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Press release

Opfikon, 7 October 2019; 06:45 a.m. CET

A message from the CEO

Dear shareholders,

On 27 February 2019, we announced an agreement to acquire Swiss cable operator UPC Switzerland (“UPC”). Now that the transaction has been approved by the Swiss Competition Commission with no conditions or stipulations, we have invited you to an Extraordinary General Meeting (“EGM”) on 23 October 2019 to vote on the reduced capital increase required to finance the transaction.

The UPC transaction is of enormous strategic importance to Sunrise and will significantly benefit Swiss consumers and businesses. It will position Sunrise as the leading fully-integrated challenger in the Swiss telecommunications market, ultimately creating a stronger and more valuable company for shareholders. The transaction will more than double Sunrise’s current customer base, providing it with the necessary scale to compete, innovate and continue to grow in a rapidly evolving market. It will create a next generation high-speed broadband infrastructure that is unique in Switzerland, with the potential to provide 90% of Swiss households with internet speeds of up to 1 Gbit/s. This will start a new digital era for the country and open new opportunities to gain market share as Sunrise will have the best high speed broadband network in Switzerland, even when compared to the incumbent.

We believe this financially and strategically compelling transaction will create significant value for Sunrise shareholders. The combination is expected to generate in-market synergies with a net present value post integration costs of CHF3.1 billion. The combination is also expected to significantly enhance the equity cash flow per share for Sunrise shareholders from year 1¹.

Sunrise has a strong track record of outperformance and creating shareholder value, having delivered total shareholder returns of 44% since IPO compared to -11% for the Stoxx Europe 600 Telecoms index and having grown the company’s dividend per share by 40%. This transaction is a logical next step for Sunrise and I wanted to provide you with my perspectives and those of my management team so that you have all the facts to make your decision at the EGM.

Fixed networks and cable will remain important:

The facts are that customer needs are constantly evolving. Data requirements are ever-increasing and only a company that offers a combination of 5G and high-speed broadband landline connections will be able to satisfy the fast growing data and communications needs of Swiss consumers and businesses.

¹ Excluding integration costs and including run-rate synergies

Cable networks are more robust and less restrictive for large scale data transfers than mobile networks even in a 5G environment, especially given Swiss radiation regulations and more challenging indoor mobile reception. For 5G to replace fixed high-speed broadband networks in urban and sub-urban areas, the strict Swiss emission norms would require a substantial amount of new mobile sites to be built. This is economically inferior in comparison to using existing cable and fibre infrastructure, even if the lack of availability of new sites could be overcome.

UPC's high-speed broadband network covers ~60% of Swiss households and is based on 18,000 km of fibre optic backbone (coax cable is used only for last mile access). It has the ability to provide speeds of 1 Gbit/s and beyond through DOCSIS 3.1 technology, which is similar to speeds available through the Swisscom / local utility fibre network which currently only has a Swiss household coverage of ~30% and is significantly outperforming Swisscom's xDSL/fixed copper networks in the other regions. We do not expect fibre to be able to match the coverage of UPC's network in the medium term because of the significant investments required. Market expectations are for fibre to only reach coverage of ~40% in the medium term, which means that UPC's network should give Sunrise a long-term structural advantage.

Sunrise is recognised as having one of the best mobile networks in Europe. We have real-world experience in owning 5G spectrum and rolling out a 5G network across Switzerland as we already cover at least 80% of the local population in 262 towns and locations across Switzerland as of September 2019. We are proud of our leading 5G network but we also know its limitations. We see 5G mobile broadband services as being complementary to high speed broadband networks, and 5G will specifically be positioned to replace Swisscom's xDSL/fixed copper network in regions without cable and fibre.

Sunrise will be best positioned to win convergent customers because of its superior network (both mobile and fixed), leading customer service and brand and a large nationwide store network which enables us to explain the convergent benefits directly to customers. The acquisition of UPC is a logical and important next strategic step for Sunrise as it continues its track record of creating long-term value for shareholders.

The benefits of owning the network are also significant from a cost perspective. Today, Sunrise pays a large annual bill to a large competitor for use of its infrastructure. In Switzerland, challengers like Sunrise do not have the benefit of regulated access to last mile fibre. Reducing our dependency and payments to a competitor that is lightly regulated is critical for the continued success of our business.

UPC Switzerland is an attractive business that is highly complementary to Sunrise:

The UPC transaction will bring together two highly complementary companies. UPC has a leading nationwide fixed network infrastructure and a strong market position, in TV and entertainment and broadband. It complements Sunrise's strong mobile network and growing B2B business, with its strong partner network and established B2B market position that will give New Sunrise the scale to compete more effectively against the incumbent.

The Sunrise Board and management team conducted very thorough due diligence on the business for over a year before the announcement and developed a detailed integration plan together with our own technical, network and accounting experts, complemented by outside experts. The Board and the Board sub-committee for the transaction held over 40 meetings and calls, and together we identified substantial synergies which we are very confident we will deliver. We were impressed by the quality of the UPC network infrastructure and the ability to upgrade to even higher speeds with relative ease and efficiency, as well as the superior customer satisfaction levels of the new UPC TV box.

When we announced the transaction in February, we used conservative assumptions for UPC's operational and financial performance. Since then, we have been pleased to see that UPC's results for H1 2019 were in-line with UPC's turnaround plan and ahead of our own more conservative plan, leading to a CHF10-15 million higher 2019 free cash flow expectation compared to the original announcement.

UPC's customer ARPU and take-up of mobile and convergent offerings continue to grow. Importantly, UPC continues to invest for long term growth rather than drive short-term EBITDA gains. The roll out of UPC TV is ahead of plan and continues to generate high levels of customer satisfaction, and we have been positively surprised by the completion of the DOCSIS 3.1 upgrade for higher broadband speeds, which was announced by UPC on 25 September 2019.

Sunrise will leverage its strengths to accelerate the stabilisation of UPC's EBITDA by leveraging our leading nationwide distribution network and shops (e.g. we have 95 shops vs UPC's 10), leading brands, superior customer service and a full scale mobile offering. Following six months of detailed integration planning post announcement, it became clear that the complementary nature of Sunrise and UPC will also result in greater cost and capex synergies than initially expected, delivering further value to Sunrise shareholders.

The enhanced transaction structure ensures a prudent capital mix, while maximising shareholder returns:

The new enhanced transaction structure is the result of UPC's improved performance, higher than expected synergies, a lower cost of debt and valuable feedback from our shareholders. It has been designed to lower the investment required from our shareholders through the capital increase while providing the company with the financial flexibility to continue to invest for growth. Sunrise remains committed to a prudent capital structure and its progressive dividend policy.

Over the last six months, as we continued to engage with existing and new investors, we received strong support for the transaction and for the new enhanced structure which we announced on 30 September 2019. The new financing structure allows us to reduce the size of the capital increase from CHF4.1 billion to CHF2.8 billion and to significantly enhance the equity free cash flow per share accretion for our shareholders, which we expect will broadly double.

We also looked at the UPC debt portfolio in great detail and concluded that it provided us with an attractive, long-term capital structure at favourable interest rates and flexible covenants. Debt market conditions have improved since announcement and the trading price of UPC bonds has risen. This has no impact on the value for Sunrise shareholders. The coupon payable and the principal amount to be repaid at maturity do not change (Sunrise bonds have also experienced a similar increase in trading price). The new enhanced financing structure reduces New Sunrise's weighted average cost of debt from ~3.6% to ~3.2%.

The all-cash transaction structure allows our shareholders to benefit from the upside related to the transaction by retaining more than 60% of the synergies, which compares favourably to comparable transactions, and by continuing to receive a progressive dividend per share.

My message to you as CEO:

The Sunrise management team strongly believe that this transaction is the right transaction at the right time. It will create a stronger and more valuable Sunrise. My team and I have the track record and expertise to deliver on the plans we have set out and we are excited by the opportunities for growth this will create. The transaction will benefit Swiss consumers and businesses significantly, and deliver substantial shareholder value both in the near-term and the long-term.

I encourage you to read the shareholder information document published on our website and to support Sunrise by voting in favour of the capital increase at the EGM on 23 October, 2019.

Yours sincerely,

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Chief Executive Officer

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