	(63,423)
Depreciation and impairment losses		(150,264)	(128,016)	(49,158)	(42,197)
<b>Operating income</b>		<b>155,920</b>	<b>120,557</b>	<b>57,348</b>	<b>48,864</b>
Foreign currency gains, net		1,996	1,588	893	656
Financial income		135	15,066	82	14
Financial expenses		(37,775)	(40,277)	(12,464)	(9,785)
<b>Net financial items</b>	<b>8</b>	<b>(35,644)</b>	<b>(23,623)</b>	<b>(11,489)</b>	<b>(9,115)</b>
<b>Income before income taxes</b>		<b>120,276</b>	<b>96,934</b>	<b>45,859</b>	<b>39,749</b>
Income taxes		(11,532)	(24,642)	2,009	(8,197)
<b>Net income</b>		<b>108,744</b>	<b>72,292</b>	<b>47,868</b>	<b>31,552</b>
<b>Net income attributable to equity holders of the parent company</b>		<b>108,744</b>	<b>72,292</b>	<b>47,868</b>	<b>31,552</b>
<b>Basic and diluted earnings per share (in CHF)</b>	<b>9</b>	<b>2.41</b>	<b>1.60</b>	<b>1.06</b>	<b>0.70</b>

<sup>1</sup> 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	<b>01.01 - 30.09.2019</b>	01.01 - 30.09.2018 <sup>1</sup>	<b>Q3 2019</b>	Q3 2018 <sup>1</sup>
	Unaudited	Unaudited	Unaudited	Unaudited
<b>Net income</b>	<b>108,744</b>	<b>72,292</b>	<b>47,868</b>	<b>31,552</b>
Actuarial (loss)/gain related to defined benefit pension plans	(41,146)	26,791	(27,687)	9,476
Income tax effect	7,657	(5,439)	4,984	(1,924)
<b>Net other comprehensive (loss)/income not to be reclassified to profit and loss in subsequent periods</b>	<b>(33,489)</b>	<b>21,352</b>	<b>(22,703)</b>	<b>7,552</b>
<b>Other comprehensive (loss)/income, net of tax</b>	<b>(33,489)</b>	<b>21,352</b>	<b>(22,703)</b>	<b>7,552</b>
<b>Total comprehensive income</b>	<b>75,255</b>	<b>93,644</b>	<b>25,165</b>	<b>39,104</b>
<b>Comprehensive income attributable to equity holders of the parent company</b>	<b>75,255</b>	<b>93,644</b>	<b>25,165</b>	<b>39,104</b>

<sup>1</sup> 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	<b>30.09.2019</b>	31.12.2018 <sup>1</sup>
	Unaudited	Audited
<b>Non-current assets</b>		
Intangible assets	2,143,872	2,088,238
Property, plant and equipment	806,731	823,763
Right-of-use assets	277,512	-
Non-current portion of trade and other receivables	55,697	56,813
Non-current portion of contract assets	3,608	4,067
Non-current portion of prepaid expenses	-	631
Contract costs	51,094	45,933
<b>Total non-current assets</b>	<b>3,338,514</b>	<b>3,019,445</b>
<b>Current assets</b>		
Inventories	48,853	46,329
Current portion of trade and other receivables	298,463	325,960
Current portion of contract assets	96,917	99,682
Current portion of prepaid expenses	16,283	8,886
Cash and cash equivalents	314,750	420,919
<b>Total current assets</b>	<b>775,266</b>	<b>901,776</b>
<b>Total assets</b>	<b>4,113,780</b>	<b>3,921,221</b>

<sup>1</sup> 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	<b>30.09.2019</b>	31.12.2018 <sup>1</sup>
		Unaudited	Audited
<b>Equity</b>			
Common shares		45,069	45,069
Share premium		1,972,552	2,162,727
Other reserves		(776,143)	(776,143)
Accumulated profit		124,779	49,524
<b>Total equity</b>	<b>10</b>	<b>1,366,257</b>	<b>1,481,177</b>
<b>Non-current liabilities</b>			
Non-current portion of loans and notes	11	1,575,218	1,568,262
Non-current portion of lease liabilities	11	226,562	2,774
Non-current portion of trade and other payables		20,528	368
Deferred tax liabilities		116,517	155,744
Non-current portion of provisions		54,509	54,372
Employee benefit obligations		115,411	84,881
Non-current portion of contract liabilities		7,679	5,958
<b>Total non-current liabilities</b>		<b>2,116,424</b>	<b>1,872,359</b>
<b>Current liabilities</b>			
Current portion of lease liabilities	11	32,376	1,973
Current portion of trade and other payables		540,843	501,016
Income tax payable		26,031	26,735
Current portion of provisions		3,428	6,005
Current portion of contract liabilities		27,825	31,510
Other current liabilities		596	446
<b>Total current liabilities</b>		<b>631,099</b>	<b>567,685</b>
<b>Total liabilities</b>		<b>2,747,523</b>	<b>2,440,044</b>
<b>Total equity and liabilities</b>		<b>4,113,780</b>	<b>3,921,221</b>

<sup>1</sup> 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	01.01 - 30.09.2019	01.01 - 30.09.2018 <sup>1</sup>	Q3 2019	Q3 2018 <sup>1</sup>
		Unaudited	Unaudited	Unaudited	Unaudited
<b>Income before income taxes</b>		<b>120,276</b>	<b>96,934</b>	<b>45,859</b>	<b>39,749</b>
Amortization		199,817	189,959	68,121	63,423
Depreciation and impairment losses		150,264	128,016	49,158	42,197
Gain on disposal of property, plant and equipment	14	(25,256)	(558)	(28)	(554)
Movement in pension		(11,262)	3,087	(12,413)	1,053
Movement in provisions		(3,076)	(650)	(1,526)	(95)
Change in net working capital	13	32,883	(23,634)	13,109	6,950
<b>Cash flow from operating activities before net financial items and tax</b>		<b>463,646</b>	<b>393,154</b>	<b>162,280</b>	<b>152,723</b>
Financial income	8	(135)	(15,066)	(82)	(14)
Financial expense	8	37,775	40,277	12,464	9,785
Foreign currency gains, net	8	(1,996)	(1,588)	(893)	(656)
Interest received	8	135	15	83	14
Interest paid		(29,578)	(23,545)	(8,694)	(5,998)
Corporate income and withholding tax paid		(43,269)	(48,270)	(21,423)	(20,340)
<b>Total cash flow from operating activities</b>		<b>426,578</b>	<b>344,977</b>	<b>143,735</b>	<b>135,514</b>
Purchase of property, plant and equipment	15	(130,545)	(132,593)	(41,518)	(49,365)
Purchase of intangible assets	15	(211,540)	(97,799)	(23,356)	(26,746)
Sale of property, plant and equipment	14	29,924	7,814	167	281
<b>Total cash flow used in investing activities</b>		<b>(312,161)</b>	<b>(222,578)</b>	<b>(64,707)</b>	<b>(75,830)</b>
Proceeds from long-term loans and notes		-	690,319	-	(1,697)
Repayments of long-term loans and notes		-	(500,000)	-	-
Cost of early debt redemption		-	(5,315)	-	-
Costs relating to capital increase		-	(73)	-	-
Repayments of lease liabilities	11	(27,064)	(4,342)	(4,608)	(1,866)
Dividend payment		(189,290)	(180,276)	-	-
Other financing activities		(5,514)	(20,789)	-	(966)
<b>Total cash flow used in financing activities</b>		<b>(221,868)</b>	<b>(20,476)</b>	<b>(4,608)</b>	<b>(4,529)</b>
<b>Total cash flow</b>		<b>(107,451)</b>	<b>101,923</b>	<b>74,420</b>	<b>55,155</b>
Cash and cash equivalents as of January 1		420,919	272,486	-	-
Cash and cash equivalents as of July 1		-	-	239,827	320,060
Foreign currency impact on cash	8	1,282	1,280	502	474
<b>Cash and cash equivalents as of September 30</b>		<b>314,750</b>	<b>375,689</b>	<b>314,750</b>	<b>375,689</b>

<sup>1</sup> 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
<b>Equity as of January 1, 2018<sup>1</sup></b>	<b>45,000</b>	<b>2,342,653</b>	<b>(776,143)</b>	<b>(101,229)</b>	<b>1,510,281</b>
Impact of change in accounting policies <sup>1</sup>	-	-	-	40,032	40,032
<b>Adjusted equity as of January 1, 2018</b>	<b>45,000</b>	<b>2,342,653</b>	<b>(776,143)</b>	<b>(61,197)</b>	<b>1,550,313</b>
Net income for the period	-	-	-	72,292	72,292
Other comprehensive income	-	-	-	21,352	21,352
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>93,644</b>	<b>93,644</b>
Share-based payment	-	(4,628)	-	-	(4,628)
Dividend payment	-	(180,276)	-	-	(180,276)
Capital increase	69	4,551	-	-	4,620
<b>Equity as of September 30, 2018<sup>1</sup></b>	<b>45,069</b>	<b>2,162,300</b>	<b>(776,143)</b>	<b>32,447</b>	<b>1,463,673</b>
<b>Equity as of January 1, 2019</b>	<b>45,069</b>	<b>2,162,727</b>	<b>(776,143)</b>	<b>49,524</b>	<b>1,481,177</b>
Net income for the period	-	-	-	108,744	108,744
Other comprehensive loss	-	-	-	(33,489)	(33,489)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>75,255</b>	<b>75,255</b>
Share-based payment	-	(885)	-	-	(885)
Dividend payment	-	(189,290)	-	-	(189,290)
<b>Equity as of September 30, 2019</b>	<b>45,069</b>	<b>1,972,552</b>	<b>(776,143)</b>	<b>124,779</b>	<b>1,366,257</b>

<sup>1</sup> 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

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**NOTE 1****General information**

Sunrise Communications Group AG (SCG or the Group) was incorporated in Switzerland on January 13, 2015. The registered office of the Company is located at Thurgauerstrasse 101B, 8152 Glattpark (Opfikon), Switzerland.

The condensed consolidated interim financial statements for the nine-month period ended September 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. The Group 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, the Group also resells handsets manufactured by third party suppliers.

These condensed consolidated interim financial statements were authorized for issue by the Group's Board of Directors on November 12, 2019.

**NOTE 2****Basis of preparation**

The condensed consolidated interim financial statements of the Group as of and for the nine-month period ended September 30, 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 year of the Group'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	
	30.09.2019	31.12.2018	01.01 - 30.09.2019	01.01 - 30.09.2018
CHF				
Euro	1.0875	1.1255	1.1349	1.1784
US Dollar	0.9977	0.9821	1.0055	0.9844

#### 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 Group 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 Group'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 (RoU), 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 nine-month period ended September 30, 2019, and on its condensed consolidated interim statements of financial position as of September 30, 2019 are summarized in the tables below.

CHFk January 1 - September 30, 2019	IMPACT OF CHANGES IN ACCOUNTING POLICIES		
	As reported	Balances without adoption of new accounting policies	
	Unaudited	Unaudited	Unaudited
<b>Income Statement</b>			
Transmission costs and cost of goods sold	(442,714)	(144)	(442,858)
Other operating expenses	(310,089)	(33,750)	(343,839)
Depreciation and impairment losses	(150,264)	27,895	(122,369)
Financial expenses	(37,775)	9,214	(28,561)
Income taxes	(11,532)	(643)	(12,175)
Other <sup>1</sup>	1,061,118	-	1,061,118
<b>Net income</b>	<b>108,744</b>	<b>2,572</b>	<b>111,316</b>
Basic and diluted earning per share (in CHF)	2.41	0.06	2.47

<sup>1</sup> Includes all other line items not affected by the change in accounting policies

<b>IMPACT OF CHANGES IN ACCOUNTING POLICIES</b>			
CHFk September 30, 2019	<b>As reported</b>	<b>Adjustments</b> Balances without adoption of new accounting policies	
	Unaudited	Unaudited	Unaudited
<b>Assets</b>			
Property, plant and equipment	806,731	(24,152)	830,883
Right-of-use assets	277,512	277,512	-
Current portion of prepaid expenses	16,283	(4,603)	20,886
Other <sup>1</sup>	3,013,254	-	3,013,254
<b>Total assets</b>	<b>4,113,780</b>	<b>248,757</b>	<b>3,865,023</b>
<b>Liabilities</b>			
Non-current portion of lease liabilities	226,562	225,637	925
Current portion of lease liabilities	32,376	31,554	822
Current portion of trade and other payables	540,843	(5,219)	546,061
Income tax payable	26,031	(643)	26,674
Other <sup>1</sup>	1,921,711	-	1,921,711
<b>Total liabilities</b>	<b>2,747,523</b>	<b>251,329</b>	<b>2,496,193</b>
<b>Total Equity</b>			
Accumulated profit	124,779	(2,572)	127,351
Other <sup>1</sup>	1,241,478	-	1,241,478
<b>Total equity</b>	<b>1,366,257</b>	<b>(2,572)</b>	<b>1,368,829</b>

<sup>1</sup> Includes all other line items not affected by the change in accounting policies

<b>IMPACT OF CHANGES IN ACCOUNTING POLICIES</b>			
CHFk January 1 - September 30, 2019	<b>As reported</b>	<b>Adjustments</b> Balances without adoption of new accounting policies	
	Unaudited	Unaudited	Unaudited
<b>Income before income taxes</b>			
Depreciation and impairment losses	150,264	(27,895)	122,369
Change in net working capital	32,883	615	33,498
Financial expense	37,775	(9,214)	28,561
Interest paid	(29,578)	9,214	(20,364)
Other <sup>1</sup>	114,958	-	114,958
<b>Total cash flow from operating activities</b>	<b>426,578</b>	<b>(24,065)</b>	<b>402,513</b>
<b>Total cash flow used in investing activities</b>	<b>(312,161)</b>	<b>-</b>	<b>(312,161)</b>
Repayments of lease liabilities	(27,064)	24,065	(2,999)
Other <sup>1</sup>	(194,804)	-	(194,804)
<b>Total cash flow used in financing activities</b>	<b>(221,868)</b>	<b>24,065</b>	<b>(197,803)</b>

<sup>1</sup> 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 identified 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 (Asset Retirement Obligation, ARO). The existing ARO Assets that are directly related to an identified lease are reclassified 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	<b>As reported</b>
	Unaudited
<b>Operating lease commitment at December 31, 2018</b>	<b>203,352</b>
Discounted effect using the incremental borrowing rate at January 1, 2019	(39,681)
<b>Discounted operating lease commitment at January 1, 2019</b>	<b>163,671</b>
Financial lease liabilities as at December 31, 2018	4,747
Recognition exemption for short-term leases	(7,176)
Extension options reasonably certain to be exercised	123,130
<b>Lease liabilities at January 1, 2019</b>	<b>284,372</b>

#### 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, the Group 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 - September 30	RESIDENTIAL		BUSINESS		WHOLESALE <sup>1</sup>		HEAD OFFICE ACTIVITIES		TOTAL	
	2019	2018 <sup>2</sup>	2019	2018 <sup>2</sup>	2019	2018 <sup>2</sup>	2019	2018 <sup>2</sup>	2019	2018 <sup>2</sup>
<b>Revenue</b>										
External customers	989,789	1,001,606	230,803	209,519	124,940	148,890	29,756	30,230	1,375,288	1,390,245
<b>Total</b>	<b>989,789</b>	<b>1,001,606</b>	<b>230,803</b>	<b>209,519</b>	<b>124,940</b>	<b>148,890</b>	<b>29,756</b>	<b>30,230</b>	<b>1,375,288</b>	<b>1,390,245</b>
<b>Transmission costs and costs of goods sold</b>										
External customers	(301,585)	(323,355)	(79,131)	(70,929)	(61,912)	(89,200)	(86)	(111)	(442,714)	(483,595)
<b>Total</b>	<b>(301,585)</b>	<b>(323,355)</b>	<b>(79,131)</b>	<b>(70,929)</b>	<b>(61,912)</b>	<b>(89,200)</b>	<b>(86)</b>	<b>(111)</b>	<b>(442,714)</b>	<b>(483,595)</b>
Other operating expenses	(95,636)	(98,600)	(16,654)	(16,021)	(3,213)	(3,109)	(194,586)	(196,693)	(310,089)	(314,423)
Wages, salaries and pension costs	(43,693)	(43,064)	(32,296)	(31,310)	(3,448)	(3,383)	(71,031)	(81,982)	(150,468)	(159,739)
Other income	-	-	-	-	-	-	36,132	6,482	36,132	6,482
Other expenses	11	(11)	-	-	-	-	(2,159)	(427)	(2,148)	(438)
<b>EBITDA</b>	<b>548,886</b>	<b>536,576</b>	<b>102,722</b>	<b>91,259</b>	<b>56,367</b>	<b>53,198</b>	<b>(201,974)</b>	<b>(242,501)</b>	<b>506,001</b>	<b>438,532</b>

<sup>1</sup> Including hubbing revenue of CHF 50 million generated in the nine-month period ended September 30, 2019, and CHF 73 million in the nine-month period ended September 30, 2018.

<sup>2</sup> 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).

	RESIDENTIAL		BUSINESS		WHOLESALE <sup>1</sup>		HEAD OFFICE ACTIVITIES		TOTAL	
CHFk July 1 - September 30	2019	2018 <sup>2</sup>	2019	2018 <sup>2</sup>	2019	2018 <sup>2</sup>	2019	2018 <sup>2</sup>	2019	2018 <sup>2</sup>
<b>Revenue</b>										
External customers	339,505	340,182	80,604	74,399	43,759	44,595	10,023	10,137	473,891	469,313
<b>Total</b>	<b>339,505</b>	<b>340,182</b>	<b>80,604</b>	<b>74,399</b>	<b>43,759</b>	<b>44,595</b>	<b>10,023</b>	<b>10,137</b>	<b>473,891</b>	<b>469,313</b>
<b>Transmission costs and costs of goods sold</b>										
External customers	(108,364)	(109,782)	(28,649)	(25,838)	(20,870)	(23,597)	(35)	(34)	(157,918)	(159,251)
<b>Total</b>	<b>(108,364)</b>	<b>(109,782)</b>	<b>(28,649)</b>	<b>(25,838)</b>	<b>(20,870)</b>	<b>(23,597)</b>	<b>(35)</b>	<b>(34)</b>	<b>(157,918)</b>	<b>(159,251)</b>
Other operating expenses	(32,246)	(33,641)	(5,281)	(5,531)	(1,118)	(905)	(63,796)	(65,865)	(102,441)	(105,942)
Wages, salaries and pension costs	(14,420)	(14,117)	(11,203)	(10,531)	(1,155)	(1,160)	(14,677)	(27,000)	(41,455)	(52,808)
Other income	-	-	-	-	-	-	3,397	3,830	3,397	3,830
Other expenses	22	-	-	-	-	-	(869)	(658)	(847)	(658)
<b>EBITDA</b>	<b>184,497</b>	<b>182,642</b>	<b>35,471</b>	<b>32,499</b>	<b>20,616</b>	<b>18,933</b>	<b>(65,957)</b>	<b>(79,590)</b>	<b>174,627</b>	<b>154,484</b>

<sup>1</sup> Including hubbing revenue of CHF 17 million generated in the three-month period ended September 30, 2019, and CHF 19 million in the three-month period ended September 30, 2018.

<sup>2</sup> 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	01.01 - 30.09.2019	01.01 - 30.09.2018 <sup>1</sup>	Q3 2019	Q3 2018 <sup>1</sup>
<b>EBITDA from reportable segments</b>	<b>506,001</b>	<b>438,532</b>	<b>174,627</b>	<b>154,484</b>
Unallocated:				
- Amortization	(199,817)	(189,959)	(68,121)	(63,423)
- Depreciation	(150,264)	(128,016)	(49,158)	(42,197)
- Net financial items	(35,644)	(23,623)	(11,489)	(9,115)
<b>Income before income taxes</b>	<b>120,276</b>	<b>96,934</b>	<b>45,859</b>	<b>39,749</b>

<sup>1</sup> 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	01.01 - 30.09.2019	01.01 - 30.09.2018 <sup>1</sup>	Q3 2019	Q3 2018 <sup>1</sup>
Mobile services	928,957	937,876	324,931	320,839
– Thereof mobile postpaid	624,135	599,766	215,357	207,528
– Thereof mobile prepaid	58,006	74,717	19,001	24,634
– Thereof mobile hardware	174,795	195,857	63,963	65,103
– Thereof other	72,021	67,536	26,610	23,575
Landline services	217,665	244,655	72,486	76,899
– Thereof landline voice	92,756	94,294	30,545	31,147
– Thereof hubbing	49,625	72,968	16,965	18,975
– Thereof other	75,284	77,393	24,976	26,777
Landline internet and TV	228,666	207,714	76,474	71,575
<b>Total</b>	<b>1,375,288</b>	<b>1,390,245</b>	<b>473,891</b>	<b>469,313</b>

CHFk	01.01 - 30.09.2019	01.01 - 30.09.2018 <sup>1</sup>	Q3 2019	Q3 2018 <sup>1</sup>
Sales of goods	179,431	227,654	64,551	75,873
Sales of services	1,195,857	1,162,591	409,340	393,440
<b>Total</b>	<b>1,375,288</b>	<b>1,390,245</b>	<b>473,891</b>	<b>469,313</b>

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	01.01 - 30.09.2019	01.01 - 30.09.2018 <sup>1</sup>	Q3 2019	Q3 2018
<b>Other income</b>				
Gain on disposal of property, plant and equipment <sup>1</sup>	25,256	-	28	-
Build-to-Suit (BTS)	5,479	-	1,859	-
Early termination fees	3,822	3,407	1,323	1,693
Lump sum payment related to shop transfer	929	-	-	-
Other	647	3,075	188	2,137
<b>Total</b>	<b>36,132</b>	<b>6,482</b>	<b>3,397</b>	<b>3,830</b>

<sup>1</sup> See Note 14 for further details.

**NOTE 8****Net Financial Items**CHFk  
January 1 - September 30, 2019

	Interest	Total financial income/ (expenses) before foreign currency	Net foreign currency gains/(losses)	Total
<b>Income</b>				
Cash and cash equivalents	1	1	1,282	1,283
Other	134	134	714	848
<b>Total</b>	<b>135</b>	<b>135</b>	<b>1,996</b>	<b>2,131</b>
<b>Expenses</b>				
Financial liabilities measured at amortized cost	(24,054)	(24,054)	-	(24,054)
Lease liabilities	(9,491)	(9,491)	-	(9,491)
Other	(4,230)	(4,230)	-	(4,230)
<b>Total</b>	<b>(37,775)</b>	<b>(37,775)</b>	<b>-</b>	<b>(37,775)</b>
<b>Net financial items</b>	<b>(37,640)</b>	<b>(37,640)</b>	<b>1,996</b>	<b>(35,644)</b>

CHFk  
January 1 - September 30, 2018

	Debt modification adjustment	Debt redemption costs	Interest	Total financial income/ (expenses) before foreign currency	Net foreign currency gains/(losses)	Total
<b>Income</b>						
Cash and cash equivalents	-	-	-	-	1,280	1,280
Other	15,051	-	15	15,066	308	15,374
<b>Total</b>	<b>15,051</b>	<b>-</b>	<b>15</b>	<b>15,066</b>	<b>1,588</b>	<b>16,654</b>
<b>Expenses</b>						
Financial liabilities measured at amortized cost	-	(5,315)	(30,696)	(36,011)	-	(36,011)
Lease liabilities	-	-	(501)	(501)	-	(501)
Other	-	-	(3,765)	(3,765)	-	(3,765)
<b>Total</b>	<b>-</b>	<b>(5,315)</b>	<b>(34,962)</b>	<b>(40,277)</b>	<b>-</b>	<b>(40,277)</b>
<b>Net financial items</b>	<b>15,051</b>	<b>(5,315)</b>	<b>(34,947)</b>	<b>(25,211)</b>	<b>1,588</b>	<b>(23,623)</b>

CHFk  
July 1 - September 30, 2019

	Interest	Total financial income/ (expenses) before foreign currency	Net foreign currency gains/(losses)	Total
<b>Income</b>				
Cash and cash equivalents	-	-	502	502
Other	82	82	391	473
<b>Total</b>	<b>82</b>	<b>82</b>	<b>893</b>	<b>975</b>
<b>Expenses</b>				
Financial liabilities measured at amortized cost	(8,119)	(8,119)	-	(8,119)
Lease liabilities	(3,056)	(3,056)	-	(3,056)
Other	(1,289)	(1,289)	-	(1,289)
<b>Total</b>	<b>(12,464)</b>	<b>(12,464)</b>	<b>-</b>	<b>(12,464)</b>
<b>Net financial items</b>	<b>(12,382)</b>	<b>(12,382)</b>	<b>893</b>	<b>(11,489)</b>

CHFk  
July 1 - September 30, 2018

	Interest	Total financial income/ (expenses) before foreign currency	Net foreign currency gains/(losses)	Total
<b>Income</b>				
Cash and cash equivalents	-	-	474	474
Other	14	14	182	196
<b>Total</b>	<b>14</b>	<b>14</b>	<b>656</b>	<b>670</b>
<b>Expenses</b>				
Financial liabilities measured at amortized cost	(8,666)	(8,666)	-	(8,666)
Lease liabilities	(137)	(137)	-	(137)
Other	(982)	(982)	-	(982)
<b>Total</b>	<b>(9,785)</b>	<b>(9,785)</b>	<b>-</b>	<b>(9,785)</b>
<b>Net financial items</b>	<b>(9,771)</b>	<b>(9,771)</b>	<b>656</b>	<b>(9,115)</b>

**NOTE 9**

**Earnings per share**

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

	01.01 - 30.09.2019	01.01 - 30.09.2018 <sup>1</sup>	Q3 2019	Q3 2018 <sup>1</sup>
<b>Basic earnings per share</b>				
Net income attributable to equity holders of SCG (CHFk)	108,744	72,292	47,868	31,552
Weighted average number of shares outstanding	45,069,028	45,060,080	45,069,028	45,069,028
<b>Basic earnings per share (in CHF)</b>	<b>2.41</b>	<b>1.60</b>	<b>1.06</b>	<b>0.70</b>
<b>Diluted earnings per share</b>				
Net income attributable to equity holders of SCG (CHFk)	108,744	72,292	47,868	31,552
Weighted average number of shares outstanding	45,137,117	45,147,282	45,145,575	45,147,282
<b>Diluted earnings per share (in CHF)</b>	<b>2.41</b>	<b>1.60</b>	<b>1.06</b>	<b>0.70</b>

<sup>1</sup> 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 September 30, 2019, a maximum of 124,079 shares (December 31, 2018: 98,870) would have a dilutive effect.

**NOTE 10****Equity**

CHFk	<b>30.09.2019</b>	31.12.2018 <sup>2</sup>
Common shares	45,069	45,069
Share premium <sup>1</sup>	1,972,552	2,162,727
Other reserve	(776,143)	(776,143)
Accumulated profit	124,779	49,524
<b>Total equity</b>	<b>1,366,257</b>	<b>1,481,177</b>

<sup>1</sup> Share premium includes reserves which are freely available for distribution of dividends.

<sup>2</sup> 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 September 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 Group.

**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 <sup>1</sup>	Debt modification revaluation <sup>2</sup>	Debt repayments	<b>30.09.2019</b>	31.12.2018 <sup>3</sup>
<b>Floating rate</b>						
Term loan B - CHF <sup>4</sup>	1,410,000	(15,533)	(18,413)	-	1,376,054	1,369,221
<b>Fixed rate</b>						
Senior secured notes - CHF <sup>5</sup>	200,000	(835)	-	-	199,165	199,041
<b>Total loans and notes</b>	<b>1,610,000</b>	<b>(16,368)</b>	<b>(18,413)</b>	-	<b>1,575,218</b>	<b>1,568,262</b>
<b>Other</b>						
Debt relating to lease liabilities	-	-	-	(27,064)	258,938	4,747
<b>Total borrowings</b>					<b>1,834,156</b>	<b>1,573,009</b>
<i>Thereof current</i>					32,376	1,973
<i>Thereof non-current</i>					1,801,780	1,571,036

<sup>1</sup> At issuance of the borrowings or at the debt modification date

<sup>2</sup> Related to refinancing

<sup>3</sup> 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).

<sup>4</sup> 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)

<sup>5</sup> Issued June 27, 2018

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 September 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:

CHFk September 30, 2019	CARRYING AMOUNT (BY MEASUREMENT BASIS)		Comparison Fair value <sup>1</sup>
	Amortized cost	Total	
<b>Financial assets</b>			
Cash	314,750	314,750	
Trade and other receivables	354,160	354,160	
<b>Financial liabilities</b>			
Trade payables and other payables	(550,779)	(550,779)	
Loans and notes	(1,575,218)	(1,575,218)	(1,620,900)
Lease liabilities	(258,938)	(258,938)	
Other current liabilities	(596)	(596)	

<sup>1</sup> The fair value of borrowings for disclosure purposes is based on quoted prices in an active market for identical liabilities.

CHFk December 31, 2018	CARRYING AMOUNT (BY MEASUREMENT BASIS)		Comparison Fair value <sup>1</sup>
	Amortized cost	Total	
<b>Financial assets</b>			
Cash	420,919	420,919	
Trade and other receivable	382,237	382,237	
<b>Financial liabilities</b>			
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)	

<sup>1</sup> 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	01.01 - 30.09.2019	01.01 - 30.09.2018 <sup>1</sup>	Q3 2019	Q3 2018 <sup>1</sup>
Change in inventories	(2,524)	27,236	(3,121)	10,295
Change in trade and other receivables	27,811	31,954	8,270	(10,641)
Change in trade and other payables	17,233	(70,246)	25,559	1,510
Change in contract assets	3,224	2,880	(15,842)	(227)
Change in contract liabilities	(1,963)	(625)	(2,704)	(392)
Change in contract costs	(5,161)	(4,821)	(2,540)	(542)
Change in other items, net	(5,737)	(10,012)	3,487	6,947
<b>Total</b>	<b>32,883</b>	<b>(23,634)</b>	<b>13,109</b>	<b>6,950</b>

<sup>1</sup> 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 32.9 million in the nine-month period ended September 30, 2019 is primarily related to a reduction in trade and other receivables (CHF 27.8 million) and the increase in trade and other payables (CHF 17.2 million) mainly driven by roaming payables. These positive effects were partly offset by a negative change in contract costs (CHF 5.2 million), and other items (CHF 5.7 million) mainly driven by prepaid expenses.

Compared to the nine-month period ended September 30, 2018, the change in net working capital had a positive impact of CHF 56.5 million mainly from less cash out from trade and other payables (CHF 87.4 million) due to higher payments in 2018 for the purchase of mobile phones and tables as well as higher roaming settlements. In contrast, the first nine months of 2019 were negatively impacted by less reduction in inventory (CHF 29.8 million) and trade and other receivables (CHF 4.1 million). The remaining change stems from positions related to contract assets and contract liabilities.

**NOTE 14****Disposal of assets**

During the first nine months of 2019, the Group has recognized a net gain on asset disposal of CHF 25.3 million, which is reflected in other income in the Groups condensed consolidated financial statements as of September 30, 2019 (2018: CHF nil). The total cash consideration received amounted to CHF 29.9 million (2018: CHF 7.8 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 nine-month period ended September 30, 2019, the Group acquired intangible assets of CHF 255.6 million (2018: 76.5 million). In the same period, the Group paid CHF 211.5 million (2018: CHF 97.8 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 nine-month period ended September 30, 2019, the Group acquired assets in the amount of CHF 135.7 million (CHF 104.1 million). In the same period, the Group paid CHF 130.5 million (2018: CHF 132.6 million) for property, plant and equipment additions.

### **Current portion of prepaid expenses**

The balance mainly consists of prepaid IT expenses 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. Furthermore the balance contains prepaid Cost of Sales.

### **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 16.5 million as of September 30, 2019. This is due to the reduction of income tax rates which were approved by some cantons during the first nine months 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 September 30, 2019, amounted to CHF 331.4 million (September 30, 2018: CHF 288.1 million) consisting of future investments in property, plant and equipment and intangible assets, of which CHF 109.9 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**

### **Events after the balance sheet date**

On February 27, 2019, the Group has announced that it has signed a binding agreement to acquire UPC Switzerland GmbH. The transaction was subject to receipt of regulatory clearance, which was given on September 26, 2019. For the approval of the ordinary capital increase of CHF 2.8 billion, an extraordinary general meeting (EGM) was called on September 30, 2019. On October 22, 2019, the Group's Board of Directors cancelled with consent from Liberty Global the EGM. The approval of the capital increase was the last condition precedent to closing the acquisition of UPC Switzerland GmbH.

Subsequently, the Group has cancelled the share purchase agreement as of November 12, 2019. The cancellation triggers the payment of the penalty of CHF 50.0 million to Liberty Global. The Group expects the total costs to amount to CHF 120.0-125.0 million, including the penalty (CHF 50.0 million), underwriting fees (CHF 18.5 million), advisory and legal fees, as well as already incurred integration costs of about CHF 24.0 million. CHF 26.8 million are already reflected in the condensed consolidated interim financial statements as of September 30, 2019, thereof CHF 23.9 million as other operating expenses.

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