Q1 2020

Interim Financial Report

Three-month period as of March 31, 2020

Sunrise

Content

Operational and Financial Review

Financial KPIs

CHF million January 1 – March 31	2020	2019	Change (%)
Revenue			
Mobile services	306	302	1.4
– Thereof mobile postpaid	*210*	*201*	*4.5*
– Thereof mobile prepaid	*16*	*19*	*(16.6)*
– Thereof mobile hardware	*56*	*58*	*(3.7)*
– Thereof other	*23*	*23*	*2.7*
Landline services (incl. voice)	71	71	0.5
– Thereof landline voice	*32*	*31*	*4.0*
– Thereof hubbing	*15*	*17*	*(12.0)*
– Thereof other	*24*	*23*	*4.9*
Landline Internet and TV	82	74	10.6
– Thereof landline hardware[1]	*4*	*1*	*303.0*
Total revenue	**459**	**447**	**2.8**
Revenue excl. hardware and hubbing	384	371	3.6
Gross profit	**316**	**305**	**3.4**
% margin	68.8%	68.4%	
% margin (excl. hubbing & hardware revenue)	82.2%	82.4%	
EBITDA	**162**	**175**	**(7.0)**
EBITDA adjusted[2]	**168**	**158**	**5.9**
% margin	36.5%	35.5%	
% margin (excl. hubbing & hardware revenue)	43.7%	42.7%	
Net income	**22**	**35**	**(37.2)**
Cash flow			
Reported EBITDA	162	175	(7.0)
Change in NWC	21	40	(47.8)
Net interest	(10)	(9)	2.2
Tax	(4)	(21)	(82.2)
CAPEX	(83)	(134)	(38.1)
Repayments of lease liabilities	(13)	(16)	(19.6)
Other financing activities	(0)	(0)	(31.8)
Equity free cash flow	**73**	**33**	**123.7**
Other[3]	3	5	(37.6)
Total cash flow	**76**	**38**	**103.1**
Net debt	**1,584**	**1,420**	**11.6**
Net debt / adj. EBITDA (LTM)	2.3×	2.2×	

[1] Due to growing importance of landline hardware revenue, the figure is reported separately and excluded from service revenue. Prior year service revenue and service margins have been adjusted accordingly to ensure comparability.
[2] New APM guideline effective as of January 1, 2020. Refer to section "Alternative Performance Measures" on page 9. Comparative values have not been restated.
[3] 2020 mainly consists of movement in pension and provisions of CHF +3 million, 2019 contains mainly of sale of property, plant and equipment of CHF +5 million.

Operational KPIs

January 1 – March 31	**2020**	2019	Change (%)
ARPU (CHF)			
Mobile blended	**30.7**	**31.1**	**(1.3)**
Postpaid	36.8	38.3	(4.0)
– Thereof origination	*33.9*	*35.7*	*(5.0)*
– Thereof termination	*2.8*	*2.6*	*9.9*
Prepaid	9.8	10.6	(7.5)
Landline			
Landline voice	21.2	21.6	(2.2)
Internet	35.0	36.0	(2.8)
TV	24.6	25.0	(1.8)
Subscription base (in thousand)			
Mobile			
Postpaid	1,925.3	1,772.0	8.7
– Primary	1,544.9	1,437.5	7.5
– Secondary	380.4	334.5	13.7
Prepaid (3-month rule)	532.1	597.3	(10.9)
Prepaid (12-month rule)	909.8	1,010.0	(9.9)
Landline			
Landline voice	509.1	481.3	5.8
Internet	506.8	471.8	7.4
TV	290.8	252.3	15.2
LTM Churn (%)			
Postpaid	13.9	13.2	5.0
Landline	14.7	12.9	14.2
Employees			
FTEs	1,729	1,611	7.3
Apprentices	141	138	2.2

Financial Review

Financial Summary

In the first quarter of 2020, service revenue (total revenue excl. hardware and hubbing revenue) has increased by 3.6% compared to prior year period, which was mainly driven by the strong customer growth in mobile postpaid and landline internet. This positive development was partly offset by the decreasing mobile hardware (−3.7%) and hubbing revenue (−12.0%), leading to a total revenue increase of 2.8% compared to Q1 2019. Adjusted EBITDA increased by 5.9% in the first three-month period ended March 31, 2020, mainly driven by gross profit growth.

Major Events

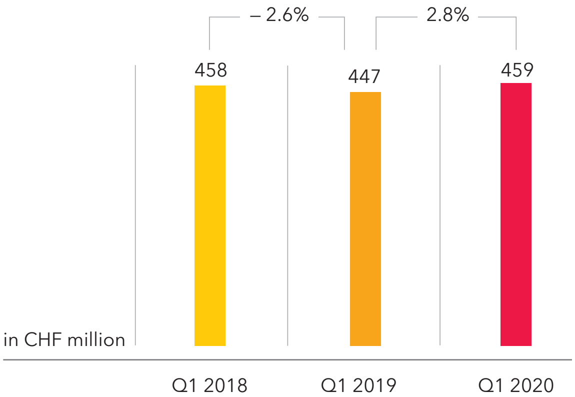
During the first quarter of 2020, the Covid-19 pandemic has led to significant impacts on the worldwide and local economic situation. Sunrise was also impacted in terms of close-down of shops and various other organizational challenges. In addition, the Group has noted that customer behavior has slightly changed during this period. While the mobile and landline voice usage has increased, there were less roaming activities and a decline in mobile prepaid revenue due to missing tourism within Switzerland. Moreover, the Group has observed a slightly lower churn and lower rates of new activations due to lower market activities in the second half of March 2020.

As far as the preparation of the condensed consolidated financial statements as of March 31, 2020 is concerned, the Group has evaluated various possible impacts on the financial statements, including the review of critical accounting estimates and judgments (such as goodwill impairment test, provisions, leasing contracts, inventory valuation, etc.), and has concluded that no specific adjustments are required so far.

The Group provided all employees (except the Executive Leadership Team and Members of the Board) with a one-time opportunity to participate in the future business performance and success of Sunrise by offering them to receive either a predefined number of shares free of charge or to purchase shares at a discounted price. The purpose of the employee share participation plan (ESPP) is to enhance employees' commitment to the Company and strengthen their sense of ownership. Therefore, a total of 196,418 shares have been issued in the second quarter of the year. The total costs for the Group will amount to CHF 9 million, which do not result in any material cash outflow, as the additional shares have been newly issued from authorized capital. Half of the costs were expensed in Q1 2020, the remaining costs are expensed in the second quarter of the year.

Revenue

The Sunrise Group financial results for the three-month period ended March 31, 2020, showed an increase in total revenue of 2.8%, mainly attributable to the strong customer growth in mobile postpaid and landline internet.



Revenue by segment and service

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

CHFk January 1 – March 31	RESIDENTIAL[1]		BUSINESS[1]		WHOLESALE[2]		HEAD OFFICE ACTIVITIES		TOTAL	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Revenue										
External customers	322,190	324,436	87,226	71,520	39,710	40,797	9,998	9,870	459,124	446,623
Total	**322,190**	**324,436**	**87,226**	**71,520**	**39,710**	**40,797**	**9,998**	**9,870**	**459,124**	**446,623**

[1] In 2020, there was a minor redefinition of customer base between the segments Residential and Business. Comparative figures have not been adjusted. On a comparable basis, Q1 2019 revenue for Business would have been CHF 6 million higher (Residential lower accordingly).
[2] Including hubbing revenue of CHF 15 million generated in the three-month period ended March 31, 2020, and CHF 17 million in the three-month period ended March 31, 2019.

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

CHFk January 1 – March 31	**2020**	2019
Mobile services	306,006	301,672
– Thereof mobile postpaid	*210,258*	*201,161*
– Thereof mobile prepaid	*16,231*	*19,456*
– Thereof mobile hardware	*56,020*	*58,179*
– Thereof other	*23,497*	*22,876*
Landline services	71,192	70,850
– Thereof landline voice	*32,408*	*31,171*
– Thereof hubbing	*14,787*	*16,796*
– Thereof other	*23,997*	*22,883*
Landline Internet and TV	81,926	74,101
– Thereof landline hardware[1]	*4,187*	*1,039*
Total	**459,124**	**446,623**
Revenue excl. hardware and hubbing	*384,130*	*370,609*

[1] Due to growing importance of landline hardware revenue, the figure is reported separately and excluded from service revenue. Prior year service revenue and service margins have been adjusted accordingly to ensure comparability.

Mobile Services

Revenue from mobile services increased by 1.4% to CHF 306 million in the year-over-year comparison. Mobile postpaid revenue rose by 4.5% due to an increased postpaid subscription base (8.7%) and led to a total mobile services revenue increase for the three-month period ended as of March 31, 2020, partially offset by a decrease in mobile prepaid revenue (−16.6%).

The year-over-year postpaid ARPU reduction of CHF −1.5 was mainly driven by the continued secondary SIM dilution as well as promotion and retention discounts and product mix effects, partially offset by an increased Mobile Termination Traffic due to Covid-19.

The postpaid subscription base totaled 1,925 thousand subscribers as of March 31, 2020 (March 31, 2019: 1,772 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 attractive promotional activities. The continuous growth of mobile data traffic is reflected in the increase of secondary subscriptions (such as secondary SIM-cards used for data) used by customers in addition to their primary subscriptions.

Mobile prepaid revenue declined year-over-year due to a decreasing subscription base and lower ARPU (CHF −0.8). As in previous years, increased OTT usage as well as high value prepaid customers migrating to postpaid are the main factors that led to the ARPU decrease. The prepaid subscription base shrank year-over-year by −10.9% to 532 thousand subscribers as of March 31, 2020, mainly related to pre- to postpaid migration.

Hardware revenue (low margin) decreased year-over-year by −3.7% to CHF 56 million for the three-month period ended March 31, 2020. The decrease is driven by lower volume of sold handset device plans. Hardware revenue also depends on handset innovation/launches and is volatile by nature.

Landline Services

Landline services revenue remained almost stable year-over-year with a slight improvement of 0.5% in the first quarter of 2020.

Landline voice revenue increased by 4.0% to CHF 32 million driven by increased Voice telephony traffic in the Covid-19 lockdown period in March 2020. Hubbing revenue, which is low margin, decreased by −12.0% to CHF 15 million. This decline is due to an increased focus on profitability and therefore a shift to higher margin business, which is also reflected in an increase of hubbing gross profit. Furthermore a general shift to alternative providers (OTT) results in lower volumes and thus decreased hubbing revenue.

Landline Internet and TV

Internet and TV revenue increased by 10.6% to CHF 82 million (including landline Hardware) in the three-month period ended as of March 31, 2020.

The total Internet subscription base increased by 7.4% year-over-year to 507 thousand subscriptions. The revenue increase was also supported by the new TV OTT product that can be purchased alongside Internet or Mobile Broadband Services or standalone. The TV classic and TV OTT combined customer base increased by 15.2% year-over-year to 291 thousand subscribers. Customer growth was supported by convergence benefits including the Sunrise One offer, and by enhanced TV sports content as well as by promotional bundles launched end of 2019. TV ARPU decreased by CHF −0.4 to CHF 24.6 in the first quarter of 2020 which was mainly caused by promotional activities.

Landline hardware revenue increased by CHF 3 million in the first quarter of 2020 compared to prior year period. This is mainly driven by bundled hardware offers in landline, which has grown in importance during the second half of 2019.

Profitability and Costs

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

Gross Profit

Gross profit came in at CHF 316 million with a 3.4% growth year-over-year. Gross profit growth was driven by service revenue growth and service gross margin expansion. Higher service gross margin was supported by mobile postpaid and landline services, both due to customer growth and high national voice usage in Covid-19 lockdown.

Transmission Costs and Costs of Goods Sold

Transmission costs and cost of goods sold totaled CHF 143 million for the three-month period ended as of March 31, 2020, an increase of 1.5% year-over-year, mostly driven by the operational growth in business segment, as well as more gifting promotions and bundled offers in landline hardware.

Alternative Performance Measure

Alternative Performance Measures (APM) are also known as non-GAAP financial measures and non-financial KPIs. The APM used by the Group cover a broad range of areas and are considered to be relevant to steer the performance of the Company. APM are defined clearly and comprehensibly and have a meaningful self-explanatory label. The APM are applied consistently over time and comparative information for the corresponding previous periods are disclosed. As of January 1, 2020 a new policy regarding APM is effective and prior year figures have not been restated.

The relevant APM for Sunrise, are adjusted EBITDA, Equity Free Cash Flow (eFCF) and Net Debt.

Adjusted EBITDA

The adjusted EBITDA is an indicator to measure the performance of the Group excluding the impacts of extraordinary items and it is defined as follows:

Reported EBITDA
+/− Acquisition and integration costs of new businesses
+/− Restructuring costs
+/− Non-recurring and/or non-operating events
= Adjusted EBITDA

Equity Free Cash Flow (eFCF)

This APM is the basis for the determination of the dividend to be distributed to the shareholders and is defined as follows:

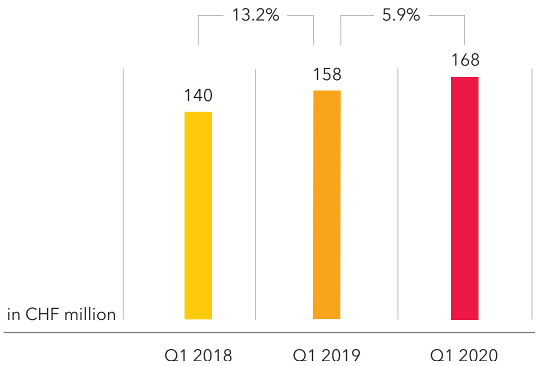
Reported EBITDA
+/− Change in NWC
– CAPEX (excl. cash from asset sales)
– Tax
– Interest
– Other financing activities (incl. IRU)
= EFCF

Net Debt

Net debt is defined as the principal amount of all Borrowings, including the discounted lease liability, of the Group less the aggregate amount of Cash and Cash Equivalent Investments held by the Group.

Adjusted EBITDA

Adjusted EBITDA as of March 31, 2020, amounted to CHF 168 million, showing a year-over-year increase of 5.9%. The development of adjusted EBITDA was supported by gross profit growth which was slightly offset by increased variable operational expenses.



The table below shows one-time adjustments from reported EBITDA to adjusted EBITDA for the first three months in 2020, 2019 and 2018. The comparative values have not been restated to the new APM guideline mentioned above. The biggest adjustments for the current period relate to non-recurring, non-operating events and include CHF 4 million for a new employee share participation program. In addition, CHF 2 million for restructuring cost have occurred as a one-time adjustment. The CHF −1 million within acquisition and integration costs of new businesses relate to a gain caused by the release of accruals.

CHFk January 1 – March 31	**2020**	2019	2018
Reported EBITDA	**162,320**	**174,565**	**137,006**
Acquisition and Integration costs of new businesses	(995)	n/a	n/a
Restructuring costs	2,046	n/a	n/a
Non-recurring and/or non-operating events	4,328	(14,987)	4,225
Prior-year-related events	n/a	(1,765)	(1,404)
Costs related to share-based payment	n/a	565	117
Adjusted EBITDA	**167,698**	**158,379**	**139,944**

Reported EBITDA

The Group generated an EBITDA of CHF 162 million for the three-month period ended March 31, 2020, a year-over-year decrease of CHF −12 million or −7.0% from CHF 175 million for the same period in 2019. The year-over-year decline of reported EBITDA is mainly attributable to the development of one-time events, accounting for a CHF 22 million decline. In prior year, the effects were positive, mainly driven by the sale of 133 telecom towers to Swiss Towers AG in January 2019 (CHF 25 million), partly offset by advisory fees related to the cancelled acquisition of UPC Switzerland (CHF 7 million) and expenses related to the headquarter move to Ambassador House (CHF 2 million). In Q1 2020, the non-recurring effects were negative, mainly containing expenses for the new employee share participation Plan (CHF 4 million). Operational business in Q1 2020 contributed to an EBITDA increase of CHF 9 million with a strong gross profit growth, slightly reduced by other income and expenses, while other operating expenses and wages, salaries and pension costs are offsetting each other.

Other Operating Expenses

Other operating expenses decreased by CHF −13 million from CHF 105 million to CHF 92 million year-over-year for the three-month period in 2020. The decline is partially due to the prior year costs related to the cancelled acquisition of UPC Switzerland GmbH (CHF 7 million). Excluding these costs, other operating expenses decreased by CHF −7 million, which is attributable to lower marketing expenses and increased operational efficiency.

Wages, Salaries and Pension Costs

Wages, salaries and pension costs totaled CHF 63 million for the three-month period ended March 31, 2020. This represents a year-over-year increase of 17.4% related to FTE increase in customer growth areas and a new employee share participation plan (CHF 4 million).

Although the pension fund of Sunrise Communications AG is overfunded by 20% as of December 31, 2019, according to Swiss GAAP FER 26, the Group reports a net pension liability of CHF 94 million in its condensed consolidated interim financial statements as of March 31, 2020. 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 13 million in the pension liability from CHF 82 million as of December 31, 2019, is mainly due to the loss on plan assets related to the market performance in the first quarter of the year, which was partially compensated by the reduction in the discount rate.

Other Income and Expenses, Net

Other income and expenses, net decreased by CHF −27 million year-over-year. This decrease is mainly attributable to the prior year sale of 133 telecom towers to Swiss Towers AG in January 2019, which was treated as a non-recurring gain and therefore had no impact on adjusted EBITDA. The current year figure mainly includes Early Termination Fees and a minor gain on disposal of property, plant and equipment.

Net Income

The Group reported a net income of CHF 22 million for the three-month period ended March 31, 2020, a year-over-year decrease of CHF −13 million from a net income of CHF 35 million for the prior-year period. Prior year net income was significantly impacted by the gain of CHF 25 million related to the sale of the 133 telecom towers to Swiss Towers AG in January 2019 and the increased expenses related to the acquisition of UPC Switzerland GmbH (CHF 7 million). Excluding those two effects, the Q1 2020 net income would be CHF 5 million higher than in the prior year period. The increase is related to higher gross profit (CHF 10 million), decreased other operating expenses (CHF −7 million excl. prior year UPC expenses) and lower tax expenses (CHF −5 million), only partly offset by the increased wages, salaries and pension costs (CHF 9 million) and higher amortization expenses (CHF 8 million).

Depreciation and Amortization

Depreciation and amortization have increased compared to prior year from CHF 116 million in Q1 2019 to CHF 124 million in Q1 2020. This is mainly attributable to the high additions to intangible assets in previous periods, such as the new 5G mobile license, various fiber access deals and continued investments in network rollout. For the three-month period as of March 31, 2020, CHF 32 million out of the total of CHF 124 million related to the amortization of purchased intangibles (CHF 32 million in Q1 2019). Those intangibles, created in 2010 in the amount of CHF 1,477 million and amortized over a maximum of 11 years, are related to the acquisition of Sunrise by MCG in October 2010.

Net Financial Items

Net financial items has shown a stable development on a year-over-year basis for the first three months in 2020 mainly consist of financial expenses in the amount of CHF 12 million (2019: CHF 13 million), as well as net foreign currency gains of CHF 1 million (2019: nil).

Income Taxes

For the first three months in 2020, income tax expenses of CHF 5 million (Q1 2019: CHF 10 million) consists of a CHF 10 million (Q1 2019: CHF 19 million) tax expense related to current income taxes and a tax benefit of CHF 5 million (Q1 2019: CHF 8 million) related to the change in deferred taxes.

Cash Flow, Balance Sheet and Dividend Policy

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

Cash Flow

Cash and cash equivalents totaled CHF 279 million as of March 31, 2020, an increase of CHF 78 million compared to the cash position held as of December 31, 2019. The cash flow from operating activities of CHF 172 million was partly offset by the cash flow used in investing (CHF −83 million) and financing activities (CHF −13 million).

Cash Flow from Operating Activities

The year-over-year increase of CHF 13 million in 2020 in Cash flow from operating activities stems from various effects. Cash flow from operating activities before net financial items and tax remained almost stable, due to different offsetting positions, such as the change in net working capital and the gain on disposal of property, plant and equipment. Paid interest remained stable and paid taxes were lower (CHF −17 million) year-over-year mainly relating to different payment profiles.

Cash Flow (Used In) / From Investing Activities

Cash flow used in investing activities amounts to CHF 83 million as of March 31, 2020, which is CHF 22 million lower than in prior year (Q1 2019: CHF 105 million). While Q1 2019 was positively impacted by the net proceeds from asset disposals (Q1 2020: nil; Q1 2019: CHF 29 million), which mainly related to the sale of 133 telecom towers to Swiss Towers AG, the CHF 66 million lower payments in 2020 for the purchase of intangible assets overcompensated this effect. Furthermore the payments for the purchase of property, plant and equipment have increased by CHF 14 million compared to prior year period, leading to a total year-over-year decrease in cash flow used in investing activities of CHF 22 million.

Cash Flow Used in Financing Activities

Cash flow used in financing activities decreased by CHF 3 million in the first three months in 2020 compared to the same period in prior year. This is mainly due to lower payments for the amortization of lease liabilities, which is caused by a different payment schedule.

Net Debt

The Group's debt position as of March 31, 2020 – consisting of the term loan B3 facility, senior secured notes and lease liabilities – amounted to CHF 1,833 million, of which CHF 42 million is expected to be paid within 12 months. Net debt consists of the term loan B3 facility, senior secured notes at a total nominal value of CHF 1,610 million (December 31, 2019: CHF 1,610 million) and the discounted lease liabilities of CHF 253 million (December 31, 2019: CHF 263 million) reduced by cash and cash equivalents in the amount of CHF 279 million (December 31, 2019: CHF 201 million). This leads to a net debt position as of March 31, 2020, of CHF 1,584 million (December 31, 2019: CHF 1,673 million), resulting in a net debt to adjusted EBITDA leverage ratio of 2.3× (December 31, 2019: 2.5×). The figures include the effects of IFRS 16 (within debt as well as adjusted EBITDA). The reduction of the ratio compared to December 31, 2019 is mainly attributable to the increased cash position (CHF 78 million) and adjusted EBITDA in Q1 2020 as well as a reduction of the lease liability (CHF −10 million).

As part of the Senior Facilities Agreement, the Group benefits from a multi-currency revolving credit facility (RCF) with a total commitment equal to CHF 200 million, which was undrawn as of March 31, 2020. As the course of the Covid-19 pandemic is unpredictable and in order to secure funds, the Group has decided to increase the cash balance. On April 1, 2020 the Group has therefore drawn down CHF 100 million of its RCF. Any amounts drawn currently bear a cost of CHFLIBOR (capped at zero percent) plus 1.20%. The Group's objective is to constantly maintain a strong liquidity position.

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 contract assets and contract liabilities. Changes in trade and other payables related to non-cash capital expenditures for Indefeasible Rights of Use (IRU) are excluded.

The positive change in net working capital of CHF 21 million in the three-month period as of March 31, 2020 is primarily related to a positive change in trade and other receivables (CHF 33 million), and the change in contract assets, contract liabilities and contract costs (net CHF 11 million) driven by incoming payments from customers as well as the settlement of credit notes. In addition, the positive change in inventories amounted to CHF 7 million and represents a reduction of inventory. Those developments were partly offset by the reduction of trade and other payables (CHF 15 million) and the negative change in other items (CHF 15 million) mainly driven by prepaid expenses.

Compared to the three-month period ended as of March 31, 2019, the change in net working capital showed a decrease of CHF 19 million mainly driven by higher cash out for trade and other payables (CHF 10 million), due to higher payments in the first three months of 2020 for the purchase of mobile hardware as well as higher commission payments. Hereto came an increase in contract assets, relating to roaming discounts. The remaining change stemmed from positions related to contract costs and contract liabilities as well as trade and other receivables and inventory.

Dividend Proposal and Distribution Policy

At the Annual General Meeting on April 8, 2020, the payment of an ordinary dividend from statutory reserves from capital contributions in the total amount of CHF 198 million (CHF 4.40 per share) in respect of the 2019 financial year was approved. The dividend payment was made on April 16, 2020.

Sunrise confirms its long-term dividend policy of paying out at least 65% of eFCF and continues to target 85% if net debt/adjusted EBITDA leverage is below 2.3×. For 2018 to 2021, Sunrise reiterates its annual 4–6% dividend progression guidance.

The 2018 to 2020 guidance specification was introduced to protect investors from near-term cash flow volatility due to landline access and spectrum payments. The guidance specification for 2021 is supported by the expectation that Capex levels will normalize to between CHF 250 million and CHF 290 million (including utility, excluding Swisscom upfront payments for landline access) after reaching CHF 410 million to CHF 450 million in 2020. This reduction will materially improve eFCF in 2021, which is expected to fully cover the dividend guidance specification, in line with the long-term dividend policy.

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 is facing. 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 February 6, 2020.

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

Very high promotional intensity by all operators, offering low domestic and roaming flat rates, and competition in the landline and TV 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 or even lower price might lead to a decrease in revenue. Sunrise actively monitors market developments and offers attractive bundles with flat rate components and promotional activities to meet customers' needs comprehensively.

Regulatory Framework

Under the current regulations on non-ionizing radiation, the activation of new frequencies often requires a reduction in transmission power and thus leads to less coverage and lower capacity, which is at odds with the increase in data traffic and the digitalization needs of customers (see chapter 8.7). As a result, the spectrum acquired in the 2019 frequency auction cannot be utilized to its fullest potential. With the goal of bringing about a more favorable regulation, Sunrise is conducting intensified lobbying activities directly and indirectly through the industry association with the aim of educating all stakeholders about the impact of the restrictive regulatory framework on network evolution, especially 5G. In addition, ongoing revisions to Swiss telecommunication ordinances bears the risk of new regulations that could result in higher costs and/or lower revenues.

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 and shorter innovation cycles increase the complexity of technical implementations. They also bring about a broader range of vulnerabilities to attacks on these systems and solutions. Additionally, the power of cybercriminals and the number of cyber-attacks committed are increasing year after year. The Company's mature internal information security framework ensures that Sunrise services meet the standards customers demand and that threats are recognized early enough to allow the implementation of appropriate preventive actions. Sunrise is certified to the ISO 27001 standard, which covers all personnel, operations processes and technology infrastructure used for the processing, storage and transmission of customer information and communication. The recently established Sunrise Security Operations Center (SOC) additionally strengthens the safety and protection of the Company's IT infrastructure and customer data.

Business Continuity Management

Telecom services are becoming more and more complex and are thus 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 in 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 shortfalls in supply due to natural disasters, political instability, pandemics, trade conflicts, etc., could affect the availability of certain components. Sunrise is monitoring these aspects and will respond appropriately if necessary. In addition, it is in the interest of the Company's suppliers to reduce potential risks to business continuity by implementing a multi-sourcing strategy and a comprehensive supply and business continuity management system. Sunrise is monitoring the ongoing trade conflict between the United States and China and the effects on Huawei very closely. Changes to IT and network structures are being made to reduce the Company's exposure to possible trade restrictions, and Huawei has confirmed to Sunrise that they have a comprehensive set-up in place to guarantee continuous operations.

Financial Risks

The Company is exposed to a variety of financial risks, specifically market, credit and liquidity risks. A detailed description of the financial risks is provided in Note 24 to the 2019 Consolidated Financial Statements of the Group.

Covid-19

The long-term impact of the Covid-19 pandemic on our business is still unclear and we are monitoring the situation very closely. During the first quarter of 2020, the effects were limited, however, would the current situation continue for a longer period, this could lead to delays in the rollout of 5G in case of general restrictions by the government with regards to construction sites or building permits. In addition, if a large number of our employees were infected, this might also have a negative impact on our daily operations and on the execution of strategic projects. Also the negative economic impact of a prolongation of the outbreak could lead to adverse effects on our market performance such as the possibility to attract new customers or diminishing roaming revenues due to shrinking tourism.

Additional Disclosures

Material Affiliate Transactions

Change in the Executive Leadership Team
The Board of Directors has appointed André Krause as new CEO who has taken over from Olaf Swantee on January 3, 2020. Uwe Schiller, previously Senior Vice President of Finance and Investor Relations, was appointed as new CFO on January 6, 2020. After the announcement on January 6, 2020, Bruno Duarte the Chief Consumer Officer has left Sunrise. Until a successor is found for Bruno Duarte, André Krause takes over the responsibility for the Consumer Unit.

Material Contractual Arrangements

No new material contractual arrangements during the reporting period.

Acquisitions, Disposals and Recapitalization

No material acquisitions, disposals or a recapitalization occurred during the reporting period.

Material development after the balance sheet date

Change in the Board of Directors
Thomas D. Meyer was elected as a new Chair of the Board of Directors by the Annual General Meeting on April 8, 2020 until the closing of the following Annual General Meeting. At the same Annual General Meeting, Thomas Karlovits, Sonja Stirnimann and Henriette Wendt were elected to the Board of Directors as new members until the closing of the following Annual General Meeting.

The mandate of Peter Kurer, Jesper Ovesen, Robin Bienenstock and Peter Schöpfer ended as of April 8, 2020 as they did not stand for reelection for another term of office.

Dividend Payment
At the Annual General Meeting on April 8, 2020, the payment of an ordinary dividend from statutory reserves from capital contributions in the total amount of CHF 198 million (CHF 4.40 per share) in respect of the 2019 financial year was approved. The dividend payment was made on April 16, 2020.

Senior Facilities Agreement
As already mentioned above, the Group has drawn down CHF 100 million of its Senior Facilities Agreement (RCF) on April 1, 2020. Any amounts drawn currently bear a cost of CHFLIBOR (capped at zero percent) plus 1.20%. The commitment fee of 35% of the corresponding margin (0.42%) does no longer apply.

Fitch upgrades Sunrise
On May 4, 2020, Fitch Ratings has upgraded the corporate family rating for Sunrise Communications Holding S.A., 100% indirectly owned by Sunrise Communications Group AG to BBB- (outlook stable) from previously BB+ (outlook stable).

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

Outlook

The first quarter in 2020 was a strong and better-than-expected quarter in terms of trading and financial performance, with first impacts due to Covid-19 crisis already visible. Roaming revenues in the second half of March deteriorated and were compensated by an initial high international and national call volume. In April, roaming continued to be on very low levels, whilst national and international call volumes were still elevated but at lower levels than in March.

For the second quarter of 2020, Sunrise expects to continue growth in mobile postpaid, internet and TV subscriptions. The downside on roaming and, to a much smaller extend, hardware, is expected to result in a year-over-year negative gross profit development in the second quarter. Adjusted EBITDA is expected to be slightly down year-over-year, with Opex savings partially compensating for the gross profit decline.

The Group's full year 2020 guidance is based on an expected gradual recovery of the Covid-19 impacts, on the back of the announced easing of the lockdown, including an easing on international travel restrictions. Lower Opex is expected to largely compensate for the gross profit shortfall from lower roaming and hardware revenues. Hence Sunrise confirms its adjusted EBITDA and dividend guidance. In case assumptions on a gradual recovery were too optimistic, Sunrise would expect an incremental roaming risk of CHF 5 million to CHF 10 million to the adjusted EBITDA guidance.

2020 Guidance

The revenue guidance has been modified to reflect the impact of the Covid-19 pandemic: 2020 revenue is expected between CHF 1,840 million to CHF 1,880 million (previously CHF 1,875 million to CHF 1,915 million).

Adjusted EBITDA guidance is reiterated at CHF 675 million to CHF 690 million, supported by a strong first quarter and cost containment. 2020 Capex is reiterated in the range of CHF 410 million to CHF 450 million. Upon meeting its 2020 guidance, Sunrise expects to propose a dividend in the range of CHF 4.55 to CHF 4.65 per share for 2020 to be paid out of foreign capital contribution reserves in 2021.

Condensed Consolidated Interim Financial Statements (unaudited)

Sunrise Communications Group AG

Condensed Consolidated Interim Statements of Income

CHFk January 1 – March 31	Note	2020	2019
		Unaudited	Unaudited
Revenue	**5, 6**	**459,124**	**446,623**
Transmission costs and cost of goods sold		(143,281)	(141,221)
Other operating expenses		(91,773)	(105,098)
Wages, salaries and pension costs		(63,271)	(53,879)
Other income	7	1,661	29,251
Other expenses		(140)	(1,111)
Income before depreciation and amortization, net financial items and income taxes		**162,320**	**174,565**
Amortization		(73,351)	(65,761)
Depreciation and impairment losses		(50,525)	(50,136)
Operating income		**38,444**	**58,668**
Foreign currency gains, net	9	1,149	26
Financial income	9	31	5
Financial expenses	9	(12,375)	(13,079)
Net financial items	**9**	**(11,195)**	**(13,048)**
Income before income taxes		**27,249**	**45,620**
Income taxes		(5,108)	(10,374)
Net income		**22,141**	**35,246**
Net income attributable to equity holders of the parent company		**22,141**	**35,246**
Basic and diluted earnings per share (in CHF)	**14**	**0.49**	**0.78**

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

Condensed Consolidated Interim Statements of Comprehensive Income

CHFk January 1 – March 31	2020	2019
	Unaudited	Unaudited
Net income	**22,141**	**35,246**
Actuarial (loss) related to defined benefit pension plans	(11,466)	(3,648)
Income tax effect	1,997	741
Net other comprehensive (loss) not to be reclassified to profit and loss in subsequent periods	**(9,468)**	**(2,907)**
Other comprehensive (loss), net of tax	**(9,468)**	**(2,907)**
Total comprehensive income	**12,673**	**32,339**
Comprehensive income attributable to equity holders of the parent company	**12,673**	**32,339**

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

Condensed Consolidated Interim Statements of Financial Position

Assets

CHFk	Note	31.03.2020	31.12.2019
		Unaudited	Audited
Non-current assets			
Intangible assets		2,077,052	2,119,967
Property, plant and equipment		871,831	846,642
Right-of-use assets		274,564	282,736
Non-current portion of trade and other receivables	11	51,389	65,294
Non-current portion of contract assets		6,344	5,922
Contract costs		57,643	54,801
Total non-current assets		**3,338,823**	**3,375,362**
Current assets			
Inventories		47,647	54,734
Current portion of trade and other receivables	11	290,482	309,223
Current portion of contract assets		98,294	112,345
Current portion of prepaid expenses		24,035	9,713
Cash and cash equivalents	11	278,856	200,611
Total current assets		**739,314**	**686,626**
Total assets		**4,078,137**	**4,061,988**

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

Equity and liabilities

CHFk	Note	31.03.2020	31.12.2019
		Unaudited	Audited
Equity			
Common shares		45,069	45,069
Share premium		1,972,473	1,972,737
Other reserves		(776,143)	(776,143)
Accumulated profit		112,055	99,382
Total equity	**13**	**1,353,454**	**1,341,045**
Non-current liabilities			
Non-current portion of loans and notes	10, 11	1,579,749	1,577,485
Non-current portion of lease liabilities	11	210,622	228,439
Non-current portion of trade and other payables		20,300	20,454
Deferred tax liabilities		111,106	118,195
Non-current portion of provisions		62,090	62,077
Employee benefit obligations		94,369	81,746
Non-current portion of contract liabilities		7,339	7,800
Total non-current liabilities		**2,085,575**	**2,096,196**
Current liabilities			
Current portion of lease liabilities	11	42,403	34,777
Current portion of trade and other payables		527,256	529,204
Income tax payable		35,423	28,982
Current portion of provisions		3,824	1,898
Current portion of contract liabilities		29,288	28,371
Other current liabilities		914	1,515
Total current liabilities		**639,108**	**624,747**
Total liabilities		**2,724,683**	**2,720,943**
Total equity and liabilities		**4,078,137**	**4,061,988**

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

Condensed Consolidated Interim Statements of Cash Flow

CHFk January 1 – March 31	Note	2020	2019
		Unaudited	Unaudited
Income before income taxes		**27,249**	**45,620**
Amortization		73,351	65,761
Depreciation and impairment losses		50,525	50,136
Gain on disposal of property, plant and equipment	7	(354)	(24,598)
Movement in pension		1,097	612
Movement in provisions		1,838	(392)
Change in net working capital	16	20,684	39,639
Cash flow from operating activities before net financial items and tax		**174,390**	**176,778**
Financial income	9	(31)	(5)
Financial expense	9	12,375	13,079
Foreign currency gains, net	9	(1,149)	(26)
Interest received		31	5
Interest paid		(9,542)	(9,310)
Corporate income and withholding tax paid		(3,759)	(21,131)
Total cash flow from operating activities		**172,315**	**159,390**
Purchase of property, plant and equipment		(60,849)	(46,471)
Purchase of intangible assets		(22,334)	(87,943)
Sale of property, plant and equipment		374	29,162
Total cash flow used in investing activities		**(82,809)**	**(105,252)**
Repayments of lease liabilities	10	(13,082)	(16,263)
Other financing activities		(244)	(358)
Total cash flow used in financing activities		**(13,326)**	**(16,621)**
Total cash flow		**76,180**	**37,517**
Cash and cash equivalents as of January 1		200,611	420,919
Foreign currency impact on cash	9	2,065	220
Cash and cash equivalents as of March 31		**278,856**	**458,656**

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

Condensed Consolidated Interim Statements of Changes in Equity

CHFk	Common shares	Share premium	Other reserves	Accumulated profit/(deficit)	Total
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Equity as of January 1, 2019	**45,069**	**2,162,727**	**(776,143)**	**49,524**	**1,481,177**
Net income for the period	–	–	–	35,246	35,246
Other comprehensive income	–	–	–	(2,907)	(2,907)
Total comprehensive income	**-**	**-**	**-**	**32,339**	**32,339**
Share-based payment	–	524	–	–	524
Equity as of March 31, 2019	**45,069**	**2,163,251**	**(776,143)**	**81,863**	**1,514,040**
Equity as of January 1, 2020	**45,069**	**1,972,737**	**(776,143)**	**99,382**	**1,341,045**
Net income for the period	–	–	–	22,141	22,141
Other comprehensive loss	–	–	–	(9,468)	(9,468)
Total comprehensive income	**-**	**-**	**-**	**12,673**	**12,673**
Share-based payment	–	(264)	–	–	(264)
Equity as of March 31, 2020	**45,069**	**1,972,473**	**(776,143)**	**112,055**	**1,353,454**

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

Notes to the Condensed Consolidated Interim Financial Statements

NOTE

NOTE 1

General information

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

The condensed consolidated interim financial statements for the three-month period ended March 31, 2020, comprise SCG and its subsidiaries (together referred to as the Group or Sunrise). The Group's principal operating company, Sunrise Communications AG, is the second-largest full-range telecommunications provider in Switzerland and offers mobile voice and data, landline services (retail and wholesale voice, business and integration services) and landline Internet including Internet Protocol Television (IPTV) services to both Residential and Business customers as well as to other operators. Sunrise has its own national backbone landline and IP network as well as its own mobile network based on GSM / GPRS / EDGE / UMTS / HSPA, 4G / 4G+ and 5G technologies. In connection with the services it provides, Sunrise also resells handsets manufactured by third party suppliers.

These condensed consolidated interim financial statements were authorized for issue by the Group's Board of Directors on May 13, 2020.

NOTE 2

Basis of preparation

The condensed consolidated interim financial statements of the Group as of and for the three-month period ended March 31, 2020, 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, 2019.

Except otherwise indicated, numbers are shown in CHF thousand in all tables and in CHF million in the text.

Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided. All ratios and variances are calculated using the precise underlying amount rather than the presented rounded amount.

Foreign currency translation

The financial statements are presented in Swiss francs, which is the functional currency of the parent company and each of its subsidiaries. The functional currency is the currency applied in the primary economic environment of each enterprise's operations. Transactions in currencies other than the functional currency are transactions in foreign currencies. Such transactions are translated at the transaction-date exchange rates. Foreign exchange gains and losses arising from differences between transaction-date and settlement-date rates are recognized as net financial items in the condensed consolidated interim statement of income. Cash, loans and other amounts receivable or payable in foreign currencies (monetary assets and liabilities), if any, are translated into the functional currency at the official exchange rates as quoted at the reporting date.

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

CURRENCY	BALANCE SHEET		INCOME STATEMENT AND CASH FLOW	
CHF	**31.03.2020**	31.12.2019	**01.01 - 31.03.2020**	01.01 - 31.03.2019
Euro	1.0604	1.0856	1.0917	1.1428
US Dollar	0.9611	0.9666	0.9880	1.0039

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, 2019.

NOTE 4

New accounting standards

None of the amendments to existing International Financial Reporting Standards (IFRS) and Interpretations effective as of January 1, 2020 is relevant to the Group.

NOTE 5

Segment reporting

Operating segments have been determined based on management reports reviewed by the Board of Directors. The Group's organizational structure reflects the different customer groups to which the Group provides its telecommunications products and services: Residential, Business, Wholesale and a reportable Head Office segment which includes the finance, IT and technology functions of the Group.

Residential provides fixed line and mobile services to residential end customers as well as sales of handsets. Through its investments in local loop unbundling and IPTV as well as its contractual arrangements with Swiss Fibre Net AG, a joint venture of local energy providers in Switzerland, and Swisscom, Sunrise focuses on selling its products in the Swiss telecommunications market by marketing bundled offers in Fixnet/Internet, mobile and IPTV.

Business provides a full range of products and services, from fixed-line and mobile communications to Internet and data services as well as integration services to different business areas: small office and home office, small and medium-sized enterprises and large corporate clients.

The Wholesale product portfolio covers voice, data, Internet and infrastructure services such as carrier and roaming services, which are marketed to national and international telecom service providers as well as mobile virtual network operators.

Head Office activities comprise support units such as Network, IT and Operations (customer care) as well as staff functions like Finance, Human Resources and Strategy. Furthermore, certain fees, sundry revenue and payments of reminder fees are allocated to this operating segment.

Performance is measured based on EBITDA as included in the internal financial reports reviewed by the Board of Directors. EBITDA is defined as operating income before depreciation and amortization, net financial result items and income tax expenses. The EBITDA earned by each segment is considered an adequate measure of the operating performance of the segments reported to the Board of Directors for the purposes of resource allocation and performance assessment. Assets and liabilities are not allocated to operating segments in the management reports reviewed by the Board of Directors, as the review focuses on changes in net working capital on a Group level.

Activities

	RESIDENTIAL[2]		BUSINESS[2]		WHOLESALE[1]		HEAD OFFICE ACTIVITIES		TOTAL	
CHFk January 1 – March 31	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Revenue										
External customers	322,190	324,436	87,226	71,520	39,710	40,797	9,998	9,870	459,124	446,623
Total	**322,190**	**324,436**	**87,226**	**71,520**	**39,710**	**40,797**	**9,998**	**9,870**	**459,124**	**446,623**
Transmission costs and costs of goods sold										
External customers	(97,707)	(97,292)	(26,096)	(22,989)	(19,469)	(20,895)	(9)	(45)	(143,281)	(141,221)
Total	**(97,707)**	**(97,292)**	**(26,096)**	**(22,989)**	**(19,469)**	**(20,895)**	**(9)**	**(45)**	**(143,281)**	**(141,221)**
Other operating expenses	(28,510)	(32,311)	(5,565)	(5,118)	(846)	(1,074)	(56,852)	(66,595)	(91,773)	(105,098)
Wages, salaries and pension costs	(14,067)	(14,758)	(13,017)	(10,344)	(1,131)	(1,163)	(35,056)	(27,614)	(63,271)	(53,879)
Other income	(20)	–	(2)	–	–	–	1,683	29,251	1,661	29,251
Other expenses	–	(11)	–	–	–	–	(140)	(1,100)	(140)	(1,111)
EBITDA	**181,886**	**180,064**	**42,546**	**33,069**	**18,264**	**17,665**	**(80,376)**	**(56,233)**	**162,320**	**174,565**

[1] Including hubbing revenue of CHF 14.8 million generated in the three-month period ended March 31, 2020, and CHF 16.8 million in the three-month period ended March 31, 2019.
[2] In 2020, there was a minor redefinition of customer base between the segments Residential and Business. Comparative figures have not been adjusted. On a comparable basis, Q1 2019 revenue for Business would have been CHF 5.8 million higher, transmission costs and costs of goods sold CHF 0.3 million higher and EBITDA CHF 5.5 million higher (Residential vice versa).

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

CHFk January 1 – March 31	2020	2019
EBITDA from reportable segments	**162,320**	**174,565**
Unallocated:		
– Amortization	(73,351)	(65,761)
– Depreciation	(50,525)	(50,136)
– Net financial items	(11,195)	(13,048)
Income before income taxes	**27,249**	**45,620**

NOTE 6

Revenue

CHFk January 1 – March 31	2020	2019
Mobile services	306,006	301,672
– Thereof mobile postpaid	*210,258*	*201,161*
– Thereof mobile prepaid	*16,231*	*19,456*
– Thereof mobile hardware	*56,020*	*58,179*
– Thereof other	*23,497*	*22,876*
Landline services	71,192	70,850
– Thereof landline voice	*32,408*	*31,171*
– Thereof hubbing	*14,787*	*16,796*
– Thereof other	*23,997*	*22,883*
Landline internet and TV	81,926	74,101
– Thereof landline hardware[1]	*4,187*	*1,039*
Total	**459,124**	**446,623**

[1] Due to growing importance of landline hardware revenue, the figure is reported separately. Prior year figures have been adjusted accordingly to ensure comparability.

CHFk January 1 – March 31	2020	2019
Sales of goods	60,207	59,218
Sales of services	398,917	387,405
Total	**459,124**	**446,623**

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, voice connection 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 and landline hardware and distribution and sales of ICT and telecommunications products in the e-business sector as well as installation, operation and maintenance services for these products.

NOTE 7

Other income

CHFk January 1 – March 31	**2020**	2019
Other income		
Early termination fees	926	1,328
Gain on disposal of property, plant and equipment	354	24,598
Build-to-Suit (BTS)	220	2,095
Lump sum payment related to shop transfer	–	929
Other	161	301
Total	**1,661**	**29,251**

NOTE 8

Disposal of assets

During the first three months of 2020, the Group has recognized a net gain on asset disposal of CHF 0.4 million, which is reflected in other income in the condensed consolidated financial statements as of March 31, 2020 (Q1 2019: CHF 24.6 million). The total cash consideration received amounted to CHF 0.4 million (Q1 2019: CHF 29.2 million). Prior year figures were mainly impacted by the sale of the 133 telecom towers sold to Swiss Towers AG in January 2019.

NOTE 9

Net Financial Items

CHFk **January 1 – March 31, 2020**	Interest	**Total financial income/ (expenses) before foreign currency**	Net foreign currency gains/(losses)	**Total**
Income				
Cash and cash equivalents	–	–	2,065	2,065
Other	31	31	–	31
Total	**31**	**31**	**2,065**	**2,096**
Expenses				
Cash and cash equivalents	(13)	(13)	–	(13)
Financial liabilities measured at amortized cost	(8,590)	(8,590)	–	(8,590)
Lease liabilities	(2,798)	(2,798)	–	(2,798)
Other	(974)	(974)	(917)	(1,891)
Total	**(12,375)**	**(12,375)**	**(917)**	**(13,292)**
Net financial items	**(12,344)**	**(12,344)**	**1,149**	**(11,195)**

CHFk January 1 – March 31, 2019	Interest	**Total financial income/ (expenses) before foreign currency**	Net foreign currency gains/(losses)	**Total**
Income				
Cash and cash equivalents	–	–	220	220
Other	5	5	–	5
Total	**5**	**5**	**220**	**225**
Expenses				
Financial liabilities measured at amortized cost	(8,309)	(8,309)	–	(8,309)
Lease liabilities	(2,944)	(2,944)	–	(2,944)
Other	(1,826)	(1,826)	(194)	(2,020)
Total	**(13,079)**	**(13,079)**	**(194)**	**(13,273)**
Net financial items	**(13,074)**	**(13,074)**	**26**	**(13,048)**

NOTE 10

Borrowings

CHFk	Nominal value at inception	Capitalized debt issuance cost [1]	Debt modification revaluation[2]	Debt repayments	31.03.2020	31.12.2019
Floating rate						
Term loan B – CHF[3]	1,410,000	(13,475)	(16,026)	–	1,380,499	1,378,280
Fixed rate						
Senior secured notes – CHF[4]	200,000	(749)	–	–	199,251	199,206
Total loans and notes	**1,610,000**	**(14,224)**	**(16,026)**	**-**	**1,579,749**	**1,577,485**
Other						
Debt relating to lease liabilities	–	–		(13,082)	253,025	263,216
Total borrowings					**1,832,774**	**1,840,701**
Thereof non-current					*1,790,371*	*1,805,924*
Thereof current					*42,403*	*34,777*

[1] At issuance of the borrowings or at the debt modification date
[2] Related to refinancing
[3] 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)
[4] 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 December 31, 2019, showed that the Group was in compliance with the applicable financial covenant.

Lease Liabilities are 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 11

Fair value estimation

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

Fair value hierarchy

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

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

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

There were no transfers between the different hierarchy levels as of March 31, 2020, and December 31, 2019.

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

	CARRYING AMOUNT (BY MEASUREMENT BASIS)		
CHFk **March 31, 2020**	Amortized cost	**Total**	Comparison Fair value[1]
Financial assets			
Cash	278,856	278,856	
Trade and other receivables	341,871	341,871	
Financial liabilities			
Trade payables and other payables	(535,778)	(535,778)	
Loans and notes	(1,579,749)	(1,579,749)	(1,619,600)
Lease liabilities	(253,025)	(253,025)	
Other current liabilities	(914)	(914)	

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

CHFk December 31, 2019	CARRYING AMOUNT (BY MEASUREMENT BASIS) Amortized cost	Total	Comparison Fair value[1]
Financial assets			
Cash	200,611	200,611	
Trade and other receivable	374,517	374,517	
Financial liabilities			
Trade payables and other payables	(542,379)	(542,379)	
Loans and notes	(1,577,485)	(1,577,485)	1,620,800
Financial leases	(263,216)	(263,216)	
Other current liabilities	(1,515)	(1,515)	

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

NOTE 12

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 13

Equity

CHFk	31.03.2020	31.12.2019
Common shares	45,069	45,069
Share premium[1]	1,972,473	1,972,737
Other reserves	(776,143)	(776,143)
Accumulated profit	112,055	99,382
Total equity	**1,353,454**	**1,341,045**

[1] Share premium includes reserves which are freely available for distribution of dividends.

Share capital

As of March 31, 2020 the total number of authorized and issued ordinary shares comprised 45,069,028 shares with a nominal value of CHF 1 each. Holders of these shares are entitled to dividends and one vote per share at General Meetings of the Company.

Other reserves

The change in other reserves 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 8, 2020, the payment of an ordinary dividend from statutory reserves from capital contributions in the total amount of CHF 198.3 million (CHF 4.40 per share) in respect of the 2019 financial year was approved. The dividend payment was made on April 16, 2020.

NOTE 14

Earnings per share

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

January 1 – March 31	2020	2019
Basic earnings per share		
Net income attributable to equity holders of SCG (CHFk)	22,141	35,246
Weighted average number of shares outstanding	45,069,028	45,069,028
Basic earnings per share (in CHF)	**0.49**	**0.78**
Diluted earnings per share		
Net income attributable to equity holders of SCG (CHFk)	22,141	35,246
Weighted average number of shares outstanding	45,157,797	45,179,406
Diluted earnings per share (in CHF)	**0.49**	**0.78**

If the vesting conditions were fully met as of March 31, 2020, a maximum of 160,218 shares (December 31, 2019: 119,995) would have a dilutive effect.

NOTE 15

Other balance sheet items

Intangible assets

During the three-month period ended March 31, 2020, the Group acquired intangible assets of CHF 25.5 million (March 31, 2019: 114.5 million). In the same period, the Group paid CHF 22.3 million (Q1 2019: CHF 87.9 million) for intangible assets additions.

Property, plant and equipment

During the three-month period ended March 31, 2020, the Group acquired assets of CHF 69.9 million (March 31, 2019: CHF 39.2 million). In the same period, the Group paid CHF 60.8 million (Q1 2019: CHF 46.5 million) for property, plant and equipment additions.

Current portion of prepaid expenses
The balance mainly consists of prepaid IT related payments for licenses and services. The prepayments are normally made at the beginning of the year and amortized over the contractual duration. Contracts with duration of more than 1 year are split into a current and non-current portion.

NOTE 16

Change in net working capital

CHFk January 1 – March 31	**2020**	2019
Change in inventories	7,087	1,256
Change in trade and other receivables	32,610	28,203
Change in trade and other payables	(14,787)	(4,497)
Change in contract assets	13,628	26,003
Change in contract liabilities	456	(495)
Change in contract costs	(2,843)	(834)
Change in other items, net	(15,467)	(9,997)
Total	**20,684**	**39,639**

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 contract assets and contract liabilities. Changes in trade and other payables related to non-cash capital expenditures for Indefeasible Rights of Use (IRU) are excluded.

The positive change in net working capital of CHF 20.7 million in the three-month period as of March 31, 2020 is primarily related to a positive change in trade and other receivable (CHF 32.6 million), and the change in contract assets, contract liabilities and contract costs (net CHF 11.2 million) driven by incoming payments from customers as well as the settlement of credit notes. In addition, the positive change in inventories amounted to CHF 7.1 million and represents a reduction of inventory. Those developments were partly offset by the reduction of trade and other payables (CHF 14.8 million) and the negative change in other items (CHF 15.5 million) mainly driven by prepaid expenses.

Compared to the three-month period ended as of March 31, 2019, the change in net working capital shows a decrease of CHF 19.0 million mainly driven by higher cash out for trade and other payables (CHF 10.3 million), due to higher payments in the first three months of 2020 for the purchase of mobile hardware as well as higher commission payments. Hereto comes an increase in contract assets, relating to roaming discounts. The remaining change stems from positions related to contract costs and contract liabilities as well as trade and other receivables and inventory.

NOTE 17

Contractual commitments

The total contractual and purchase commitments as of March 31, 2020, amounted to CHF 294.1 million (March 31, 2019: CHF 434.8 million) consisting of future investments in property, plant and equipment and intangible assets.

NOTE 18

Events after the balance sheet date

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

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